

Special Meeting
March 26, 2012

The City Council of the City of Palo Alto met on this date in the Council Chambers at 5:06 P.M.

Present: Burt, Espinosa, Holman, Klein, Price, Scharff, Schmid, Shepherd, Yeh

Absent:

ORAL COMMUNICATIONS

Bill Burruss, owner of Know Knew Books for 23 years opposed the lane reduction on California Avenue and believed Staff mishandled the project. Concerning Staff, he said they sent a memo with the wrong address for the meeting last week and, as a result, some merchants were not able to attend that meeting. The meeting was attended by a large number of California Avenue merchants, none of whom approved of the lane reduction. He stated that Staff had not solicited his opinion of the project. The lane reduction would congest the area. Fewer lanes could create issues in an emergency and drive customers away from the area.

Bill Herbert, owner of property on California Avenue since the early 1960s, said he had not received information on the revitalization of California Avenue or the lane change. He thought it was wrong of the City of Palo Alto not to inform people who owned property and had paid taxes in the City for more than 60 years. He opposed two lanes. He thought it would be advisable to do a trial by blocking one lane on each side to determine if it would work.

Philippe Lehot, owner of Journeys Café stated he opposed the proposal. He knew of at least one nearby business which only had delivery service to their front door. At the recent meeting, he asked Staff about how many businesses were in that situation; they did not know. He stated traffic had not been studied correctly.

ACTION ITEMS

1. Council Retreat for Further Discussion of Infrastructure Investment and Renewal; Direction to Staff Regarding:
 - a. Revenue Generating Uses for Bayshore Sites, City's Service Delivery Model for Animal Services, and/or Municipal Services Center Site Utilization.

James Keene, City Manager noted Council had asked Staff to schedule this Session as an Action Item, however, this was more similar to a Study Session that allowed the Council to receive in-depth information on issues. Staff had organized the Agenda to respond to themes reflected in the Infrastructure Blue Ribbon Commission (IBRC) Report; issues such as the Municipal Services Center (MSC), catch-up/keep-up, the Public Safety Building, and funding options. Staff was trying to identify issues in a timely manner for Council to review.

Pam Antil, Assistant City Manager indicated the IBRC recommended Staff study the Municipal Service Center (MSC) and East Embarcadero Corridor; however, Staff was not prepared to discuss that fully because the study had just begun. She reported a number of issues had converged, causing Staff to present a piece of that study concerning the property housing Animal Services. She stated the City was in a regional partnership including the City of Mountain View who had provided the required one-year notice of termination in November 2011 leaving the partnership in November 2012. The City of Mountain View represented approximately 30 percent of the animals handled and \$450,000 in revenues. The IBRC was aware of this change as it reviewed the MSC, and suggested Staff examine the shelter's service-delivery model. The Budget Office had recommended Staff consider alternative service-delivery models in order to close a budget gap. The City had been in the Animal Services business since 1934, and the current shelter opened operations in 1972. The idea of regional partnerships came to the City in 1993 with Mountain View, Los Altos and Los Altos Hills. Los Altos and Los Altos Hills were still part of the partnership, only Mountain View had withdrawn. The City provided an extremely high level of service, and was very highly rated. Animal Services had 12 full-time employees, including a veterinarian, and about 52 volunteers who donated a tremendous number of hours throughout the year. The budget was \$1.8 million annually for Animal Services, with approximately \$1.1 million in annual revenues from the cost-sharing partnership and fees for services. Animal Services had a net cost to the City of approximately \$700,000, prior to the anticipated loss of revenue of \$450,000 from Mountain View's departure. Staff wanted to discuss service-delivery options should the City decide to look at the property as it related to revenue-generating or

repurposing. Specifically, Staff had discussed three options: contracting services to an outside vendor; seeking new regional partners to replace Mountain View and remaining at the current location; or providing services from a different location in the City. Staff had discussed a combination of providing and contracting services, but the main question for the Council was the use of the property. Staff had not issued a Request for Proposal (RFP), but had discussed RFPs with other organizations and Mountain View. She stated the annual net cost could be reduced from an estimated \$1.1 million, the anticipated cost of services for the next fiscal year, to approximately \$500,000 in Fiscal Year 2013 should the Council decide to outsource services. Staff anticipated a one-time capital outlay cost of approximately \$300,000 if the City were to use the same vendor Mountain View was going to use. She cautioned that it would result in a comparison of unequal parts, because some of the contracted vendors available in the community did not have exactly the same type of service levels in terms of response times. She noted the Peninsula Humane Society would probably not participate as they were at capacity at their location. She explained if Animal Services were to continue at the current location, Staff would seek new regional partners and revenue sources to replace the structural gap caused by Mountain View's departure. She indicated Staff would review changes to the building to accommodate kenneling and boarding currently not provided at the shelter. She reported several years ago there had been a discussion about continuing services at a new location; the estimated cost at that time to construct a new building at the old Los Altos Treatment Plant (LATP) site was approximately \$7 million. If the Council chose to pursue this option, Staff would consider methods to pay for such a facility, the need for temporary relocation or contracting during construction, and a long-term commitment to partners to share the cost of such a facility regionally.

Council Member Espinosa asked why Mountain View left the partnership and how they felt about the services they were receiving from Palo Alto. He said that could be an indicator of how other partners might feel about continuing contracted services.

Sandra Stadler, Animal Services Superintendent reported Mountain View's decision to terminate the contract was mainly a service-level decision. She explained Mountain View had asked to receive the same level-of-service that Palo Alto received, as regional cities had always received a level-of-service less than that provided to Palo Alto. She indicated the City of Palo Alto had bid to contract services with Mountain View; however, Mountain View liked Silicon Valley Animal Control Authority's (SVACA) new facility, and that seemed to weigh heavily in their decision.

Mr. Keene recalled the City of Palo Alto had interceded in Mountain View's prior notice to terminate the contract, resulting in Mountain View extending their commitment. He explained Mountain View knew Palo Alto would need to make repairs to its aging facility and would ask for cost shares from contract members. He indicated Mountain View could see rising future costs in the agreement with Palo Alto, and were able to put those aside by contracting with SVACA.

Council Member Price inquired about the current square footage of the facility and the acreage of the parcel.

Mr. Keene did not know the size of the facility, but indicated the size of the parcel was 2 1/2 to 3 acres.

Ms. Stadler stated the parcel size was slightly less than 3 acres and the square footage for the office space were less than 2,000 square feet, but she did not know the square footage including kennels.

Council Member Price asked if the estimates for a new shelter were based on assumptions that the acreage and the square footage would be the same.

Mike Sartor, Director of Public Works reported in 2007 there was some discussion about relocating the animal shelter to the LAMP site. He indicated some initial conceptual plans were drawn, based on programming needs, and a cost estimate was prepared based on construction costs at the time. He noted the facility would have handled services for Palo Alto, Los Altos, Los Altos Hills and Mountain View. He believed there was some consideration for including Sunnyvale. He explained that was a considerably larger building than the current facility at the MSC, and would have included additional kennels for dangerous animals.

Council Member Price confirmed the \$7 million estimate was based on those kinds of assumptions.

Mr. Sartor answered yes.

Council Member Schmid suggested the only possibilities for new partners would be Menlo Park, East Palo Alto, and Redwood City.

Ms. Antil reported other cities had approached Staff about Animal Services over the years, and there would be changes in San Mateo County which could provide other partners in 2014-2015. She stated the concern was not a lack of partners, but rather potential partners wanted a long-term

commitment that Palo Alto would stay in the business and upgrade facilities. Staff had been reluctant to have serious conversations with potential partners, because they wanted to go through the process. She stated cities were trying to get a better price compared to their current service. She indicated Los Altos and Los Altos Hills were also concerned that Palo Alto would contract services. She stated if Palo Alto did not continue providing animal control services, then Los Altos and Los Altos Hills wanted to be part of any RFP process in order to determine savings elsewhere.

Council Member Schmid suggested the City should consider partners when determining the location of the facility. He thought the current site or the LATP site might not be ideal for forming a partnership.

Mr. Keene stated there were different factors. He thought if Palo Alto had a replacement for Mountain View, there was the potential to remain at the existing site with an upgrade to the existing facility. He believed there was a \$1.6 million estimate for upgrades. He felt the LATP site seemed a more challenging site to work on.

Council Member Burt asked for an explanation of the different levels of service.

Ms. Stadler explained Animal Services offered a full level-of-service to Palo Alto which included barking dogs, Municipal Code violations, park patrols and off-leash patrols; things that were not required by State mandate. She stated the regional partners received services mandated by law: public safety, picking up strays, picking up dead animals, bite quarantines and aggressive animals.

Council Member Burt inquired if SVACA had adequate capacity for Palo Alto, Los Altos and Los Altos Hills.

Ms. Antil understood they had capacity and were interested in Palo Alto's business. She stated SVACA would have the same issues regarding level-of-service provided to Palo Alto; however, they had the capacity for a number of services.

Council Member Burt asked if Palo Alto would receive a reduced level-of-service by contracting with SVACA and, if so, what were the ramifications.

Ms. Antil stated Staff wanted to review that as part of the RFP process, in that Staff anticipated some vendors could not provide certain types of

services. If there was a reduced level-of-service, a portion of Staff could be maintained to conduct those types of services.

Council Member Burt inquired whether the projected net cost of \$500,000 in Fiscal Year 2013 was for the same level-of-service or for a reduced level-of-service.

Ms. Antil responded it was for the reduced level-of-service. She stated the comparison to SVACA indicated the primary differences were barking dog complaints, administrative hearings, assessment reports of animal defecation on property, and animal surrenders. She explained the City would have to find a different way to provide those services, which would change the savings number.

Council Member Burt stated a critical component of the Council's decision would be understanding the cost of retaining the current level-of-service and the services which SVACA would not provide.

Ms. Antil stated the Council could see an increase in revenue from repurposing the property, if it chose to do so, which could be used to recapture the gap in animal control services.

Council Member Burt asked if the \$300,000 capital outlay would occur if the City chose SVACA to provide services.

Bob Beacom, Acting Assistant Police Chief reported the \$300,000 was a capital expense to handle animals from Palo Alto. He stated that number was based on SVACA's anticipation that it would contract with Palo Alto, Los Altos and Los Altos Hills.

Council Member Burt inquired if the \$300,000 was Palo Alto's portion, and did not include Los Altos and Los Altos Hills.

Mr. Beacom responded that was correct.

Mr. Keene repeated that was a one-time expense.

Council Member Burt asked whether the Peninsula Humane Society served the cities not listed under SVACA. He asked if Sunnyvale was serviced by SVACA.

Ms. Stadler indicated SVACA served Campbell, Monte Sereno, Santa Clara and now Mountain View. She reported Sunnyvale had their own animal control, but they sheltered animals with the Humane Society of Silicon Valley in Milpitas. She stated the remaining cities contracted with the City of San Jose Animal Care and Control; unincorporated areas and the City of Gilroy contracted with the County.

Council Member Burt inquired whether Stanford and southern San Mateo County contracted with Peninsula Humane Society or different places.

Ms. Stadler reported Peninsula Humane Society covered every city in San Mateo County as well as the County; Stanford contracted with the County.

Vice Mayor Scharff asked if Mountain View left because they were not getting the level-of-service they wanted.

Ms. Stadler indicated Mountain View was interested in getting the same level-of-service provided to Palo Alto.

Vice Mayor Scharff inquired whether Mountain View with SVACA would receive a better level-of-service than Palo Alto was providing.

Ms. Stadler stated Mountain View received a different level-of-service. She noted Mountain View emphasized wanting services to include responding to unconfined stray dogs and administrative hearings for dangerous animals. She stated the City had offered those services to all contract cities during negotiations; however, Palo Alto did not prevail. She reported Palo Alto's response times were much faster than SVACA's.

Vice Mayor Scharff inquired why Mountain View chose SVACA if Palo Alto offered the services Mountain View wanted.

Ms. Stadler said Mountain View liked the new cageless adoptions at SVACA, and they were worried about capital outlay.

Vice Mayor Scharff asked if Mountain View's costs were less than what they paid Palo Alto.

Ms. Stadler answered it was about the same for the first few years. She stated Mountain View anticipated a savings, based on the number of animals handled by Palo Alto. She noted that would change as Mountain View's percentage changed.

Vice Mayor Scharff inquired if Mountain View anticipated a savings because they expected Palo Alto's costs to increase.

Ms. Stadler responded yes.

Vice Mayor Scharff asked if the Council chose SVACA to provide services, how much it would cost to provide similar levels of service and what those levels of service would be. He understood dogs dropped off for neutering, for instance, came back nicely groomed with their claws clipped. He inquired if that was the level-of-service the City could afford to pay. He also asked if, rather than outsourcing services, the City reduced its level-of-service to SVACA's level-of-service, what that cost would be. He thought the Council could choose what services might need to be paid for. He inquired whether Staff would be able to determine what services the City could provide outside of SVACA and what those would cost. He said Mountain View would leave the partnership in November. He thought at that point the City would be losing approximately \$1.1 million a year.

Ms. Antil stated it was about \$500,000.

Vice Mayor Scharff explained \$1.8 million in costs and \$650,000 in revenues resulted in about a \$1.1 million loss.

Ms. Antil agreed.

Mr. Keene indicated this would be a significant cost that would have to be absorbed in the City's General Fund unless they could find another alternative.

Vice Mayor Scharff noted if the City was not doing anything, it would stay in business in November, at which point it would start incurring those losses. He inquired about Staff's plans to review other partners, how quickly that would occur, and whether this would work in the timeframe of resolving this issue by November.

Ms. Antil thought there were a couple of different components. She reported initial discussions with SVACA indicated SVACA would not accommodate the barking dog service or administrative hearings for Palo Alto; however, that could be different in the bid process. She thought recruiting additional partners would require the City to make a long-term commitment to including capital costs for the existing building, not just immediate repairs. She stated the City would have to compete with agencies that had newer facilities. She also discussed repurposing the property. In reviewing the

economic impact of repurposing this property, it made more sense to use the property for something else and consider outsourcing Animal Services or building a new facility at another location. She said this had not been a priority because there was not a regional opportunity and facilities like SVACA did not exist. She believed Council had to determine if it made sense to build a new facility or invest in the existing facility, when another organization had a new facility that could accommodate Palo Alto's needs. She did not think Staff would recommend making a significant investment in this particular facility while foregoing the opportunity to repurpose the site.

Vice Mayor Scharff recalled the original cost for construction of a new facility was \$7 million. He asked if that amount would be roughly the same or smaller now.

Ms. Antil answered maybe not, because that cost was for a facility that included Mountain View and Sunnyvale. Staff would review that issue, and she thought plans would be different.

Council Member Klein asked who SVACA was; if they were a government agency or a non-profit.

Ms. Stadler explained it was a Joint Powers Authority (JPA), and they were represented by members from Santa Clara, Monte Sereno and Campbell. She stated most of the members were from the police departments, who determined the rules. She indicated a manager and a director ran the shelter.

Mr. Keene stated it was a Joint Powers Authority with the City of Santa Clara.

Council Member Klein inquired whether the City of Santa Clara ran it.

Ms. Stadler indicated the City of Santa Clara had the majority of the membership of the JPA.

Council Member Klein wanted to understand the different levels of service and associated costs. He asked what the difference was between the amount charged to Palo Alto and the amount charged to Mountain View.

Ms. Stadler explained cities were charged according to the percentage of animals handled. She reported 60 percent of the calls for service, both animal control and through the office, came from Palo Alto; therefore, 60 percent of costs were charged to Palo Alto. She stated the number of

animals handled from the City of Mountain View and the other two regional cities were lower, because Animal Services did not respond to unconfined strays. She indicated if their calls for service and animals increased, their percentages would increase.

Council Member Klein asked if those allocations were changed annually.

Ms. Stadler responded the allocations were based on actual figures.

Council Member Klein was intrigued by the huge difference in capital costs. He thought \$7 million was high even if it included service for Mountain View and Sunnyvale. He stated a 10,000 square-foot building resulted in a \$700 per square foot cost for construction. He asked what the \$300,000 capital outlay consisted of.

Ms. Stadler understood that SVACA currently did not have room to take the additional animals. She stated their facility was quite different from Palo Alto's in that everything was indoors. She thought SVACA had rooms where they would need to install drainage and kennels in order to house additional animals.

Council Member Klein inquired if the Police Department was involved in barking dog issues.

Ms. Stadler stated yes. She indicated from 5:00 p.m. to 7:00 a.m. barking dog complaints went to the Police Department. She said on-call Animal Services was for emergencies only at night.

Council Member Klein inquired whether the same applied in other communities.

Ms. Stadler indicated it was true in many communities. She explained most communities did not have all-night Animal Control Officers and placed existing staff on standby, because the number of calls for service greatly decreased. She stated most municipalities relied on their Public Safety Officers to respond to non-emergency calls, if they could.

Council Member Klein assumed most barking dogs were at night.

Ms. Stadler suggested calls were half-and-half. She stated they received a fair number of citable complaints during the day.

Council Member Shepherd asked how the allocation would be made to regional partners with the loss of Mountain View. She stated the allocations were based on actual calls made, but that obviously would shift. She inquired whether the actual loss of \$450,000 would be shared with regional partners.

Mr. Keene stated that was potentially correct. He explained the partners would be conscious of the cost shift and the amount. Staff would have to factor in the partners' abilities to absorb the cost share, given their size. He noted they also had the option to leave the partnership.

Council Member Shepherd inquired whether Animal Services was expected to break even or to be a cost to the General Fund.

Lalo Perez, Director of Administrative Services recalled the discussion began with the Finance Committee requesting Staff perform a cost-of-service study to determine the level of subsidy or net cost. He stated the animal shelter was getting ahead of the game as a result of the Mountain View movement, because Staff planned to perform a study for all fees. He explained the Council would make the policy decisions regarding cost recovery for all the area services, including the animal shelter. He suggested Staff provide scenarios of the various levels of services and options for cost recovery to the Council, if the \$1.1 million loss was not acceptable. He felt one option could be increasing fees to offset some of the net costs. Staff needed to bring more information to the Council to allow it to set policy.

Council Member Shepherd stated that was another layer. She referenced the Service Efforts and Accomplishments Report (SEA), page 52, regarding 2,800 animal service calls for Palo Alto last year and 3,300 sheltered animals. She calculated the cost to be approximately \$250 per call. She asked what was being articulated in the report noting there was a target of 3,000 items to be responded to. She asked if sheltered animals were animals temporarily sheltered at the Palo Alto facility.

Ms. Stadler explained service calls required Animal Control Officers to go out and make an activity report, whether it was a stray, dead, or injured animal. She stated those were actual calls for service. She noted the regional service calls were a little more than half. She stated the term sheltered animals referred to the number of animals handled, including both live and dead.

Council Member Shepherd inquired if that was in addition to the service calls made.

Mr. Keene responded it was both.

Ms. Stadler stated they were intertwined.

Council Member Shepherd assumed the 12 full-time employees (FTE) could be adjusted as well.

Mr. Keene thought those items would have to be reviewed. He reported how elastic staffing was in relation to the demand and the revenue stream would have to be reviewed. He said there would have to be some expense savings with the loss of service, but Staff could not say at the current time whether that would be a one-for-one savings.

Ms. Antil added that fees were not charged for responding to a dead animal call or barking dog complaint. Staff did not believe it would be able to recover the \$700,000 or \$1.1 million by increasing fees.

Council Member Shepherd asked if the City could alter this model to be a public-private partnership. She assumed the 12 Animal Services employees were on the City's full plan. She asked if that was an option for the Council to consider in the future.

Ms. Antil responded that was the information to be received from the RFP. She explained contracting services was privatizing.

Council Member Shepherd inquired if it was privatizing when using Palo Alto's services at Palo Alto's site.

Mr. Keene said that was a variation on a theme. He indicated there could be combinations of that, such as outsourcing to some other entity while considering public-private partnerships for services to be kept. He thought the Council would have to review the extent to which general tax dollars were subsidizing services, and the extent to which public good justified continuing services or shifting costs to the consumer.

Council Member Shepherd reported seeing coin banks for donations at stores in other communities, because they did not have services. She asked if the Police Department K-9 units used Animal Services.

Mr. Beacom reported the Police Department was currently using Animal Services because there was a veterinarian on staff. In regard to the question of the partner cities having a larger percentage of costs when Mountain View departed the partnership, Staff had discussed this with them.

He noted both cities were concerned about that, because they could be facing an amount that made no sense at all. Staff had told the partner cities they would make sure the cities were not penalized for Mountain View's departure. He thought the partner cities would utilize other services if Palo Alto gave them Mountain View's percentage.

Council Member Shepherd said if they could find a place to go.

Ms. Antil stated Palo Alto would have to find another partner.

Council Member Shepherd noticed that performing park and school patrols for stray animals was not covered by SVACA, and felt all of these things that were not covered were important.

Ms. Antil stated Staff was attempting to provide a snapshot of services so the Council could have a discussion. She noted the overall picture would be clearer once the RFP was issued. She thought SVACA was not willing to provide some services to Mountain View, and suggested Mountain View may have been able to achieve those services. Staff asked SVACA the same questions about the same topics, and SVACA was not interested in providing some services. She indicated this discussion was precipitated because of the location of Animal Services and economic circumstances. She said the IBRC and budget personnel had asked Staff to review the way services were delivered. She reported if the Council decided to continue Animal Services at the current location, Staff could provide cost-savings measures; however, the City would forego a tremendous opportunity for long-term structural revenues. She stated that was the real decision. She said Animal Services Staff had found creative ways to do many things on a limited budget; however, it was a matter of two separate issues. She wished there was another piece of property for Animal Services, and noted that had been discussed. However, she indicated there just was not another location. She wanted to make sure the Council was clear that was more of the discussion.

Council Member Shepherd thought it was layers of discussions, and there was a wildcard with Animal Services. She asked if Animal Services could take animals from any city and charge them for the exact cost of services. She stated Animal Services had been a welcome part of the community, and she preferred to keep Animal Services.

Council Member Holman asked what was SVACA's model and if they were subsidized.

Mr. Keene did not know if Staff could answer those questions. He stated that obtaining that kind of information and detail would be part of the RFP, so that Staff could present viable alternatives, if any, to the Council.

Council Member Holman indicated the basis for her question was to determine if there was an opportunity to generate funds. She wanted to know if Council should choose to improve the current facility or construct a new facility. The \$7 million cost of a new structure did not seem a logical number to her. She did not think SVACA had the capacity to handle services for Palo Alto, Los Altos and Los Altos Hills, as SVACA would need \$300,000 initially to accommodate Palo Alto alone.

Mr. Keene suggested they had a template with modules that they could add, but they capitalized the module for the incremental cost increase of obtaining a new customer base. He stated Staff did not know what the capacity was.

Mr. Sartor reported the previous cost estimate of \$700,000 was for a much larger facility, and included bringing utilities to the site, grading work, and raising of the property above flood plain. He stated it was a conservative estimate based on construction costs of the mid-2000s. He indicated there was an opportunity to revisit the size of the facility and potential costs based on the current construction market.

Council Member Holman indicated Animal Services provided two critical services which SVACA did not: animal surrender and spay/neuter services. She asked what leverage those services might have at an improved facility.

Ms. Antil stated Staff did not know. She indicated that entire list of services would be a part of the RFP process. She reported Animal Services had to turn away animals, but did not know if that was due to capacity or sheer number of animals.

Ms. Stadler reported the only animals turned away were out of the jurisdiction. She indicated most people surrendered their pets because they had no options, and it was usually a last resort. She stated Animal Services followed the industry standard in animal welfare by not charging a surrender fee. She said they encouraged people to do the right thing, and the right thing was not to dump the animal. She explained a shelter should be a sanctuary, and that was where they should go. She repeated Animal Services did not turn away anyone if they were within the jurisdiction.

Council Member Holman asked how many people visited the shelter annually.

Ms. Stadler did not know as they did not track the number of visitors. She indicated Animal Services was a destination spot for Palo Alto. She stated there were people who came regularly to visit the animals rather than to adopt them.

Council Member Holman was interested in tracking the number of visitors in a given period of time. She inquired if there was a reason for comparing Palo Alto's services to SVACA as opposed to going north. She asked if Staff could provide any information about opportunities for new partners.

Ms. Antil explained Staff had mentioned SVACA because Staff had the most information about SVACA without issuing an RFP. She indicated Staff would receive more information when they issued an RFP. She reported Menlo Park and Milpitas had expressed interest; however, it was not clear if they were just trying to find out how much Palo Alto would charge to get a better rate. She stated no one had actually said they were ready to sign up; Staff had not made a sales effort because it could not commit Palo Alto to staying in business and repairing or expanding the facility. She reported there were no imminent repairs needed at the shelter currently. She indicated those were all things which Staff would review and provide information. She said SVACA seemed to be the entity pursuing most cities and had the newest facilities. She reported there was a lot of interest, but Staff would issue an RFP.

Council Member Holman indicated the Council would not know what it wanted to do until it had more information; and the Council could not get more information unless it knew what it was going to do.

Mayor Yeh asked what the timeframe for the RFP was in order to gather the additional information from folks in the area.

Ms. Antil stated the RFP process would be approximately three months to five months to return with information.

Mr. Keene indicated this raised some tricky timing issues, and Staff would have to review whether they could have an abbreviated process. He hoped to have some results from the RFP or survey by the time they were ready to formulate a budget for the Council. He thought that was important because the Council would want to make a decision. He indicated the Council still had some flex time since the Mountain View revenue stream did not end

until November; therefore, the Council could be in a transition phase when it adopted the budget. He stated the Council could do nothing, which meant absorbing a loss in Fiscal Year 2013; could find some other partners, which would trigger a need for a greater capital investment on the site, and the potential loss of other revenue from a reuse of the site; or could have the RFP information to review choices. He thought the Council could have some informed discussions during the budget process.

Mayor Yeh supported the discussion of the different levels of service and issuing an RFP to obtain a sense of services at the current level and services to be provided by bidders. He asked Staff to describe the process a city would undertake with its employees when contracting out services.

Ms. Antil suggested the City Attorney could discuss the legal requirements. Staff tried to have these discussions with employees early, and sent notice to employees last week rather than waiting until 30 days before the adoption of the budget. She stated the conversation could continue with input from Staff.

Mr. Keene explained the City would follow any of the contractual obligations under contracts with bargaining groups and under the requirements of labor law. Beyond that, he stated it was a courtesy to begin discussions of potential outcomes as soon as the possibility was realized. He reported there would be ongoing discussions with Staff in particular and in general as the Council moved through the budget process. He said the City had been fortunate over the past couple of years to have almost no layoffs, even though it had given some difficult notices. He indicated that meeting was the earliest possible opportunity to have this discussion.

Mayor Yeh knew that this discussion was the beginning. He indicated this issue was in the context of Infrastructure and the balancing act that the Council was facing. He knew Staff had additional material to present.

Council Member Holman inquired if Council could provide input regarding the RFP in this particular case, as this RFP might involve more than the average RFP questions.

Mr. Keene thought that was appropriate. He suggested some items could be handled best in the RFP process, and some in the interview process.

Vice Mayor Scharff inquired whether volunteers could perform some of the items on the Animal Services comparison, such as patrols through the park.

He wondered if municipal hearings could be handled by volunteers to allow the City to provide services which SVACA did not.

Ms. Antil stated Staff could review that suggestion.

Mr. Keene said that ended the discussion relating to Animal Services at the MSC.

Ms. Antil asked Mr. Fehrenbach to discuss repurposing of the site for auto dealership use.

Thomas Fehrenbach, Economic Development Manager reported there had been a significant level of concern regarding auto dealers and the sales tax revenues they generated over the past decade. He noted a grow-in-place policy had worked relatively well for some dealers; however, dealers were experiencing a significant decline, especially the Embarcadero dealers. He stated the City had been exploring a split-site arrangement with Anderson Honda in 2007 and had gotten close to some deal points; however, the economic downturn removed factory pressure for Anderson to relocate to a more visible site and the deal collapsed. He reported Anderson was once again experiencing pressure from the factory to relocate to a visible site. He indicated there were some synergies with the existing site that would allow for an increase in sales tax revenue, as well as some other potential revenue increases. He stated Palo Alto was not experiencing the regional recovery in terms of sales tax revenues at the same level as the State and Silicon Valley. Staff was concerned about those revenues, the base of revenues currently in place, and potential loss of revenues if they were taken outside of the City. He noted the Embarcadero Road dealers had been affected the most with a 30 percent decline over the last ten years. He stated the MSC was a 2.4 acre site including the Animal Services Center. Assuming Animal Services relocated, he reported the MSC site was imminently deliverable from the City's perspective, because it was separated physically from the other uses currently at the MSC. He indicated the numbers were educated guesses, and there were a number of assumptions. He reported the City could anticipate a revenue increase from sales tax of approximately \$250,000 to \$500,000 a year, and income from a lease situation between \$300,000 and \$450,000 a year. He suggested the Council consider a digital billboard either at the MSC or on the other side of Highway 101 at the end of Colorado Avenue. He noted a digital billboard would require two Ordinance changes. Staff had contacted the California Department of Transportation (Caltrans) and determined both sites were not scenic or a landscape freeway so a digital billboard would be possible from that perspective. He indicated the City could go through the entire development process or contract the entire or parts of the process. With regard to selling advertisements, he

reported the Council could arrange for a third party to sell advertisements, build in a certain percentage of the advertisements for City uses, or build in a certain percentage for auto dealers. He said the City could estimate approximately \$500,000 a year in revenue from the digital billboard, assuming it wanted a percentage of flips, and an additional \$100,000 to \$400,000 of sales tax from the auto dealers. He thought there was an estimated additional income potential of \$1.1 million to \$2 million per year.

Mr. Keene explained Staff was discussing the site where Animal Services was currently located. He understood a study and analysis of the MSC site would include a detailed review of reconfigurations of the existing site. He noted the Council had asked in the past if there was a reconfiguration or reuse of the MSC site that would free-up additional space along East Bayshore for other potential uses. He reported the City had the potential for ongoing revenue streams from lease payments, increased sales tax revenue, and revenue from a reader board. He explained there was value in a Palo Alto address for auto dealers; however, if the dealerships were hidden or difficult to get to, that address was less important. He stated the City was not necessarily interested in chasing auto dealerships, yet sales tax was restricted as to where the City could collect revenues. He said the Council had to be cognizant of limited options for raising revenue as the Silicon Valley economy became a service economy, for which the City was not able to collect sales tax revenue. He explained the City had to have revenue streams to continue providing high levels of service, or it would be forced into a cost-cutting perspective.

Council Member Price noted in many communities auto dealerships thrived when they were part of an auto row; it was a very common model. She indicated the proposal was not for an auto row. She asked if Staff was suggesting that the issues of visibility, ZIP code, demand and sales tax revenue, or a combination of those factors would be compelling enough to make this site viable.

Mr. Fehrenbach responded yes. He did not think this site was mutually exclusive from a potential auto row in the future, and suggested the study of the MSC could provide some options for this. He stated the freeway frontage and the Palo Alto address made this a desirable situation for an auto dealer. He thought a split-site configuration within a very short range could provide the service and back-of-house functions needed by auto dealers, and could make the site more desirable for existing auto dealers.

Council Member Price inquired if he had informal, conceptual discussions with auto dealers regarding this kind of a configuration.

Mr. Fehrenbach replied he had conceptual discussions with several auto dealers regarding this particular site.

Mr. Keene thought anything that could happen would be on a small scale in this area. He indicated a different kind of configuration would be needed for more than one auto dealer. He stated an auto dealer could have a showroom on this site and the other facilities at a different location. He explained if the MSC site was reconfigured to free up some land, there could be room for a second auto dealer, but Palo Alto would never have an auto row with ten dealers.

Council Member Espinosa asked for Staff's thoughts on what would happen if the Council did not move in this direction with Anderson Honda.

Mr. Fehrenbach thought there was a significant chance Palo Alto would lose Anderson Honda to another city, where it could have freeway visibility.

Council Member Espinosa inquired if there were other dealerships in Palo Alto where Staff had that same concern.

Mr. Fehrenbach replied not to the same extent. He stated the grow-in-place model with the types of products that others were selling had been relatively successful. He thought it was an ongoing fluid issue, and he did not have the same level of concern with others.

Council Member Espinosa said he had spoken with many dealership owners and had real concerns about how aggressive the City had been and how aggressive it needed to be in working to keep businesses. He noted it was a significant revenue base for the City, when the Council was discussing scaling back services. He thought this was a clear revenue source that the Council needed to do everything it could to keep, if not attract more. He asked if there was a process for the Council to study the conduciveness of an auto row with parkland and with adjacent community uses.

Mr. Keene stated the question was about the interrelationship with the parkland issues and planning issues related to the auto dealers.

Steve Emslie, Deputy City Manager explained all the areas adjacent to the Baylands were included in the Baylands Master Plan, and were subject to higher levels of architectural review and scrutiny. He indicated all the properties were within the D overlay, which was a higher level of design review that passed through both the Architectural Review Board and the City Council. He noted everything automatically would be presented to the

Council for approval. He reported Staff had updated the General Comprehensive Plan and confirmed all the relationship issues between the developed and natural areas, so those development policies would continue to apply to this and would be confirmed through the design review process as required by the existing zoning.

Council Member Holman stated Staff had provided a lot of numbers to the Council; however, the Council did not have the backup for where those numbers came from. She asked if they could be provided to the Council in a reasonable amount of time.

Mr. Fehrenbach answered yes.

Council Member Holman indicated it would be helpful to have a photo of a digital billboard or information regarding its appearance and size, as well as the basis for income potential from a digital billboard. She was interested in knowing what kind of pressures Stevens Creek, with a number of auto dealerships, and Burlingame, with an auto row, were experiencing.

Mr. Fehrenbach reported the rate of increase year-over-year had been far less for Palo Alto than for Stevens Creek, Redwood City and others during the recovery.

Council Member Holman asked if they were facing the same pressures that Palo Alto was with Anderson to have freeway visibility; and if not, why not.

Mr. Emslie stated that Stevens Creek auto dealers, because they had a significant amount of dealerships in the City of San Jose and Santa Clara, represented a critical mass and was a destination, which would tend to offset the concern that the factory had for freeway visibility. He noted his comment was not based on direct conversations with Stevens Creek or Burlingame. He explained auto dealerships functioned much better when they were clustered in larger groups of dealers. He indicated that encouraged car shopping and brand comparison, which was favorable to auto sales. He thought a large number of auto dealers with a fair complement of makes and models offset concerns about freeway visibility. He indicated Staff could reach out to some of the dealers to determine if there were similar issues in terms of freeway visibility. He explained one purpose of freeway visibility was to alert the potential car buyer to the location of the auto dealer; however, the primary purpose was to be a 24/7 advertisement promoting the brand of the particular auto. He reported the factory wanted that message to be exposed to tens of thousands of drivers who use Highway 101 every day. He stated the constant reminder of the

brand or car dealer was important to freeway visibility, and was one of the primary reasons the factories desired it.

Council Member Holman inquired if a digital billboard was requisite for an Anderson move to the MSC site.

Mr. Emslie reported that it had not been communicated to Staff that a digital billboard was an absolute prerequisite for a move to occur; however it would be a nice addition. He thought freeway visibility with appropriate signage compatible with the Baylands setting would suffice. He did not know of one recent auto dealer that had relocated to the freeway that did not have some sort of electronic message associated with it, either onsite or close by. He noted Fremont Auto Mall, San Leandro and Milpitas Auto Mall all had digital billboards and an Oakland dealership located across from the Coliseum shared a reader board with the Coliseum.

Council Member Holman repeated she looked forward to receiving information about the physical appearance of a digital billboard. She asked why the Animal Services site specifically, as opposed to elsewhere on the MSC property.

Mr. Emslie explained Animal Services was not dependent on shared facilities for operations, so it could be severed without affecting any other use. He noted many different operations shared yard space on the remaining 15 acres, and that would have to be reconfigured which required more study. He indicated the Animals Services site was more readily deliverable. He stated the withdrawal of Mountain View and the possibility of contracting services removed the need to replace the Animal Services site, which was a significant cost barrier. He thought a reconfiguration and study of the remainder of the MSC site spoke to the potential of adding dealers in the future, allowing this site to become a destination. He stated his experience with this situation in other communities indicated one dealer's success in the area generated increased interest by other dealers. He felt determining future sites was critical in terms of capturing and positioning existing dealers as well as attracting those from outside the area.

Council Member Holman recalled she and Council Member Burt had talked to Staff about boutique auto dealerships, primarily located at Stanford Shopping Center. She did not know if Staff had been pursuing that as an option. She said monetizing land and how that competed with community values was always an interesting discussion.

Mr. Fehrenbach reported Staff had a number of discussions with boutique dealers and Stanford Shopping Center, and there was some interest in Downtown for that type of use. He explained boutique dealers tended to have more elastic sales tax revenues and revenues tended to be lower than some of the existing products, because they were specialty businesses.

Council Member Klein wanted to discuss Staff's negotiations with Anderson. He recalled the City was close to finalizing a deal with Anderson in the past, and Anderson pulled out. He was uneasy with their threats to leave the community if they did not receive a deal, as they had a deal previously. He recognized negotiations involved a certain amount of bluff. He was not opposed to working with them, but was not feeling desperate to negotiate with them.

Mr. Emslie would not say the City was desperate, and there was no immediate threat. He explained the City was in discussions in 2007 with an auto dealer, who had a letter from the factory requiring the dealer to meet the requirements of a freeway visible site within three years. He stated the recession occurred, causing the factory to retract the letter and to say it would work with the dealer when the economy improved. He indicated the economy had improved for auto dealers. He noted there was not a formal timeframe for the dealer to relocate, as there was in 2007. He stated the change in redevelopment in the State was a significant factor that balanced some of the concern about loss of a dealership. He explained cities were using redevelopment funds to underwrite the costs of dealership relocation, and redevelopment funds were no longer available.

Council Member Klein inquired if the City's bargaining position had improved in that sense.

Mr. Emslie thought the City was in a stronger position, because the playing field was level with the City's competition.

Council Member Klein indicated he did not see much vacant freeway frontage in his travels along Highway 101 to San Francisco and San Jose. He understood redevelopment was possible, but he did not see a site that might be as readily available as in Palo Alto.

Mr. Emslie thought competition would typically be within a 10 mile radius, as that was the accepted spacing of auto dealers. He stated underdeveloped or underutilized sites would be Palo Alto's competition. He indicated an outdated office building or a service/commercial type of use would probably be the type of site that would be attractive. He explained the lack of

redevelopment required a negotiated sale between the purchaser and seller. He noted the redevelopment agencies could not deliver sites as they had previously, and that was one of the factors working in Palo Alto's favor.

Council Member Klein asked if Staff had spoken with other dealerships, not just Anderson.

Mr. Fehrenbach replied yes. He had spoken with Chrysler, Ford and Charlie Burton who owned the Subaru and Audi dealerships.

Council Member Klein inquired if discussions had included the potential use of the Los Altos Treatment Plant Site.

Mr. Fehrenbach answered yes, most specifically for the back-of-house services of storage and service.

Council Member Klein asked if Mr. Anderson had indicated a willingness to trade some of his land on Embarcadero as part of a transaction.

Mr. Fehrenbach reported he would need a certain portion of his current site for service and storage, but he might not need the entire site. Some of that land could be available for City use.

Council Member Klein suggested it could be used for an animal shelter.

Council Member Shepherd thought this was an interesting option. She said the different locations of auto dealerships were illogical. She asked if Staff tracked sales tax for Toyota, because they had a decent location in Palo Alto.

Mr. Fehrenbach indicated that was a good example of the grow-in-place model, as they had improved with expansion over the past few years. He stated almost all auto dealerships in Palo Alto between 2007 and 2009 experienced a decrease in overall sales.

Council Member Shepherd asked if the Toyota dealership was experiencing an increase from the end of the recession.

Mr. Fehrenbach responded they were.

Mr. Emslie reported the tsunami in March 2011 had disrupted the supply chain for Japanese car models, which had affected sales.

Council Member Shepherd recalled her experience with moving the location of an auto dealership and the problems associated with that. She asked if sites along Embarcadero Road would be considered clean property.

Mr. Emslie noted current practices were diligent in preventing past occurrences of toxic materials. He reported there was a possibility of some toxic materials in the site as those dealerships had been located there prior to modern hazardous material handling standards. He explained toxic materials at an auto dealer were generally hydrocarbon based, which did not migrate to groundwater as quickly and were easier to remove than other chemical solvents. He stated there would most likely be some cleanup on those sites.

Council Member Shepherd stated there would be a period of time for cleanup. She asked if the City had been diligent about toxic materials on the MSC site.

Mr. Sartor stated current practices were above the requirements of the regulatory agencies. He reported the former fuel station site had some minor soil contamination from the storage tanks. Beyond that he was not aware of any particular contaminants.

Council Member Shepherd indicated there were other industries easier to move than auto dealerships. She wanted to make sure the Council was thinking about everything, because the potential to make \$1 million to \$2 million from this site might not work for other reasons. She wondered if the Council wanted to have Honda as the anchor for an auto row, when there were other auto dealerships. She thought it would be worthwhile to think strategically about the class of dealerships to be located there. She wanted to see some prospectus for a retail area relating to use of the Baylands. She thought retail might not be as cyclical as auto dealerships, and might become a destination spot for Palo Alto residents.

Council Member Burt asked if the City stored park maintenance vehicles and materials within the MSC site.

Mr. Sartor reported lawn mowers and those kinds of things were maintained at the MSC. There was park storage at the Golf Course.

Council Member Burt noted there was approximately two acres at the Golf Course, near the tower at the airport, which was used for material storage rather than maintenance vehicles. He said it looked underutilized and

decrepit. He suggested that portion of the MSC for storage could be relocated to the Golf Course.

Mr. Sartor reported that site had been reviewed as a potential location for parks maintenance operations.

Vice Mayor Scharff asked if he was correct in thinking statewide auto sales had increased, while auto sales for Anderson Honda in Palo Alto had continued to decline.

Mr. Fehrenbach stated the rate of increase for sales in Palo Alto was less than the rates of increase for both Silicon Valley and the State. He noted it was largely due to the rate of increase for some of the dealers in Palo Alto being flat or decreased.

Vice Mayor Scharff inquired how much Anderson Honda paid in sales tax to Palo Alto.

Mr. Fehrenbach said he was not allowed to answer that specific question, because it was a violation of State law.

Vice Mayor Scharff asked how strongly Staff felt that Anderson Honda might actually leave the City of Palo Alto, and whether that was short-term or long-term.

Mr. Fehrenbach thought it was within three years when negotiations were held previously, and the Council could expect the timeframe to be two to three years if and when pressure from the factory was formalized.

Vice Mayor Scharff had noticed a Tesla dealership in Santana Row, and thought that was interesting.

Council Member Schmid was surprised about the discussion. He thought the Council would have a Retreat to talk about the IBRC Report, and yet the Council was down to a small portion on the MSC and trading off Animal Services for an auto dealership. He did not know how the Council moved from the grand view and discussion to this micro-oriented decision. He believed this decision would have severe constraining effects on all those other decisions mentioned by the IBRC, and would have an impact on how the Council thought about the MSC. He thought IBRC originally suggested a land swap between Embarcadero and the MSC, which now seemed severely constrained. He was not sure where the LATP played a role or what the Council would do with it. He was concerned that, by focusing on this decision

of Animal Services and the Honda dealership, the Council was beginning to compromise its ability to deal with the IBRC Report in a larger sense. He noted Honda was in a unique situation among auto dealers, and had taken a severe beating over the last two years since the Japanese earthquake. He noted they were down 25 percent. He asked if they were the right anchor tenant to bring into this space, if they could recover, or was this a structural issue, or merely a temporary business cycle. He noted auto dealerships had been the key to municipal finance in many communities since the 1950s. He stated online purchasing and investigations had changed the nature of dealerships, such that the showroom or the pickup spot became the important element. He was not sure the Council should put dealerships at the center of the vision of the Baylands. He stated another striking thing in that 50-mile stretch was only two or three spaces to actually view the Bay. He felt putting a digital billboard on the City's view of the Bay was a funny thing if you had a long-term vision of the relationship to the world. He indicated the discussion was really about \$1.1 million. He was not sure that was much compared to the possibilities that IBRC considered with an evolution of the whole Baylands.

Council Member Klein thought any talk of an automobile row was unrealistic, because there was not space for it. He indicated the entire MSC site had room for possibly three dealerships, and that created the problem of where to locate the MSC. He thought one dealership was possible, but doubted there was room for a second.

Emily Renzel was not fond of the word repurposing, and concurred with the concerns expressed about monetizing public lands. She stated Palo Alto auto dealerships' problems were largely related to the high cost of land in Palo Alto, as indicated by the approximate cost of \$104,166 an acre for an Animal Services site. She reminded the Council that was comparable to the Bixby Park site. She thought someone should review exhibit A1 under the Parks Ordinance, because it appeared that the MSC exception did not include the entire Animal Services Center site. The City did not have to use public land for free advertising. She thought digital billboards were a terrible traffic hazard, particularly at night when they flashed. She indicated the City had a comprehensive plan of no further urban intrusion. She noted the back of the Animal Services site was used by utilities. She reported the flood basin and all the surrounding area around the MSC was a wildlife conservation area, and thought the Council had to be careful what it did there. She agreed with Council Member Klein's comments regarding Honda's posturing.

Mayor Yeh wanted to understand Staff's perspective relating to another RFP process that could be envisioned for use of the site. He did not know the amount of revenue that could be generated from a recreational use of the

site. He knew the Baylands were envisioned for passive use. He asked if there was flexibility for Staff to solicit ideas along those lines to determine what was available. He did not think it was best to plan around a single business. He suggested a car dealership should have to complete a competitive process where companies would state their interest in this particular site. He felt this was an incredibly visible site for the City of Palo Alto, and it would be there for generations. He thought the Council should take advantage of the opportunity to think through other ideas.

Mr. Keene indicated Staff could go in any direction the Council wanted. He noted there was a range of options as far as putting out any kind of competitive solicitation. He suggested the solicitation could be as narrow as revenue generation. There should be a competitive process, even if it focused on an auto dealership. He stated Staff was open to the Council's thoughts as to how broad the solicitation might be, if the Council was interested in this as a concept.

Council Member Holman hoped that information returned to the Council was provided with more background. She felt the Council was looking at pieces of land as if they were just on map, rather than in their environmental and plan contexts. She was concerned the Council was viewing this with a narrow scope of vision. She concurred with Mayor Yeh's comments regarding a single tenant. She stated the Council should not zone for a single tenant.

Mr. Keene stated the presentations were illustrative of the details Staff would present on every issue. He thought the IBRC Report acknowledged that every solution had some externalities and impacts. He noted the last Item on the Agenda concerned finance options, which were alternatives identified in the IBRC Report or other options available to the Council. He thought this discussion and the IBRC Report anticipated discussions concerning increasing revenues and who would pay. He stated these were complex issues that the Council would have to consider. If the Council decided against any recommendations for a revenue use along the Baylands, he said that was part of the Council's due diligence as every decision had consequences. He suggested the Council consider the timing and impacts of alternative financing options. He stated Staff was ready to move on to the update on the Public Safety Building study and Post Office, unless Council had a specific directive.

Council Member Shepherd asked if Staff wanted the Council to take some action. She suggested the Council could take action by sending it to the Finance Committee. She asked if Staff could provide information on sales tax by industry.

Mr. Fehrenbach reported for new auto sales it was slightly over \$2 million.

Council Member Shepherd inquired if that was up from last year.

Mr. Fehrenbach was not sure about last year; however, he stated over the last ten years it had decreased from approximately \$3 million.

Council Member Shepherd asked if it would be helpful for Staff if the Council moved the Item to a committee.

Mr. Keene noted the first part of the overall discussion concerned Animal Services. He stated the Council could provide an explicit directive to Staff, or Staff could assume they were to proceed with issuing some sort of an RFP to gather more data and information about alternatives related to the Animal Services site. He reported Staff would try to get more definition from other potential partners. He thought Staff did not need further direction if the Council agreed with the assumptions. He explained time was important with regard to an RFP; however, the whole issue and the Council's decision was not time sensitive. He stated it was not clear to Staff where the Council wanted to go with this, and asked if Council wanted Staff to present information at a future Infrastructure session or at the Finance Committee.

Council Member Shepherd did not mind sending it to the Finance Committee to determine economic viability and feasibility of the site and to allow Staff to obtain a menu of options rather than this narrow speculation on auto dealers. She asked if Staff wanted a motion.

Mr. Keene reported the Finance Committee's Agenda was full for April and May. He did not know if a subcommittee discussion on this issue would be the fastest way to get to a direction. He stated Staff could work with the Mayor and Vice Mayor on scheduling the right time to return to the Council for more discussion.

Council Member Shepherd asked if Staff could present to the Finance Committee what it would be like if the Council tried to make Animal Services more cost-neutral.

Mr. Keene thought the animal shelter item would be a normal part of budget discussions with the Finance Committee. He noted there were budget implications regardless of the Council's decision.

Council Member Shepherd confirmed Staff would work with the Mayor to determine when the topic would be brought back to the Council.

Vice Mayor Scharff stated in terms of the revenue and auto dealership, he stated the plan was to determine a date for it to go to a regular Council meeting or to an Infrastructure meeting.

Council Member Price inquired if the City envisioned an upgrade or reconfiguration of the whole MSC site.

Mr. Emslie reported the IBRC recommended an expanded study of the MSC as a whole to review the possibility of consolidating the site, which would provide more frontage for revenue producing uses, or relocating the MSC in total or in part. Staff's budget proposal included the expanded study so that the study could begin with Council's approval of the budget. He indicated the study would consider the possibility of swapping land with some of the auto dealers.

Council Member Price confirmed the study was part of Staff's proposal per budget discussions, and that would not be the subject of discussion at the current meeting.

Mr. stated unless there was some more desire for Council to discuss it further, Staff would build that cost into the budget.

Council Member Schmid suggested any referrals should go to the Policy & Services Committee, as it did not have the constraints of April and May and the Council was discussing City services, Animal Services, hotels, land use, City offices and planning.

MOTION: Council Member Burt moved, seconded by Council Member Shepherd to have the Mayor appoint a Council ad-hoc subcommittee to work with Staff to discuss the future of animal services delivery.

Council Member Burt stated that the Council had commented on a variety of aspects, and the subcommittee should continue to explore the range of comments.

Council Member Shepherd thought the Animal Services venue was sketchy and needed to be better defined for an RFP. She thought it would be wise to work with Council Members to ensure all items were covered. She asked if procedurally that would return to the Council.

Mr. Keene indicated the Council was faced with some major policy decisions; therefore, Staff would perform research in support of that. He viewed the

ad-hoc committee as informing research and procedure, then returning to the Council.

Council Member Shepherd inquired if the MSC discussion would follow the Council's decision on Animal Services.

Mr. Keene suggested the Council could be comfortable making that decision on its own, or the Council could decide some aspects connected to the other issue. Staff was attempting to provide options to the Council.

SUBSTITUTE MOTION: Council Member Holman moved, seconded by Council Member Klein that the animal services delivery discussion be referred to the Policy & Services Committee.

Council Member Holman stated this was partly about efficiency, because there was an established Council committee with a light Agenda. She thought having this discussion in public at the Policy & Services Committee would help with transparency and was an appropriate venue for the conversation.

Council Member Klein agreed with Council Member Holman's comments, and added there were a limited number of people to serve on the ad hoc committee, and the people who would serve on the ad hoc committee were presently on the Finance Committee or the Policy & Services Committee. He was concerned that adding another committee would make it more difficult for the public to follow.

Council Member Price agreed with the Substitute Motion. She felt another committee to address this issue was redundant. She had great belief that Staff had enough direction and expertise to determine options for the Committee to consider.

Vice Mayor Scharff asked for clarification regarding how the process would work. He stated the Animal Services issues were complicated in that it affected the budget discussion. He was not sure how the timing would work, because the Council would have to make the decision regarding Animal Services in order to have a budget. He asked if the issue would be broken into policy issues versus budget issues, before reviewing costs.

Ms. Antil thought the bigger point was she could not provide additional information before the Finance Committee budget hearings. She said she could circulate an RFP and request input on that. She stated she could

present tonight's information again, but there would not be any new information until an RFP was issued.

Vice Mayor Scharff asked what decisions the Policy & Services Committee would make without new information, unless they would inform the content of the RFP. He stated if the discussion was outsourcing, then it should be brought to the full Council for a vote prior to a Finance Committee meeting. He thought the RFP would be completed, Staff would provide the results of the RFP, and the Council would review and vote on it. He said the Council had to do that before budget discussions, because it would be hard for Finance Committee to make a decision of such community import with four Council Members. He wanted to hear a compelling reason for doing that; otherwise, he could not support the Motion.

Council Member Klein stated neither subcommittee decided anything. He viewed this as a matter of how the Council processed issues. He indicated the purpose of having the Policy & Services Committee work with Staff on this particular issue was to allow a more complete vetting of the issue, to allow public input, and to provide a recommendation to the full Council. He noted there was another factor: a significant overlap between the two subcommittees. Policy decisions had financial implications; financial decisions had policy implications. He thought it made sense for the Policy & Services Committee to go forward given the time limitations, and felt the issue came down to policy rather than finances. He thought there was a significant role in vetting and public participation in having the committee reviews it.

Council Member Holman agreed with Council Member Klein's comments. She stated one of the purposes would be to provide additional input into the RFP process. She thought this case was indicative of policy determining how the Council saved or spent money, as opposed to how the Council spent money to determine policy. She said this was a prime example of how the Policy & Services Committee should vet this to provide a recommendation to the Council.

Mr. Keene indicated the discussion should be parsing comparison between current services and outsourced services, and adding in the services not provided by outsourcing. He felt Staff could provide the incremental costs of that, which informed the policy discussion. Staff could provide that information in the short timeframe that would help inform the public vetting process of the Committee.

Council Member Shepherd inquired when the Council could discuss subsidies of services. She was not sure if that would stop once the Policy & Services

Committee discussed the variety of animal services and how to handle it, but felt that could go in conjunction with that process. She was curious about how that process would work; she asked would it go first to the Committee to decide whether or not there would be an overall policy to bring the actual expenditures into play when the City offered a program or services.

Mr. Keene suggested there should be offline conversations with the Mayor about this. He indicated there would be many Animal Services conversations in the future, and Staff would want to determine the most efficient way to work through those.

Vice Mayor Scharff was not concerned with whether the issue went to the Policy & Services Committee or not. He said the question was how that interfaced with the budget. He asked when the Finance Committee made a recommendation to the Council on the budget.

Mr. Keene would want the Policy & Services Committee to forward their recommendation either to the Finance Committee or the Council by the middle of May. He thought the Finance Committee would have worked its way through most of the budget by then, and a recommendation from Policy & Services at that time would be appropriate.

Council Member Burt was not fond of the ad hoc approach in this case. He thought there were pros and cons to each Motion. He stated the Policy & Services Committee would consider the policy side of the issue. He expected community members who valued this service would ask for the services to be kept. He said community input would need to be folded into the larger picture. He indicated certain discussions could occur prior to the RFP coming back; however, no decision could be reached without information from the RFP. He believed the Council should think through what the Committee would be doing and when. He suggested the Committee review the matter in the next few weeks, if it had time on the Agenda, and then the Council would determine if the discussion should move to the Finance Committee. He asked what the timing for hearing from the RFP was.

Ms. Antil said Staff was determining if they could do a fast track of an RFP. She suggested Staff could do something quickly and see if there were responses. She indicated that sometimes deterred people from bidding. She did not think Staff would receive anything by the end of May.

Mr. Keene felt it was a policy issue, but in the end there would be a big cost component to this.

Council Member Burt inquired whether spay and neuter services at the Animal Services Center was full cost recovery.

Ms. Stadler answered yes; it was full direct cost recovery.

Council Member Burt asked if the City could consider contracting with local vets if spay and neuter services were not offered by SVACA.

Mr. Keene replied that was possible.

Council Member Holman inquired if this could be on the next Policy & Services Committee Agenda, since there was not much additional information.

Mr. Keene reported there were two items on the April 10th meeting, which was the next meeting. He indicated Staff would work with the Committee Chair on that.

Council Member Shepherd felt the RFP was a fishing expedition for information. She thought the Council should be able to determine costs, if services were outsourced. She indicated it would not be worthwhile to respond to an RFP that was issued only to gain information. She asked Staff to explain why the Council should take the RFP seriously.

Ms. Antil thought the Council should take it seriously. She indicated information from an RFP would paint a compelling picture of cost savings. She suggested the Council outsource Animal Services because of the budget situation and long-term Infrastructure issues, whether or not it was at the current location. She reported there were opportunities to share services with other entities. Given budget discussions over the last few years, she stated it was not a surprise that Staff would bring tougher and tougher decisions to the Council. She stated it was Staff's recommendation to outsource services.

SUBSTITUTE MOTION PASSED: 9-0

At 8:06 P.M. Council took a break and returned at 8:29 P.M.

Council Member Klein left the meeting at 8:06 P.M.

Mr. Keene reported the next section concerned the Public Safety Building update and the Post Office update, both of which were reports of Staff's next actions. He thought the Council could discuss those in 5 minutes. He

recalled the Council had asked for a schedule, and Staff had provided an Information Item that indicated Staff would return in June.

Mr. Sartor reported Staff had discussed reviewing the Public Safety Building based on the previous IBRC Report. He had contacted Mike Ross of Ross Drulis Cusenbery, who would work with Staff to determine ways to right-size the building, incorporate Fire Administration, reduce space for Police Administration, repurpose some spaces. He noted work would be done in the next couple of months, and Staff would return to the Council at the Retreat in June with recommendations.

Mr. Emslie provided an update on Staff work that had transpired since the Council last discussed this topic several weeks ago and provided Staff direction. He reported Staff had drafted and submitted a letter of interest addressed to the Director of the United States Postal Services Facilities, David Rouse. He stated the letter reflected the Council's direction to Staff to express its interest in pursuing a purchase agreement with the possibility of retaining the Post Office in a smaller footprint within the building on a lease-back basis if the City purchased the building. He indicated Staff had heard informally from the Post Office that they would prepare a response to this letter within the next several weeks, as late as May 2012. He was pleased to report that Staff was proceeding with a property appraisal, a structural and building condition report, and a historic assessment of the building. He noted those studies were underway, and stated Staff would provide information to the City Council as it was made available, acknowledging that time was of the essence. He said the Post Office continued to reinforce its interest in completing a sale transaction quickly on this site in order to move forward in addressing their budget issues, as it clearly communicated to the Council several weeks ago.

Council Member Burt was concerned that the Council continued to have the discussion concerning the Post Office without explaining why this would be a good deal for the City and how it would save money. He was familiar with the prospective purposes of using the Post Office building to house the Development Center, for which the City was paying a high price to lease office space nearby. He asked if Staff was exploring this as the most likely use for the Post Office building, and did purchasing the Post Office building appear to be a potential cost savings.

Mr. Emslie reported Staff was considering any City function located in a leased facility such as the Development Center and portions of the Utilities Department. He stated those would return revenue to the City by reducing rent payments and amortizing some costs through either fees or rates. He noted that also could generate a source of funding for the purchase.

Council Member Burt wanted the community to understand the Council was not looking at acquiring land simply to acquire more land, rather the City was attempting to reduce the number of leases of more expensive space.

Mr. Emslie replied that was correct. He stated Staff would work with the Public Information Officer to provide that message to the general public.

Mr. Keene suggested reordering the Agenda because of the limited amount of time remaining in the session. He reported the next scheduled Item dealt with definitions related to catch-up and keep-up, and indicated Staff did not need a directive or conclusion from the Council on that. He suggested moving to the sections dealing with Infrastructure finance options. He commented there was a chance to revisit the timeline related to a bond measure or other potential ballot measures. He thought it was important for the public to understand the constraints the City was operating under.

Mr. Perez wanted to cover the gas tax financing, additional options, and a timeline. He noted the Council may have heard Staff was considering the possibility of leveraging the revenue stream from annual gas tax revenues, which totaled approximately \$1.5 million a year. He reported the idea was to utilize that revenue stream in order to receive a lump-sum figure to accelerate street work. He indicated the City participated in a program arranged by the California State Association of Counties and the League of California Cities in order to have a pool of financing with other agencies to reduce the expense of debt issuance. He reported the Council would issue Certificates of Participation with the backing of the annual revenues. He stated one of the conditions of this financing restricted use of the funds to capital work and not maintenance work. He said an example of maintenance work was slurring a street. He explained this financing pool would limit the City to replacing the street. He stated that condition concerned Staff as it was a very narrow process. He wanted to share the financing costs because they determined Staff's recommendation. He reported the ten-year financing assumed a 4.5 percent rate of return, which was achieved by a city in southern California in Riverside County. He stated the City could receive \$6.8 million through this financing mechanism and receive it in the current year with a ten-year financing term. He explained the City would receive \$6.8 million to use today, but it would cost \$10 million over the term. He indicated it was expensive financing. He explained the City had \$1.5 million dollars from the gas tax revenue stream, and would spend \$1.4 million for debt service, leaving \$500,000 for the City to use. He reported the City would have \$6.8 million and \$500,000 in the first year; but in years 2 through 10, the City would have only \$500,000 per year from these funds because it was obligated to pay the debt. He thought it was an expensive means of financing. He reported the current budget had about \$3.7 million,

and Staff planned to have that continue over the next ten years. He indicated that if monies from the General Fund were applied to the Infrastructure Reserve and street work was a priority, then the City could accomplish its plans without utilizing this expensive financing. He stated Mike Sartor could present information regarding the \$3.7 million expenditure and what was achieved through that. He said after reviewing the gasoline tax financing option, Staff's recommendation was not to pursue that given the costs and restrictions of the program.

Mr. Keene stated the Council could make progress with baseline funding since the Council doubled spending on streets a couple of years ago. He reported \$1.5 million over ten years would be \$15 million worth of direct improvements the City could have. He remarked the City could spend \$16 million and receive \$6 million or \$7 million worth of improvements over a ten-year period.

Mr. Perez stated this option was worse as the term was extended, because there would be a \$30 million debt service on the top scenario to receive \$12 million. He explained the rate increased because there was a higher likelihood that the State could change the revenue stream and bondholders wanted assurances of protection. He repeated Staff was not recommending this financing option.

Vice Mayor Scharff hypothesized bonding a \$2 million revenue stream in order to obtain the money up front. He asked if that was what it looked like or was that just the gas tax.

Mr. Perez answered it was just the gas tax with the restriction on capital. He indicated if the City financed, it would probably have the same restriction of using funds for capital rather than maintenance. He said Staff would have to double check but was almost certain that would be the condition.

Vice Mayor Scharff suggested the scenario of a general tax providing a new revenue stream of \$1 million, and asked if that would provide a better interest rate.

Mr. Perez answered it would be a better rate.

Vice Mayor Scharff stated it would be a better rate, so the City would receive more money. He inquired if Staff knew what the amount would be.

Joe Saccio, Assistant Director of Administrative Services explained the rule of thumb was for every \$1 million in debt service, the City would receive \$10 million or \$12 million worth of project funds, depending on the interest rate.

Mr. Perez asked the Council to turn to attachment 2B of the Packet. He wanted to walk the Council through other options the Council could consider. He stated the General Obligation Bond was similar to what the City did with the library; it did not have to be part of the General Election; it was a property tax based on percentage of assessed valuation; and, it required a two-thirds vote. He stated the next item was a parcel tax; it was based on property tax; it was a flat rate per parcel; it did not have to be on a General Election; and, it also required a two-thirds vote. He noted an example would be the School District's parcel tax. He said the next item was a sales tax; it was a tax on goods; it had to be part of a General Election; it required a simple majority vote, 50 percent plus one; and, it could be increased in one-eighth increments. He explained there was a 2 percent total that local entities could implement, and 1 percent was already taken. He noted a sales tax, the Utility Users Tax (UUT), the documentary transfer tax, the Transient Occupancy Tax (TOT), and the business license tax could be coupled with an advisory measure expressing to the voters that the tax would be used for a particular purpose. He explained if the valid language expressed a limit on the use of the tax, for example for Infrastructure only, then it became a special tax. He stated if that was the case, it would require a two-thirds vote, but did not need to go on a General Election. He indicated the next item was a UUT; it was a tax on utility and telephone charges; it had to go on a General Election; and, it required a simple majority vote. He reported a documentary tax was the next item; it was a tax on real property deeds; it had to be on a General Election; and, it required a simple majority vote. He said the hotel tax was a tax on the room rate; it had to be on a General Election; and, it required a simple majority vote. The last item was a business license tax; it was a tax on businesses; it had to be part of a General Election; and, it required a simple majority vote.

Molly Stump, City Attorney stated a tax was generally either not required to be on a General Election but did require a two-thirds vote, or required to be on a General Election with a simple majority vote. She stated Staff had chosen the option that typically corresponded to the type of tax listed. She reported some of these taxes could be structured differently, such that a general tax (not specified for a particular purpose) could be structured as a special tax if the dedicated purpose was stated in the measure, in which case the requirements would be different.

Mr. Perez moved to other funding mechanisms. He noted the first one was Certificates of Participation (COPs). He explained they were a financing lease that allowed the issuance of tax-exempt debt by using a revenue stream of payment; a city would dedicate an existing revenue stream, or typically a city would generate a new stream of revenue; it did not have to be part of a General Election; and, voter approval was not needed. He noted the Total Road Improvement Program (TRIP) was another name for

the gas tax, and Staff was not recommending that. He stated the last item was the Utility Revenue Bonds; they were secured by utility rates for the specific commodity; a city must identify the revenue stream for repayment; and, they could not be used for General Fund purposes.

Council Member Price asked if the City of Campbell's special tax would be considered under the category of special tax.

Mr. Perez believed Campbell's tax was a sales tax, and did not believe it was tied to anything.

Council Member Price inquired if that could be restricted.

Ms. Stump reported if it was restricted to a particular purpose, it became a special tax by virtue of being structured that way. She stated most taxes could be structured either way.

Mr. Perez indicated it would need a two-thirds vote.

Vice Mayor Scharff hypothesized if a City sales tax increase and a State tax increase were passed on the same ballot, then the amount of sales tax would increase by both the City's and the Governor's increases. He asked if the State increase affected the local option in any way.

Ms. Stump answered yes.

Vice Mayor Scharff inquired if the City could have a sales tax increase on the ballot, because of the remaining 1 percent.

Ms. Stump reported the City could, except there were a couple of other taxing authorities that had access to that same 1 percent.

Vice Mayor Scharff asked how that played out.

Ms. Stump stated generally it was whoever got it first. She believed the entities with access to that tax increment were the City of Palo Alto, the County and the Santa Clara Valley Transit Authority (VTA).

Vice Mayor Scharff asked if Staff knew of another entity who was planning to take advantage of that in the next November cycle.

Mr. Perez stated Staff did not, but would review that.

Mayor Yeh had heard legislation had been introduced for a dedicated revenue stream for Caltrain, but did not know if it was related to sales tax.

Mr. Perez indicated Staff would review that to determine if it was associated with sales tax.

Council Member Schmid was confused by dedicated tax and advisory measure. He hypothesized revenue from an advisory tax was spent elsewhere, and asked if someone could bring a lawsuit on that basis.

Ms. Stump reported if it was structured that way, it was advisory only and would be a general tax. She explained it would go into the General Fund and be subject to the Council's budgetary setting authority each year, and annually the Council would make a determination of the appropriate programs and services to spend the funds on.

Council Member Schmid inquired if there would be little connection between an advisory measure and funding, four or five years down the road.

Ms. Stump stated the level and strength of the connection was a question of the approach of the elected officials in that community to the advisory vote.

Mr. Saccio referred to attachment 2E, which connected Staff's discussion to the IBRC options of funding new facilities, keep-up and catch-up. He reported an IBRC funding option was a three-eighths-cent sales tax increase to fund keep-up and catch-up. He referred to attachment 2C regarding tax resources. He stated he would review the tax items, but not fees, because they provided the majority of revenues. He explained the numbers in the IBRC report were different from numbers in Staff's report, because the second column was the adjusted and projected budget for 2012. He noted a one-eighth-cent increase in sales tax would generate approximately \$2.7 million provided other variables remained equal. He stated a \$1 increase in the documentary transfer tax would increase revenue by \$1.4 million. He indicated the City did not have an option to change property tax. He noted the business license tax information had been shared previously. He said the attachment included information of how these taxes were shared by residents versus businesses, and some brief pros and cons. He reported the TOT was last increased in 2008, the documentary transfer tax in 1992, and the UUT in 1987. He noted a wealth of information on comparative statistics on TOT, the documentary transfer tax and the UUT was presented at a high level. He reported the TOT was recently increased from 10 percent to 12 percent. He stated some nearby cities were at 10 percent and some were at 12 percent, but Palo Alto was in the upper range except for some much larger cities. He indicated property transfer taxes were at the high end, while Sunnyvale, Menlo Park and Redwood City were below Palo Alto's rate.

Mr. Perez acknowledged information in appendix J was taken from the IBRC Report. He noted Staff also had a timeline, but he wanted to address questions first.

Council Member Shepherd noticed the UUT was broken out between utility and telephone, and asked if the Council had to go out for both utility and telephone.

Mr. Perez indicated the current structure required both. He supposed the Council would have that flexibility if it wanted to make a change.

Council Member Shepherd confirmed the Council could increase the telephone tax separately.

Council Member Burt asked if funding from the property taxes paid off the General Obligation Bond.

Mr. Perez stated that was correct.

Council Member Burt suggested Staff should label the funding type as a property tax.

Mr. Saccio stated the City did not have a parcel tax, so that would have to be analyzed in terms of the amount of revenue to be raised or the purpose of the tax.

Council Member Burt inquired if Staff had reviewed a parcel tax.

Mr. Saccio reported IBRC had discussed it, but they did not choose that. He stated Staff could present some information to the Council.

Council Member Burt asked if Staff had any information.

Mr. Saccio stated there were approximately 20,000 parcels in the City, and Staff could calculate what a \$50 parcel tax would generate.

Council Member Burt inquired if the tax amount was \$50 or a \$50 increment.

Mr. Saccio said there was no particular increment.

Council Member Burt noted Mr. Saccio had referred to a \$50 tax.

Mr. Saccio indicated that was a hypothetical amount.

Council Member Burt asked whether IBRC had discussed a \$50 amount or whether Staff was talking \$1 million per \$50 increment.

Mr. Saccio did not recall what amount IBRC may have discussed. He recalled that was at the bottom of IBRC's recommendations.

Council Member Burt stated it was \$1 million for each \$50 increment.

Mr. Saccio replied correct.

Council Member Holman asked what were the TOT rates for San Francisco and San Jose.

Mr. Keene thought it was the same as Palo Alto.

Council Member Holman inquired if San Jose was 12 percent.

Mr. Perez thought San Jose was the same, but San Francisco was higher, possibly at 12 or 15 percent.

Mr. Saccio reported San Jose was listed at 10 percent.

Council Member Holman reiterated San Jose was 10 percent and San Francisco was between 12 percent and 15 percent.

Mr. Keene suggested it was at least 14 percent based on his recollection.

Ms. Stump stated California City Finance reported San Francisco's TOT was 14 percent.

Council Member Holman was curious about the structure of the transfer tax. She noted the percentages for Palo Alto and Mountain View were considerably different than percentages for Sunnyvale, Menlo Park and Redwood City. She inquired why there was such a discrepancy, and if there was any constraint to what the Council might do.

Mr. Saccio reported each city established its own rate and the County had a rate of \$1.10, which applied throughout the County, but each city determined its own rate. He stated Palo Alto's was higher than some of the other jurisdictions. He noted Palo Alto and Mountain View had the same rate, while Sunnyvale and Redwood City's rates were slightly lower. He explained a prior discussion of changing the documentary transfer tax resulted in significant opposition from realtors. He indicated that was a constraint for that tax.

Council Member Holman stated the documentary transfer tax was a one-time tax and people would not pay it often. She asked if Staff had a notion of whether the community at large would accept an increase in the documentary transfer tax, as opposed to a sales tax which affected everyone.

Mr. Saccio stated she was correct that it was a one-time tax and was shared 50/50 between the owner and the purchaser. He recalled most of the opposition came from realtors, and it did not reach the broader population in terms of a survey.

Council Member Holman inquired if the Council were to consider increasing the transfer tax, would that put Palo Alto out of range with other cities or just the five listed.

Mr. Perez explained the split of 50/50 could be negotiated like anything else in the transaction. He thought raising the tax from \$3.30 to \$3.75 would not deter someone who wanted to be in Palo Alto. He said Staff did not know what the threshold was; that was his personal opinion. He indicated Staff would have to perform outreach, because he could be wrong.

Council Member Holman calculated the tax on a \$2 million house was approximately \$3,300, which she thought was inconsequential.

Mr. Saccio reported revenue from the documentary transfer tax could increase and decrease quite rapidly, and was less certain in terms of the volume and size of sales. He indicated it was slightly more volatile than some of the other streams, such as TOT or sales tax.

Vice Mayor Scharff was concerned about the timing for the November bond measure, and did not see the timing for putting a tax funding option on the ballot.

Mr. Keene thought it would be the same basic deadline.

Mr. Perez stated if the Council wanted to have a general tax with a simple majority vote, then the Council would have to make a decision in July to allow the Ordinance to be filed by August 6 for the November 6 election.

Vice Mayor Scharff noted there was not a funding mechanism for catch-up, which was \$41 million. He stated if the City put a tax on the ballot, then the public had to decide which tax they wanted. He inquired if Staff had given any thought to how the Council would make that decision.

Mr. Keene recalled IBRC recommended a General Obligation Bond issue for the Public Safety Building, and indicated that would be the likely path for funding. He thought it would be a real push for the Council to make a decision on the Public Safety Building by July in order to place something on the November ballot, when it did not need to be on a November ballot. He noted a General Obligation Bond did not require a General Election; although, there could be pros and cons to being on a Special Election. He reported the alternative was for the Council to consider these other revenue options as being directly linked to Infrastructure versus general taxes. He felt that had a big impact on the Council's schedule.

Vice Mayor Scharff thought the Council should tie it to catch-up and should deal with the catch-up issue.

MOTION: Vice Mayor Scharff moved, seconded by Council Member Holman to refer the issue of tax funding options for the November ballot to Policy and Services Committee to make recommendations to Council (including considering tying an advisory measure) for infrastructure for a potential ballot measure in November 2012.

Vice Mayor Scharff thought putting a measure on the ballot was the only way to fund the \$41 million for catch-up. He stated the Council had to discuss that, and the issue was the timing. He noted the Council had to pass a resolution by June or July. He felt there would be a great deal of work in putting it on a ballot and deciding which tax to implement.

Council Member Holman noted the Motion did not include the language catch-up, which Vice Mayor Scharff referenced as if it was in the language. She hoped it did not belong in there.

Vice Mayor Scharff indicated it was supposed to be part of the Motion, that Policy & Services would consider tying it to an advisory measure for catch-up.

Council Member Holman asked if Vice Mayor Scharff's language indicated that was just one of the things to be considered but the range of options was open.

Vice Mayor Scharff stated he had not proscribed anything to Policy & Services other than the fact they should consider this and make a recommendation to Council.

Mr. Keene reported the catch-up piece was really the backlog of the deferred investment in Infrastructure as identified by IBRC, which totaled \$41.5 million.

Mr. Perez indicated IBRC recommended it be \$4.2 million over a ten-year period to address catch-up.

Mr. Keene asked whether wide open could include the Policy & Services considering a term on a particular issue.

Vice Mayor Scharff answered yes.

Council Member Burt asked if doubling the street paving budget accomplished catch-up on streets over a prolonged period of time.

Mr. Sartor stated the \$3.7 million per year accomplished the IBRC recommendation of having an average Pavement Condition Index (PCI) score of 85 and nothing lower than 60 over ten years. He said that would be a keep-up process. He indicated that amount moved the City to that goal, so the City did not need to spend more than the \$3.7 million. He said it would catch-up the streets that were below those levels.

Council Member Burt inquired if the increase in funding for streets almost two years ago moved the City into catch-up funding for streets.

Mr. Sartor replied yes.

Council Member Burt asked if this other \$41 million under discussion was catch-up aside from streets.

Mr. Sartor answered that was correct.

Mr. Keene noted it anticipated the potential of emergency issues.

Mr. Sartor said it catches up deferred maintenance of other Infrastructure such as City buildings, City parks, sidewalks and those kinds of Infrastructure.

Council Member Burt thought it was important to communicate this clearly. He inquired if the City was already budgeted for keep-up from existing revenue streams, and was budgeted for catch-up on streets out of existing revenue streams.

Mr. Sartor reported it was not correct for keep-up for Infrastructure other than streets. He indicated the IBRC recommended an additional \$2.2 million annually for keeping up maintenance of all.

Council Member Burt thought Vice Mayor Scharff asked the question and received a clear answer that our current long-term budget had the additional funds for keep-up.

Mr. Perez stated the Council had not taken any action on the long-range financial forecast or the budget.

Mr. Keene asked if Council Member Burt was talking just about streets.

Council Member Burt answered he wanted to talk about both of them. He stated the long-range financial forecast put into the budget with an anticipation that existing revenue streams would pay for keep-up across the board.

Mr. Keene indicated that was a \$2.2 million gap that was unfunded in the IBRC recommendation, and the Council directed Staff put it in the ten-year forecast. He said that was a demand that Staff was putting into the budget, to be presented to the Council.

Council Member Burt asked if the Council was going to the voters to keep-up.

Mr. Perez answered that was the recommendation from the Finance Committee that would be presented to the Council.

Council Member Burt asked if the Council also was going to the voters to catch-up on streets.

Mr. Keene replied that was correct.

Council Member Burt thought these were important issues to be clear on. He was not sure voters would vote for additional revenue to keep-up. He thought the Council had not done a good job of explaining that the Council had already built in a catch-up for streets. He stated that was a significant change in Infrastructure funding that was not discussed much. He had not heard any discussion about the Public Safety Building. He said the discussion concerned this issue going to the Policy & Services to consider a potential tax for catch-up except for streets, but there had not been a discussion on the Public Safety Building. He did not want to restrict the Policy & Services discussion to exclude the Public Safety Building. He asked if the maker and seconder were receptive to modifying the Motion to refer consideration by Policy & Services for new revenue for catch-up other than streets and potentially the Public Safety Building.

Vice Mayor Scharff thought the problem was they were different, and that was why he asked about a bond. He heard the City Manager's office say that was basically a bond going out.

Council Member Burt asked to hold that discussion. He recalled the City Manager said that the Public Safety Building would necessarily be a General Obligation Bond, but he was not sure that was the case.

Mr. Keene assumed it was a General Obligation Bond as recommended by the IBRC. He thought it got complicated as it related to discussing just the one issue, because it had implications for subsequent issues. He felt a discussion of only one issue would impact thinking on the other issue. He suggested keeping them disconnected was a challenge.

Council Member Burt wanted a sense of voters preferences. He wanted to know if voters preferred catch-up or the Public Safety Building if there were two new taxes. He felt that would help inform the Council's decision. He thought it needed to be on the table for Policy & Services.

INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER to add the following words in the Motion after November 2012, "for infrastructure catch up and/or public safety building".

Council Member Shepherd inquired if street catch-up was already in the budget.

Mr. Keene stated the public might think catch-up on street maintenance backlog was a 20 to 25 year process. He explained the increase in funding two years ago reduced that timeframe to ten years to get all streets to the minimum of 60 PCI with an average of 85 PCI, which would place Palo Alto on the higher end of the street condition in the Bay Area Survey. He asked if the City was two years into the ten-year timeframe or was that in addition to the ten years.

Mr. Sartor replied as of the current Fiscal Year, the City was on its second year of that funding level.

Council Member Shepherd stated that was independent of the \$2.2 million for keep-up, which Council had asked Staff to place into the ten-year forecast.

Mr. Perez answered right.

Council Member Shepherd indicated that would be an additional \$22 million on top of the original \$76 million deficit. She said the Council had not

discussed the \$41 million catch-up findings from IBRC. She commented these items were funded, but the Council still needed to restructure the budget to cashflow all items.

Mr. Keene reported the \$2.2 million was guidance the Council had given Staff, but the Council had yet to adopt the first budget including that.

Council Member Shepherd knew when the UUT went out in 1987, it was identified with paying the lease for Cubberley and pothole repairs. She stated it was identified with Infrastructure, though not to the point of specifying it for Infrastructure. She indicated if the Council specified it for Infrastructure, it would need to be a super majority vote.

Ms. Stump believed there was some material in the advocacy for the measure in 1987 that discussed the kinds of things the tax could be used for, but she did not believe there was an actual advisory measure placed on the ballot.

Council Member Shepherd agreed. She had read the documents and there was material both for and against the initiative. She was interested in reviewing the UUT. She thought the Council should consider a telephone tax, because she noticed in the SEA Report that 26 percent of households surveyed did not have a landline. She wanted to make sure the Council was thoughtful about it.

AMENDMENT: Council Member Shepherd, moved seconded by Council Member XXXX to have Policy and Services Committee evaluate the Telephone User Tax for the November 2012 ballot.

AMENDMENT FAILED DUE TO LACK OF SECOND

Mayor Yeh noted a Cubberley process would unfold, and there would be an opportunity to have that discussion.

Council Member Shepherd stated it was not about putting something on the ballot at the Cubberley conversation. She said it was actually putting it on the ballot and ensuring that the telephone users tax was reviewed and appropriately taxed in order to match Infrastructure.

Council Member Burt reported the Motion would include that, but not predetermine which tax. He felt that was the position of the Council.

Council Member Shepherd wanted Policy & Services to consider this as a tax that might actually get on the November ballot in a way to solidify the commitment to those funds.

Council Member Schmid reiterated the Council had increased funding and set a time period of ten years to be caught up with streets. He explained a permanent tax would provide funds for catch-up for ten years, then be spent elsewhere. He thought that would have implications for the public and make it harder to pass a measure.

Vice Mayor Scharff suggested Policy & Services consider a sunset provision on the tax, and that would be part of the discussion.

Mr. Perez interpreted the Report to recommend that funding after the ten-year period be used for new items or additional needs.

Council Member Schmid indicated the term was not really catch-up, and suggested another term could be used.

Mr. Perez responded right, after the ten years.

Council Member Price asked if the Council would have sufficient time to perform polling, draft language around an advisory, and complete necessary work in a cautious climate relating to taxation.

Mr. Keene thought the intent of the Motion was to start the conversation sooner rather than later at Policy & Services. He stated there would not be enough time, if the Council waited sequentially until June.

Council Member Price noted some of the taxing mechanisms had to be on a General Election. She stated the parcel tax provided the greatest flexibility in terms of when it could be considered. She expressed concern about the Staff's ability to organize the information. She felt the Council was exploring and implementing ideas key to the implementation of IBRC. She asked if this discussion would include strategy relating to options and success.

Mr. Keene thought her question included the answer. He indicated if the Committee provided a recommendation and it was adopted by the Council, then work would include the strategic assessment of timing.

Council Member Price assumed the Policy & Services discussion would include recognition of what the Council should not ask Staff to do in order to manage this.

Council Member Holman stated it was critical to consider the savings which the City was hoping to generate from other means. She thought a context would be helpful for Policy & Services.

Mr. Perez reported Staff was presenting the long-range forecast to the Council on April 16, and suggested Staff could also include some of the points made.

Council Member Espinosa asked that the Chair of Policy & Services look closely at timing and possibly adding another meeting. He thought the Council would lose the window of opportunity if it was pushed out a couple of months.

Council Member Holman agreed with his comment. She stated the only way the Council would know if this was feasible was to have a discussion about it. She thought the Council needed to move forward in an expeditious manner.

Mayor Yeh supported the Motion. He indicated the primary public document was the IBRC Report. He knew there had been a lot of clarifying statements tonight about what was included and not included within catch-up. He said it was easy to understand how the public could be confused by reading the IBRC Report. He felt it was important to have accurate numbers so there would be a clear basis for a number, term or provision being placed before voters.

MOTION PASSED: 8-0 Klein absent

Mayor Yeh stated the only Item left was to confirm the remaining dates of the last two Infrastructure retreats.

Ms. Antil asked if there were specific items the Council wanted Staff to present.

Mayor Yeh asked Colleagues for suggestions of Items for the April 30th retreat.

Council Member Price believed the Public Safety discussion was going to occur June 7th. She asked if there would be any preliminary information available by April 30th.

Ms. Antil replied unfortunately not.

Council Member Shepherd inquired if these retreats were specifically for discussion of the IBRC Report. She wanted to discuss the whole package received from the Stanford Development Agreement. She thought it would be wise for the Council to discuss that sooner rather than later.

Mayor Yeh noted there had not been a discussion of the Stanford dollars.

Mr. Keene reported the Council's direction through the negotiations was clear acknowledgement that these were one-time monies and they needed to be spent carefully, essentially for things that provided a return for the City, which spoke to non-ongoing expenses and capital projects. He stated it might have a good connection for Staff to provide an update on that. He suggested the Council could give more specific direction.

Council Member Shepherd inquired if the Mitchell Park Community Center would be presented to the Council separately. She asked if the Council should be providing input concerning programs.

Mr. Keene indicated it could be part of a discussion with the Council on the Community Services budget or, if appropriate, Staff would agendize this for discussion at a regular Council meeting.

ADJOURNMENT: The meeting was adjourned at 9:52 P.M.