



CITY OF PALO ALTO CITY COUNCIL MINUTES

Special Meeting
June 18, 2012

The City Council of the City of Palo Alto met on this date in the Council Chambers at 5:35 P.M.

Present: Burt, Espinosa, Holman, Klein, Price, Scharff, Schmid arrived @ 5:40 P.M., Shepherd, Yeh arrived @ 6:15 P.M.

Absent:

CLOSED SESSION

1. CONFERENCE WITH CITY ATTORNEY

Potential Litigation Relating to the Mitchell Park Library and
Community Center Construction
Government Code Section 54956.9(b)-Significant Exposure to
Litigation- 1 Case
Government Code Section 54956.9(c)-Potential Initiation of
Litigation- 1 Case

2. CONFERENCE WITH CITY ATTORNEY

Potential Litigation Relating to State Water Project Property Tax Levy
Government Code Section 54956.9(c) - Potential Initiation of
Litigation- 1 Case

3. CONFERENCE WITH CITY ATTORNEY

Potential Litigation Relating to High Speed Rail
Government Code Section 54956.9(c) - Potential Initiation of
Litigation - 1 Case

The City Council reconvened from the Closed Sessions at 7:17 P.M. and Mayor Yeh announced no reportable action.

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CITY MANAGER COMMENTS

James Keene, City Manager, reported Staff had defined boundaries for a Residential Permit Parking pilot area within the Professorville neighborhood. Residents living within the proposed pilot area received survey cards on June 15, 2012 to poll for interest for implementation of a pilot project in the fall. Residents and property owners would be notified by mail of a July 16, 2012 meeting when results would be presented. A community meeting related to living in vehicles was scheduled for June 26, 2012 at 7:00 P.M. Staff would present options and recommendations to the Policy & Services Committee on July 10, 2012. The Community Services Department kicked off summer camp season on June 18, 2012. Typical annual enrollment was 5,500 campers in 150 camps. The Public Arts Commission was restoring the midtown poetry wall on Middlefield Road.

ORAL COMMUNICATIONS

Wynn Grcich stated tuna near the Japanese radiation leak had high radiation levels and migrated around the world. She referenced a book titled Slow Death by Rubber Duck, which reported radiation contamination. Chlorine caused breast cancer according to a 1988 Greenpeace study.

Edward Kai stated there were no concession stands or vending machines at the Rinconada pool. He suggested a concession stand would provide jobs for young people.

Aram James gave Council Members an email he received from the Peninsula Peace and Justice Center describing a vote taken at the Human Relations Commission. He had not prepared a copy of the amicus brief by the ACLU supporting Citizens United. He hoped for a community forum concerning Citizens United with the ACLU and Peninsula Peace and Justice Center. He needed the Council's support for a resolution to amend the Constitution to abolish Citizens United. He continued to pursue the Joe Webb hate speech initiative.

Michael Francois reported chemicals in the water contributed to breast cancer. He read an article concerning a dirty water bill, H.R. 4965. The bill threatened the drinking water of 117 million Americans.

CONSENT CALENDAR

MOTION: Vice Mayor Scharff moved, seconded by Council Member Price to approve Agenda Item Nos. 4-9.

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4. Finance Committee Recommendation to Accept the Auditor's Office Quarterly Report as of March 31, 2012.
5. Annual Adoption of the City's Investment Policy.
6. Resolution 9258 entitled "Resolution of the Council of the City of Palo Relating to Amendment to Utilities Rate Schedule E-15 (Service Connections) and Rules and Regulations 3, 4, 6, 7, 11, 26 and 27 (General Utility Service, Application for Service, Establishment of Credit, Deposits, Billing Adjustments, Fiber Optics Regulations, and Generating Facilities Interconnections)".
7. Finance Committee Recommendations Regarding Water and Wastewater Rates Policy Issues.
8. Resolution 9259 entitled "Resolution of the Council of the City of Palo Determining the Proposed Calculation of the Appropriations Limit for Fiscal Year 2013".
9. Resolution 9257 entitled "Resolution of the Council of the City of Palo Alto Authorizing the City Manager to File an Application for 2012/2013 Transportation Development Act Funds in the Amount of \$43,359 for Fabian Way Enhanced Bike Lane Improvements Project".

MOTION PASSED: 9-0

ACTION ITEMS

10. Public Hearing- Fiscal Year 2013 Proposed Budget Review Follow-Up Items- and Proposition 218 Utility Rate Changes; Approval of an Ordinance Adopting the Fiscal Year 2013 Budget, including the Fiscal Year 2013 Capital Improvement Program, and Changes to the Municipal Fee Schedule; Adoption of 10 Resolutions to: 1) Adopt a Dark Fiber Utility Rate Increase and Amend Utility Rate Schedules; 2) Amend Gas Utility Rate Schedules for a Rate Decrease and Amend Utility Rules and Regulations; 3) Adopt a Wastewater Collection Utility Rate Increase and Amend Utility Rate Schedules (Proposition 218 Hearing); 4) Adopt a Water Utility Rate Increase and Amending Utility Rate Schedules (Proposition 218 Hearing); 5) Amend Storm Drain Utility Rate Schedules for a Rate Increase; 6) Amend Refuse Utility Rate Schedules for a Rate Increase (Proposition 218 Hearing); 7) Amend the 2010-2011 Compensation Plan for Management and Professional and Council Appointees; 8) Amend the 2010-2011 Memorandum of Agreement for the Service Employees International

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Union (SEIU); 9) Amend the 2010-2014 Compensation Plan for the International Association of Fire Fighters (IAFF); and 10) Amend the 2010-2014 Compensation Plan for the Fire Chiefs' Association (FCA) (Ordinance 1st Reading 6-11-12) (Continued from June 11, 2012).

James Keene, City Manager, reported the City had made reductions totaling 11 percent in the City's General Fund and reduced the workforce by approximately 10 percent since Fiscal Year (FY) 2010. In the process of doing that, the City Council had led the way in having all employee groups agree to establish a new second tier of pension benefits at a reduced level, employee cost sharing of pension costs, employee contributions to healthcare costs, and effective pay cuts for all employee groups. The City had avoided cuts and reductions in Public Safety over that four-year period. However, because Public Safety was the largest and fastest growing portion of the City's General Fund Budget and because reductions had been postponed, the Proposed Budget included reductions in Public Safety. The majority of changes in the Proposed Budget were in Public Safety. The Council could avoid significant impacts in public service through this Budget. Most of the burden was shifted to productivity improvements on the part of City Staff.

Lalo Perez, Administrative Services Director summarized significant changes. Staff proposed freezing six officer positions in the Police Department. The overall service reduction from the current fiscal year would not be impacted in FY 2013 with this change. Animal Services had been reinstated and had targeted savings of \$449,000. Staff would return to the Council on July 23, 2012 with a revenue and expense plan. The City closed Fire Station 7 in May 2012, and those positions would be eliminated. By using the flexible staffing model, Staff proposed eliminating some vacancies the City had carried. The State- and County-required response times would still be met. Ambulance coverage would increase from 12 hours to 24 hours through regular staffing rather than overtime. Staff proposed adding a Geographic Information Systems (GIS) position and a data position in the medical services area. Because of increased building activity, Staff proposed adding a Fire Inspector and anticipated the position would pay for itself through fees generated. Staff also proposed consolidating the reservation operations in the Community Services Department; however, the Finance Committee (FC) directed Staff to hold one position vacant at the Lucie Stern Community Center to Staff the Interpretive Center at the Baylands. One position at the Art Center would decrease from 1 Full-Time Equivalent (FTE) to 0.75 FTE. In relation to landscaping, Staff recommended and the FC accepted a decrease of maintenance of less visible areas and prioritizing gateway areas and neighborhood parks. The FC reinstated portions of Staff's recommended changes in the following areas: Boronda Lake, the Baylands Interpretive

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Center, the Summer Concert Series, Cubberley Artist fees, Lawn Bowler fees, and Community Gardener fees. Staff proposed freezing five positions within the Library Department while renovations and construction occurred. Fee increases of 3 percent had been implemented for all City-wide fees. In the Planning and Community Environment Department, a support position and a senior planner position would be part of program changes.

Council Member Klein interpreted the Minutes to mean the cost of filling Boronda Lake was restored to the Budget with the hope contributions would cover some of the costs.

Mr. Perez agreed.

Mayor Yeh stated the City Council conducted its first public hearing on the Budget on June 11, 2012. Tonight was the second and final hearing on the Budget and related items. A portion of the hearing would relate to changes in wastewater, water, and refuse rates. This portion of the hearing was governed by Proposition 218.

Molly Stump, City Attorney, reported the procedure for the wastewater, water, and refuse rate changes would follow the requirements of California Constitution, known as Proposition 218. Proposition 218 was approved by voters in 1996, and set forth rules that local governments must follow before increasing certain property-related fees. The California Supreme Court found that water and wastewater rates were considered property-related fees and were subject to the Proposition 218 procedural requirements. It was less clear that refuse rates were subject to Proposition 218 requirements. In an abundance of caution, Palo Alto had followed that procedure for a number of years and would do so tonight. The wastewater, water, and refuse rates would be considered together in the Proposition 218 public hearing. After the close of the public hearing, there would be a majority protest procedure, meaning objections to the rate changes would be counted. If a majority of affected customers and property owners filed signed, written protests against the proposed rate increases by close of the public hearing, then the rate increases would not be adopted tonight. The proposed fiber and gas rates before the Council did not need to follow Proposition 218 procedures, because they were not property-related fees within the meaning of Proposition 218. The proposed storm drain inflation rate adjustments did not need to follow the Proposition 218 procedures, because the inflation adjustment had been approved by voters. These rates would be considered during the non-Proposition 218 public budget hearing process.

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Mayor Yeh indicated all residents and other interested persons would have an opportunity to provide testimony individually on the water, wastewater, or refuse rates or all of the above. To be valid, protests to the proposed rate increases had to be submitted in writing, signed, and submitted to the City Clerk before the close of the hearing. The protest also had to identify the parcel and rate being protested. Although the water, wastewater, and refuse rate increases were being considered together in one public hearing, the presence or absence of a majority protest would be calculated separately for each rate. The City Clerk would accept written protests until the public hearing closed. At the conclusion of the public hearing, the City Clerk would count the number of written protests against the proposed rate increases, and the City Council would determine whether a majority protest existed for each rate. If a majority of customers and property owners had not submitted protests by the close of the public hearing, then the City Council could adopt new water, wastewater, and refuse rate schedules as part of the Ordinance adopting the Budget for FY 2013.

Public Hearing reopened (continued from 6/11/12) at 7:53 P.M.

Leonor Delgado was pleased to learn that Animal Services would remain open as a City public institution throughout the coming fiscal year. This decision provided stakeholders time to work out means by which the Shelter could continue to perform valuable services for the greater community. The Council's decision ensured the ongoing safety of the animals and the continuation of services the public knew and expected. She hoped the stakeholders participating in meetings understood that their decisions could make or break the Shelter. The Animal Shelter served communities that were not as wealthy as Palo Alto, Los Altos, Los Altos Hills, and most of Mountain View. Fee adjustments could be detrimental to the work of rescuers, to animal lovers, and to those communities. These communities most needed the vaccination and spay and neuter clinic.

Betty-Anne Stenmark, Volunteer Coordinator at Animal Services, worked 1,000 hours annually and generated more than 3,000 volunteer hours annually. These volunteers were the same dedicated workers who founded Save Our Shelter, which had recently become the Friends of the Shelter group. This group was dedicated to raising funds to bridge the gap in funding at the Animal Shelter. She asked the Council to give the group time to raise funds.

Hillary Stangel appreciated the Council's patience during the Animal Services discussion. The Council had to reduce the Shelter's Budget by \$300,000 or \$500,000. She asked the Council to reduce the Budget by \$300,000. For years, the City had spent \$700,000 annually on Animal Services. Reductions

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of \$300,000 would lower the budgeted amount to \$700,000 under which the Department could operate. Private donations, improved efficiency, higher fees, and strong marketing could raise \$300,000. Volunteers could close a \$300,000 gap, but not a \$500,000 gap. Supervisor Liz Kniss had granted \$47,000 to Animal Services. Laying off two, three, or four employees to close a \$500,000 gap would result in longer response times, fewer employees in the office, and possibly fewer volunteers. She asked the Council not to create a permanent solution to a temporary problem by reducing human capital.

Dhruv Khanna reported for the last 50 years Palo Alto has not pumped any material groundwater. It had been captive to the San Francisco Public Utilities Commission (SFPUC), which imported water from Hetch Hetchy. It was understandable that Palo Alto would increase rates as the SFPUC increased its rates; however, he had never seen 50+ percent rate increases. The City should begin pumping groundwater. Staff indicated they had reviewed this, but the City was limited by the amount of water it could pump from the existing eight wells. He suggested the Council consider 12 or 13 wells in different locations within the City, pumping them at different times, and monitoring water quality and levels.

Ali Rahba expressed concern about annual rate increases. He could not remain efficient, because he could not save anything. The prior year's fixed amount was \$13 per 1-inch meter, and that was being increased to \$27. He asked why he had to pay the same amount for wastewater as someone else who used more water. He suggested adjusting the sewer line according to usage. The Council needed another method for increasing rates.

Wynn Grcich noted the other side of the Bay paid half the amount of water rates as Palo Alto. The public could sign a petition and submit it to stop the rate increase. Agenda 21, depopulation, wanted to decrease water usage to 8 gallons per day. Cities increased water rates to decrease usage. Groundwater was being used for drinking water, because the pipes were closed in Fremont. Sewage sludge was contaminating groundwater.

Fred Balin stated the Council needed to make the Budget process more transparent. Engine 2 was slated for brownout; although, that was not specifically stated in the Proposed Budget and not mentioned in the Staff presentation to the FC. The Council could not state how much engine response times would increase or whether it could meet the 90 percent response time in the Stanford contract. Approval of this proposal would mark the beginning of an experiment. If it was not successful, the Council would need to curtail the additional paramedic service, increase overtime, and/or add Staff. In that context, the FC's discussion of freezing versus

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eliminating six positions was misdirected. If the City needed additional staffing, it would take several months for new hires to complete training. Because of an unexamined element in the contract approved by the Council last fall, employees would make medical contributions if they stayed and if they did not retire within six weeks. The Council should question contracts and Staff's recommendations in order to do the right thing in the area of Public Safety.

Bob Moss felt the street sweeping fee belonged in the General Fund rather than the Utility Budget. There was no justification for charging more than \$6 per month for street sweeping. Few people used the annual Clean-Up Day, and charging everybody monthly was inappropriate. If it had to be funded, the City should charge users at the time of usage. There was no justification for the monthly water meter fee, because the meter and the lines were installed at the residents' expense. The sewer rates should be based on the amount of actual sewage generated. If the City recycled, it would not meet the minimum quantity of trash it guaranteed to deliver to the dump. The City had been charged approximately \$1 million a year for non-trash. The contract should be renegotiated so the City did not pay for that. The City needed Fire Inspectors, and he was glad to see one added.

Jeannette Washington was concerned about reducing Staff at the Animal Shelter. Animal control officers worked a nine-hour shift and an on-call shift. Animal control officers covered field work, office work, and the kennels. Reducing the number of animal control officers would result in police officers assuming those responsibilities. She urged the Council not to reduce Staff at the Shelter.

Basant Khaitan said the proposal indicated utility rates were increasing because of cost overruns and losses. The justification for increases made no sense. He noted the increase in monthly water meter fees. His annual water bill would be \$930 before he used any water. Proposed utility rate increases crossed all reasonable lines.

Padmanabhan Srinagesh felt it was unfortunate that enough people did not know that Proposition 218 allowed the public to vote against rate increases. If the Council surveyed residents, it would find the opposition to rate increases was broad. Hetch Hetchy rates would increase for the following three years; therefore, Palo Alto rate increases would also increase. He suggested the City reduce water rates by using groundwater or other forms of efficiency. The City used water for parks, sports fields, and medians. He asked if the City of Palo Alto paid the same commercial and irrigation rates as other large users or if it had a different rate.

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Steve Burnside, general counsel to Palo Alto Hills Golf and Country Club recalled in 2012 the club sustained a volumetric rate increase of 59 percent. This year, there would be a rate decrease of approximately 8 percent. He urged Staff to meet with club staff to work out a solution.

Herb Borock stated the Council, rather than the FC, should have decided the rates noticed to ratepayers. The Council could reject the proposed rates and schedule an Agenda Item to determine the rates noticed under Proposition 218. The community had received less time to organize for a vote. He did not understand the method for allocating the cost of rent and interest on unpaid rent to customer classes used in the Cost of Service Study. In the absence of the Council and public being able to consider the Cost of Service Study, it was not possible to approve the refuse rates.

Joy Ogawa indicated the proposed increase in wastewater rates violated the California Constitution and Proposition 218. Proposition 218 required notification to effected ratepayers, an opportunity for protest, and a public hearing. Proposition 218 also stated an increase shall not exceed the proportional cost of the service attributable to the parcel. She noted the California Supreme Court's ruling in Bighorn Desert v. Water Agency v. Virgil. She had spoken previously to the FC concerning the inequity of wastewater rates. Palo Alto estimated wastewater based on water usage for businesses, but not residences.

Teresa Morris supported the City providing Animal Services. Animal Services was part of a healthy community. She hoped the Council would choose the smaller of the two funding gaps to allow time to raise funds. The community was willing to work on this issue.

Mayor Yeh reminded the public that a protest had to be submitted in writing to the City Clerk before the public hearing closed.

Council Member Holman asked Staff to respond to the Proposition 218 comments regarding proportional wastewater rates and paying for service delivered.

Ms. Stump believed Ms. Ogawa quoted correctly from the California Constitution.

Council Member Holman inquired if the City's fees complied with Proposition 218.

Ms. Stump answered yes.

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Ipek Connolly, Senior Resource Planner, reported wastewater rates for residential customers were based on an estimate of winter indoor water consumption, and were consistent with the methodology suggested. The City did not measure wastewater specifically for each residential customer, because there was a very narrow variation unlike the business sector. Business usage could vary substantially from business to business; therefore, the City based wastewater rates on actual monthly winter consumption. Residential wastewater usage was based on an estimate of indoor water consumption. Many agencies used that method, and other agencies based rates on measured consumption.

Council Member Burt asked if the Mayor's direction was to question speakers.

Mayor Yeh stated this was the opportunity to address questions to any member of the public who spoke to the Council. Council Members could also address Staff with regard to questions raised by public speakers.

Council Member Burt requested Staff provide a summary of the cost drivers of water rate increases.

Ms. Connolly reported the City's water supply cost was approximately \$1 per ccf to SFPUC prior to FY 2006. A major regional infrastructure upgrade at a total cost of approximately \$4 billion was required for seismic and age improvements. Currently, Palo Alto's cost for water was approximately \$2.09 per ccf; in a few years, that cost would be \$4 per ccf; and beyond 2017, it would be \$5 per ccf. The City was facing this significant cost increase just like other cities.

Council Member Burt asked if that was the wholesale cost to the City.

Ms. Connolly responded yes. The City was also investing in infrastructure to upgrade pipes, for seismic improvements, and for emergency preparedness. Operating costs also continued to increase. The City was spending more for capital investments in infrastructure compared to other cities. All of this resulted in a higher rate.

Council Member Burt indicated the two major drivers were a complete reconstruction of the Hetch Hetchy transportation system and a one-time upgrade to seismic standards. In addition, the City was upgrading its water system to prepare for emergencies. Perhaps that would help the public understand why the increases occurred. He inquired whether in subsequent years the City's groundwater system could handle limited sustainable pumping to supplement certain uses.

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Nicolas Procos, Senior Resource Planner, reported Staff reviewed the idea approximately eight or ten years ago as part of the water integrated resource plan. Staff was beginning that evaluation again and would review those resources again. The City pumped groundwater in the 1950s. There were challenges to pumping groundwater. Staff would address those challenges and solicit community feedback.

Council Member Burt wanted Staff to discuss this topic before the FC. He did not want to return to a bad environmental practice. He did not expect Staff to provide an answer tonight.

Mr. Procos indicated Staff was not prejudging the outcome. As part of the work process, Staff would obtain information and consider it.

Council Member Burt stated the question was should Hetch Hetchy water be used to water lawns.

Council Member Espinosa hoped Staff would contact Mr. Khanna regarding groundwater pumping, because he had some expertise in the area.

Council Member Holman inquired when the next opportunity to renegotiate the garbage contract would occur. It was a difficult concept and program to accept that the City was paying for garbage it was not delivering.

Brad Eggleston, Public Works Assistant Director, reported the contract with Kirby Canyon Landfill had a put or pay provision where there were minimum tonnages of garbage the City was required to deliver to the landfill. For every ton of garbage the City did not deliver to the landfill, the City paid the same per ton tip fee to the landfill, but did not pay the \$20 per ton in taxes and fees charged for garbage delivered to the landfill. In the Proposed Budget, Staff projected the cost to be \$400,000, not the \$1 million stated by the public speaker. The contract with Waste Management expired in 2021. Staff was not aware of good options to renegotiate the contract. The Smart Station partner cities had discussed including other cities or entities in the Smart Station arrangement.

Mr. Keene stated the three cities negotiated the contract with Kirby Canyon Landfill when there were concerns about the availability of landfill space. For the project to develop, the three partner cities entered into a long-term contract. The obligation remained even though circumstances had changed and recycling programs were operating successfully.

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Council Member Holman felt it was important for the public to understand these costs.

Council Member Schmid understood the brownout at Station 2 and the shift to a 24-hour emergency vehicle was part of a long-term emergency response study and the Fire Department study. Both studies suggested this could be a trade-off. The GIS capacity would monitor the utilization of emergency medical services and response times. He inquired whether that would also cover Fire emergency response.

Mr. Keene answered yes. The monitoring program had been improved in the past year, and this provided additional capacity. Both Stations 2 and 5 provided the best opportunities for flexible staffing. Staff expected to make this adjustment in more situations at Station 5 rather than Station 2. This occurred only when the Fire Department was not fully staffed. The Budget attempted to enhance the City's ability to make emergency medical responses. If an engine was on an emergency response call, it was not available to respond to a fire. This scenario was practically no different than the flexible staffing model. Staff was committed to honoring the College Terrace Neighborhood Association request for monitoring and reporting.

Council Member Shepherd inquired about how the City utilized utility rates to cover costs.

Mr. Perez reported costs were distributed through the Public Works Department or the Community Services Department. Those costs were then allocated to the rest of the organization.

Council Member Shepherd asked if the City had any conservation measures in place.

Daren Anderson, Open Space and Parks Division Manager, stated Community Services was moving towards a number of water-saving efforts. Specifically, the Golf Course Superintendent was reducing the amount of managed turf and encouraging native plants to reduce water consumption. There were similar efforts in urban parks to expand natural areas.

Council Member Shepherd asked Staff to explain why the City swept streets and why it was appropriate to have a flat rate charge.

Mike Sartor, Public Works Director, said the three main purposes of street sweeping were to reduce the pollutant load in the storm drain system; to remove leaves to reduce potential on-street flooding and clogging of the

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storm drain system; and to remove trash and debris in commercial districts. Street sweeping had always been a cost in the Refuse Fund.

Mr. Eggleston reported Staff determined revenues from the residential class of customers did not meet costs, while revenues from the commercial class exceeded costs. Under Proposition 218, the revenues from the residential class had to be increased. The Cost of Service Study provided the cost per residential customer for street sweeping, the annual Clean-Up Day, and household hazardous waste, and Staff proposed adopting those costs as fixed increases. Showing these amounts on bills increased transparency and allowed customers to see the different services paid by refuse rates. Customers could provide feedback regarding ways to improve or change services. With regard to tying street sweeping rates to street frontage, the community at large received benefits in addition to a clean street.

Council Member Shepherd felt keeping the City clean and storm drains open was vital. These services had fixed costs, and maintaining rates at a reasonable level was difficult.

Council Member Klein inquired about the topic for questions and discussion.

Mayor Yeh indicated questions should be focused on utility rates and protests.

Council Member Klein asked whether the City charged itself the same utility rates as any other customer.

Ms. Connolly answered yes.

Council Member Klein stated every city was facing community concerns regarding paying more for water while consuming less. While water itself was free, the cost to supply water was not. The cost of infrastructure would increase due to necessary improvements. The total utility bill for Palo Alto residents had increased only marginally.

Mayor Yeh highlighted the role of the Utility Advisory Commission (UAC). The UAC had not approved some rate increases over the years. The UAC considered each utility rate and the aggregate impact of increases. The City Council did not consider rate increases lightly. The City would review other resources for water and cost savings.

Mr. Perez reported water increased by \$8.52 per month, gas decreased by \$18.03, wastewater increased by \$1.40, refuse increased by \$4.06, storm drain increased by \$0.33, and Utility Users tax decreased by \$0.48. The

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total average residential utility bill decreased by \$4.20 from \$235.94 in FY 2012 to \$231.74.

Mayor Yeh stated questions and discussion were focused on utility rates due to requirements of Proposition 218.

Public Hearing closed at 9:12 P.M.

Mayor Yeh reported there were 20,330 property owners and wastewater customers subject to the proposed rate increase; therefore, 10,166 protests were needed to create a majority. He asked the City Clerk to provide the number of written protests received against the proposed wastewater rate increases.

Donna Grider, City Clerk, advised there were 24 written wastewater rate protests received.

Mayor Yeh stated the total number received of 24, was not higher than 50 percent. Since there was no majority protest on wastewater rates, the Motion to adopt wastewater rate changes would be made as part of the Ordinance adopting the Budget for FY 2013. There were 20,269 property owners and water customers subject to the proposed rate changes; therefore, 10,315 protests were needed to create a majority. He asked the City Clerk to provide the number of written protests received against the proposed water rate increases.

Ms. Grider advised there were 39 written water rate protests received.

Mayor Yeh indicated the total number received of 39, was not higher than 50 percent. Since there was no majority protest on water rates, the Motion to adopt the water rate changes would be made as part of the Ordinance adopting the Budget for FY 2013. There were 17,790 refuse customers subject to the refuse rate increase; therefore, 8,895 protests were needed to create a majority protest. He asked the City Clerk to provide the number of written protests received against the proposed refuse rate increases.

Ms. Grider advised there were 35 written refuse rate protests received.

Mayor Yeh reported the total number received of 35, was not higher than 50 percent. Since there was no majority protest on refuse rates, the Motion to adopt the refuse rate changes would be made as part of the Ordinance adopting the Budget for FY 2013.

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Ms. Stump stated the California Political Reform Act prevented a public official from making or participating in making any governmental decision that could have a material financial impact on a source of income to that official. The City Council traditionally segregated items concerning Stanford University for separate consideration. The California Fair Political Practices Commission allowed this type of segmentation when a decision could reasonably be separated from another decision in which people did not have conflicts. Staff had separated portions of the Police and Fire Budget and Capital Improvements Program (CIP) that were funded or had an impact with Stanford University. The Council would consider those items first. Council Member Klein and Mayor Yeh were recused from those discussions through a spousal financial relationship with Stanford University.

Mr. Keene said this would not preclude a subsequent discussion about the Police and Fire Budgets.

Council Member Klein advised he would not be participating in the Budget items related to Stanford as his wife was a Stanford faculty member.

Mayor Yeh advised he would not be participating in the Budget items related to Stanford as his wife received a Ph.D. degree from Stanford University.

Mayor Yeh and Council Member Klein left the meeting at 9:17 P.M.

Vice Mayor Scharff asked for comments regarding the negotiated rate with Stanford, CIP items involving Stanford, or Police dispatch.

MOTION: Council Member Shepherd moved, seconded by Council Member Holman to approve Staff and the Finance Committee recommendation that the City Council adopt the portions of the Police and Fire Department Budgets and CIP relating to Stanford University for the Fiscal Year 2013 and the Ordinance portions related thereto.

MOTION PASSED: 7-0 Klein, Yeh abstaining

Mayor Yeh and Council Member Klein returned to the meeting at 9:19 P.M.

Council Member Price felt strongly regarding training and professional development for Staff, and recognized an increase in funding from the past few years. She asked Staff to comment on funding for professional development and training.

Kathryn Shen, Human Resources Director, reported her Staff was currently conducting a needs assessment for training and development of all City

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employees; however, discussion of a particular funding amount was premature. She was meeting with each Department Director to understand operational needs and leadership and management training needs. Staff was capturing and cataloging development and training requirements from employee performance reviews. Job specific training were best handled by the individual Departments. Human Resources would be accountable for management and leadership skills. Mentoring and rotational assignments were part of development. Staff needed a thorough needs assessment before determining further action.

Council Member Price inquired whether Staff anticipated those results being available prior to mid-year Budget adjustments.

Ms. Shen indicated her goal was to complete the needs assessment by the first quarter of FY 2013.

Council Member Price asked where in the Budget was funding for the comprehensive assessment of the Cubberley site and the community advisory group.

Mr. Keene expected most of the work of the Cubberley policy advisory group and Cubberley community advisory group to be an interplay among community members, the policy advisory group, the Council and the Palo Alto Unified School District (PAUSD). He did not expect a need for significant outside funding. Those findings would inform discussions related to the funding arrangement between the City and PAUSD and the lease of Cubberley in calendar year 2013.

Council Member Price needed clarification of the process and understood there was a cost sharing understanding with PAUSD.

Council Member Shepherd stated Animal Services had a \$449,000 gap to close through various means. She asked Staff to clarify the process regarding donations and increasing revenues.

Mr. Keene reported the net Budget impact of maintaining Animal Services in-house for FY 2013 was \$500,000. If the Council did not keep the net \$449,000 target and used the lower number, then the Council would need to identify reductions to other programs. The gap would increase in FY 2014 when Mountain View's contribution ceased. The need for structural Budget adjustments was ongoing. The target was not \$500,000, but \$2.5 million over the next five years. Animal Services needed sustainable revenue increases, while reducing costs. Staff planned to return to the Council in July 2012 with proposed revenue and fee increases. Any funds provided by

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outside sources would decrease the revenue needs in the first year, but did not automatically solve the needs in following years.

Pamela Antil, Assistant City Manager, stated the stakeholder group met the prior week to discuss Staff's proposal. If the City did not make cuts early in the fiscal year, then the stakeholder group would have a more difficult time covering the gap. Staff had noticed the possibility of eliminating employee positions in August. Even with current revenue projections, there was a need for reducing some Staff. The stakeholders group would meet again the following month.

Mr. Keene noted community proposals at the FC and Policy & Services Committee meetings regarding increasing revenues and reducing costs. Discussions were predicated on the Palo Alto Humane Society's proposal.

Council Member Shepherd indicated the Cost of Service Study would provide information regarding the City's supplementing of programs. She asked Staff to comment on the Cost of Service Study.

Mr. Perez reported Staff would return to the FC with the scope of services and methodologies being used in the Cost of Service Study on July 3, 2012. The report was almost complete, and the consultant would have to incorporate any change.

Council Member Shepherd inquired whether HSRAP administrative funds would be taken from the Council Contingency Fund.

Mr. Perez stated Staff had not anticipated that.

Council Member Shepherd asked if the \$27,000 amount in the Fund for the FY 2012 Budget was not being planned for the FY 2013 Budget.

Mr. Perez advised the Community Services Department was absorbing it, unless there was a change in a draw on the Contingency Fund for FY 2013.

Council Member Shepherd inquired whether the Department was taking the draw rather than the Council Contingency Fund.

Mr. Perez replied that was the current plan.

Council Member Shepherd noted HSRAP would provide clarification at the following meeting.

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Council Member Holman asked if the urban forest staff positions would be incorporated into the master document.

Mr. Keene indicated the ability to see the forestry division with its costs, FTEs, and positions would be included in the document.

Council Member Holman suggested Staff describe positions clearly to facilitate the Council's understanding. She inquired whether Staff would have time to present proposed rate increases to the Animal Services stakeholders prior to presenting them to the Council.

Ms. Antil stated Staff planned to include the stakeholders groups in discussions of rate increases. Staff asked stakeholders to assist with research of current fees.

Council Member Holman asked if Staff would provide information indicating any discrepancies between Staff recommendations and stakeholder recommendations, and when Staff would provide recommendations for additional products to be sold or services to be provided.

Ms. Antil reported Staff's recommendations would be the same as Animal Shelter Staff's recommendations. Staff could indicate any discrepancy between Staff recommendations and stakeholder recommendations. The Administrative Services Department had provided information to the stakeholders group to allow them to be part of the dialog. Staff would provide a full report and additional recommendations in the fall. Staff hoped to have a few months to determine the impact of fee increases.

Mr. Keene said Staff would report agreements and divergences in stakeholder perspectives. Staff could make initial recommendations regarding revenue that did not work and would have to be reconsidered at any time. Maintaining the level of service and funding that level would be an ongoing challenge. There was not time for a six-month or year-long planning process.

Council Member Holman stated the Cost of Service Study would be a document that would help the Council connect community values with the Budget. She inquired if it should be presented to the FC or the Council. Because of the workload in the Planning Department, she expressed concern about the senior planner position scheduled to be eliminated. The City Manager and the Planning Director would monitor the situation and return to the Council in the first quarter with staffing recommendations for the Planning Department. In evaluating the Budget, the Council was dealing

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with the public's money, Staff members, and Staff workload. The Council could attempt to balance the Budget and the impact to Staff.

Council Member Price concurred with Council Member Holman. The Council asked a great deal from employees and pressure was pushed on them. It was the Council's responsibility to move items through the process, but it should be mindful of working through the City Manager.

MOTION: Council Member Klein moved, seconded by Council Member Shepherd to accept Staff and the Finance Committee recommendation to approve:

- A. Budget Amendment Ordinance 5159, which includes:
 - 1. **Exhibit 1:** City Manager's Fiscal Year 2013 Proposed Operating and Capital Budget, previously distributed in the April 30th Council Packet.
 - 2. **Exhibit 2:** Amendments to the City Manager's Fiscal Year 2012 Proposed Operating and Capital Budget.
 - 3. **Exhibit 3:** Revised Position Changes and Position Allocation by Department.
 - 4. **Exhibit 4:** Amendments to the Fiscal Year 2013 Proposed Municipal Fee Schedule.
- B. Resolution 9260 entitled "Resolution of the Council of the City of Palo Alto Adopting a Dark Fiber Rate Increase and Amending Utility Rate Schedules EDF-1 and EDF-2".
- C. Resolution 9261 entitled "Resolution of the Council of the City of Palo Alto Amending Gas Utility Rate Schedules G-1, G-2, G-3, G-4, G-10, G-11, and G-12, Repealing Utility Rate Schedule G-6 and Amending Utility Rules and Regulations 2 and 5".
- D. Resolution 9262 entitled "Resolution of the Council of the City of Palo Alto Adopting a Wastewater Collection Rate Increase, Amending Utility Rate Schedules S-1 and S-2 and Adopting New Utility Rate Schedules S-6 and S-7".
- E. Resolution 9263 entitled "Resolution of the Council of the City of Palo Alto Adopting a Water Rate Increase and Amending Utility Rate Schedules W-1, W-2, W-3, W-4, and W-7".
- F. Resolution 9264 entitled "Resolution of the Council of the City of Palo Alto Amending Utility Rate Schedule D-1 (Storm and Surface Water Drainage) to Increase Storm Drain Rates by 2.9 Percent Per Month Per Equivalent Residential Unit for Fiscal Year 2013".
- G. Resolution 9265 entitled "Resolution of the Council of the City of Palo Alto Amending the Utility Rate Schedule R-1 for a Refuse Rate Increase".
- H. Resolution 9266 entitled "Resolution of the Council of the City of Palo Alto Amending the 2010-2011 Compensation Plan for Management and

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Professional Adopted by Resolution No. 9156 to Add Two New Positions”.

- I. Resolution 9267 entitled “Resolution of the Council of the City of Palo Alto Amending the 2010-2011 Memorandum of Agreement for SEIU Personnel, Adopted by Resolution No. 9088 to Add Two New Positions”.
- J. Resolution 9268 entitled “Resolution of the Council of the City of Palo Alto Amending the 2010-2014 Compensation Plan for the International Association of Fire Fighters (IAFF) Adopted by Resolution No. 9204 to Properly Record the Top Step Salary for Two Existing Positions”.
- K. Resolution 9269 entitled “Resolution of the Council of the City of Palo Alto Amending the 2010-2014 Compensation Plan for the Fire Chiefs’ Association (FCA) Adopted by Resolution No. 9234 to Reclassify One Existing Position”.

Council Member Klein stated the Budget was always the key item, because it set policies as well as appropriated funds. He was pleased to see the amount of citizen participation. Future Budget considerations would not be easy. He disagreed with some FC recommendations, but none strongly enough to debate them. He supported the Budget as it appeared.

Council Member Shepherd felt one milestone had been the inclusion of Friends groups. She was pleased with the community's willingness to make suggestions and to offer assistance.

Council Member Schmid indicated it was important to have data and confidence in the data. One revenue overstatement in the Budget was the expectation of rates of return on investments in benefit and retirement funds. Embedded in this Budget was a 7.5 percent expected rate of return. Over the last ten years, these investments had produced a 5.4 percent rate of return. On the Consent Calendar, the Council approved the investment portfolio for Reserves at a rate of return of approximately 3 percent. That was down 50 percent from four years ago. If those returns were not met, the City bore the full risk. It was important to recognize the most important revenue assumption in the Budget and what it might entail for the future.

Council Member Shepherd asked Staff's opinion of bringing the methodology used in the Cost of Service Study to the full Council rather than the FC.

Mr. Keene stated the Council should make that decision.

Mr. Perez expressed concern about the number of Items currently on the Council Agendas for July 2012.

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Council Member Schmid supported the Council hearing feedback concerning the most important elements in the methodology.

Council Member Klein stated this topic was not on the Agenda and not germane to the Motion.

Mayor Yeh suggested this topic could be considered as part of an offline Agenda management discussion.

Mr. Keene reported the rates of return and estimates were obtained from the California Public Employees Retirement System (CalPERS), of which the City was one participant. The City could not unilaterally set the rates or manage returns.

Mayor Yeh indicated the Council had made difficult decisions in terms of structural changes in the Budget. The structural changes had impacted the number of employees and the delivery of services. The Cost of Service Study discussion would entail difficult decisions regarding services.

MOTION PASSED: 9-0

COUNCIL MEMBER QUESTIONS, COMMENTS AND ANNOUNCEMENTS

Mayor Yeh asked about concession stands at pools within the city and if it is allowed at the parks.

Director of Community Services, Greg Betts stated that there is a snack shack at several locations within the city that are sometimes operated by sports leagues. The department is looking at having food trucks at several locations during peak times.

Council Member Burt stated that there is a good opportunity for this type of service and it had been listed in the Comprehensive Plan back in 1997-98. It is worth evaluating the small mom and pop type operations or stores again.

Mr. Betts stated the Junior Museum and Zoo recently installed two snack vending machines in the lobby that serves healthy food options.

Council Member Holman asked about the article in the Peace and Justice article regarding a recent vote by the Human Relations Commission. She asked how this should be handled.

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City Manager, James Keene stated Staff would take a look at it.

Council Member Holman requested Staff bring to full Council the methodology portion of the Cost of Services study.

Mayor Yeh announced that Council would be reconvening into a Closed Session to continue discussions on Agenda Item Nos. 2-3.

The City Council reconvened from the Closed Sessions at 11:30 P.M. and Mayor Yeh advised no reportable action.

ADJOURNMENT: The meeting was adjourned at 11:30 P.M.