



# CITY OF PALO ALTO CITY COUNCIL MINUTES

Special Meeting  
March 3, 2014

The City Council of the City of Palo Alto met on this date in the Council Conference Room at 6:07 P.M.

Present: Berman, Burt, Holman, Klein, Kniss, Price, Scharff, Schmid, Shepherd

Absent:

## STUDY SESSION

### 1. Water Shortage Study Session.

James Keene, City Manager, reported the most recent update from San Francisco Public Utilities Commission (SFPUC) was not a change in direction. More updates would be forthcoming.

Jane Ratchye, Assistant Utilities Director, recalled that the Council adopted a Urban Water Management Plan (Plan) in 2011. On January 17, 2014, the Governor declared a water supply emergency for the State and requested reduction of water consumption by 20 percent. The Santa Clara Valley Water District (District) followed suit and requested customers reduce water use by 10 percent. On February 25, 2014, the District increased the request to 20 percent. At the end of January 2014, SFPUC requested customers voluntarily reduce water use by 10 percent. SFPUC reported the total amount of water supplies decreased at the end of January 2014. During the last drought of 1987-1992, water supplies were much lower than current supplies. Since then, SFPUC adopted a policy of holding water in storage rather than releasing it to produce electricity. Approximately four years of water was held in storage. The City's water usage was much lower today than in 1975. Residential per capita water use had decreased over the prior 13 years. The Urban Water Shortage Contingency Plan included four stages of water shortage situations. Currently the City was in Stage 1; therefore Staff implemented the contingency plan. If SFPUC requested additional water reductions, then the City could move into Stage 2. On April 15, 2014, Staff expected SFPUC to release a final declaration maintaining or increasing the amount of reduced water usage. Each stage of the Urban Water Shortage Contingency Plan included outreach programs, demand-side management programs, water use audits, and rate structures. Staff did not anticipate a special drought rate structure in Stage 1. Permanent water use

restrictions remained in place. More restrictive measures were set up for implementation if needed.

Catherine Elvert, Utilities Account Representative, indicated the City had been proactive in evaluating indoor and outdoor water use at City facilities. Most facilities were upgraded with high efficiency toilets and fixtures. Ongoing efforts to increase water use efficiencies included identifying areas to replace irrigated turf grass with native plants; applying for District grants for innovative water conservation programs; delivering free surveys to businesses and homes; offering free efficiency devices and increased rebate levels for various programs; educating customers and students about easy actions they could take to reduce water use; providing free services to the community to assist in water efficiency efforts; educating the community regarding the importance of water conservation; developing a central web page to provide information on water supply updates, projects, and programs; expanding the City's presence in social media; attending neighborhood group meetings to talk about water supply; maintaining an active presence in the media; and working with partner organizations in the community.

Ms. Ratchye reported a majority of the City's electric supplies were based on hydroelectricity. The drought would impact the electric utility as well as the water utility. If 2014 continued to be dry, the City would need to purchase more energy from the market and more renewable energy certificates. Staff expected to spend \$4-\$7 million more for market purchases, another \$500,000 for renewable energy certificates to remain carbon neutral, and up to \$2 million per year to the Central Valley Project Restoration Fund.

Mayor Shepherd brought forward Agenda Item Number 2, noting Agenda Item Number 1 would continue after Agenda Item Number 2.

#### SPECIAL ORDERS OF THE DAY

2. Resolution 9397 entitled "Resolution of the Council of the City of Palo Alto Expressing Appreciation to Denny Neverve Upon His Retirement."

Dennis Burns, Police Chief, reported that Officer Neverve suddenly passed away the previous evening. He received many comments describing Officer Neverve as straightforward, professional, dedicated, trustworthy, and reliable. Officer Neverve was known as a teacher for young officers.

Mayor Shepherd read the Resolution into the record.

E. Perky Perkins knew Officer Neverve through her volunteer work with the Police Department. Everyone was always glad to see him.

**MOTION:** Mayor Shepherd moved, seconded by Vice Mayor Kniss to approve the Resolution expressing appreciation to Denny Neverve upon his retirement.

**MOTION PASSED:** 9-0

Mayor Shepherd asked for a moment of silence in honor of Officer Neverve.

Council returned to the Water Storage Study Session for further discussion.

Andy Poggio suggested mandatory water reductions not be based on historic water use, because that approach punished residents who conserved water. Instead, water usage could be allocated based on the number of people and amount of landscaping per residence. The City could charge a premium for residents who used more water than allocated.

Brian Schmidt, Santa Clara Valley Water District Vice Chair, encouraged communication between City Staff and District staff. The District had a website which provided conservation tips, [save20gallons.org](http://save20gallons.org). The District Board was considering a measure to double every conservation rebate. An additional measure was to publicize those cities with the best water conservation practices. A third measure was to increase the use of recycled water.

David Coale utilized a gray water system to conserve water. He learned the Planning Department was implementing different requirements than the State. He asked the Council to address the issue.

Mr. Keene would provide information regarding City requirements for gray water at a later time.

Valerie Fong, Utilities Director, noted the California Department of Public Health promulgated regulations to maintain safe and clean drinking water. Utilities Staff and City Attorney Staff were working with the Department of Health to determine whether some regulations regarding gray water systems could be reconsidered.

Mayor Shepherd recalled one speaker indicated the City was not solely reliant on SFPUC for water, and requested clarification.

Ms. Fong reported the City had some wells which provided potable water. The City partnered with the District on the conservation programs. The City's primary water supply came from SFPUC.

Council Member Holman requested Staff comment on baselines for determining conservation efforts.

Ms. Ratchye indicated the City would base conservation measures on either 2013 calendar year or fiscal year.

Council Member Holman recalled the public speaker mentioned baseline usage.

Ms. Ratchye stated the City had never implemented an allocation system. Those types of rate structures were not considered in the Plan until Stage 3 or Stage 4 and would require significant changes to the billing system. Staff recognized that some residents could conserve more than others; however, everyone could do something to conserve water.

Ms. Fong referenced the letter from SFPUC regarding a 17 percent decrease in water delivery. Voluntarily people were reducing their water consumption.

Council Member Holman wished restaurants would not serve water unless requested by patrons, and hoped the City could institute that as an ongoing policy. She had concerns that reduced landscape irrigation would affect the canopy.

Ms. Elvert reported the City could provide table tents to restaurants to educate customers that the restaurant served water only upon request.

Council Member Holman did not believe table tents were effective.

Ms. Elvert indicated Staff worked closely with Canopy and the City's Urban Forestry Division to ensure programs were compatible with the urban canopy. Staff provided information to residents and the professional landscape community regarding maintenance of a sustainable, low-water-use landscape with efficiency irrigation while protecting the health of trees.

Council Member Holman felt the information regarding City programs should be discussed more often.

Council Member Price inquired about the update cycle for the Plan.

Ms. Ratchye reported State law required the City to update the Plan every five years. The next update would occur in 2015.

Council Member Price inquired whether Staff could imagine updating the Plan sooner than 2015 because of extended drought conditions.

Ms. Ratchye stated Staff could update it at any time. She asked if Council Member Price was aware of reasons for updating the Plan sooner than 2015.

Council Member Price was concerned about flexibility. She inquired whether the Council in conjunction with Staff could move elements from one stage of the Plan to another.

Ms. Ratchye viewed the stages as lists of measures that could be taken. The measures contained in Stage 1 were designed to produce a 5-10 percent reduction in water usage. Staff would monitor water use and add measures in order to achieve conservation goals.

Council Member Price was concerned that the City had a false sense of well being, and questioned whether Staff's measures were sufficiently aggressive.

Council Member Klein noted the City was not very good at conserving water. He inquired about the City's ranking compared to surrounding cities.

Ms. Ratchye agreed that the City's ranking in terms of per capita water use was low. Through an internal water benchmarking effort, Staff was attempting to understand whether residents were using water more efficiently even if using more water per capita. Weather and lot size impacted the City's ranking.

Council Member Klein wished to publicize the program that paid a rebate to residents who replaced their grass lawns with low water usage landscape. Only a few residents participated in the program annually. He inquired whether Staff knew the number of residents who participated.

Ms. Elvert did not know the exact participation number, but could follow up with the information. The number of participants had increased over time. Staff did promote the program heavily in the community.

Council Member Klein inquired about additional efforts to publicize that program.

Ms. Elvert indicated Staff would continue outreach via standard media channels, would continue to evaluate new ways to provide information, and had developed new media materials to market programs. Staff welcomed any suggestions.

Council Member Klein requested the amount of the rebate.

Ms. Elvert reported the rebate was currently \$2 per square foot of turf grass removed and replaced with qualifying low-water-use plants or permeable hardscape and mulch.

Vice Mayor Kniss noted the District provided a rebate of \$1 for the program, and inquired whether residents received \$3 for the program.

Ms. Elvert stated the City matched the District's rebate for a total of \$2 per square foot.

Vice Mayor Kniss asked if Staff reviewed similar programs in other cities. She felt the cost of replacing lawn was more than the rebate amount.

Ms. Elvert reported different agencies handled the program differently. In the District service area and in Palo Alto, the rebates and the total area of landscape eligible for rebate were more generous than those offered by other agencies. Staff estimated it could cost less \$2 per square for replacement of lawn.

Vice Mayor Kniss requested Staff provide comparisons of cost to replace landscaping.

Council Member Burt recalled that the City was scheduled to update the landscape element of the Zoning Ordinance. The Comprehensive Plan update should address these issues; however, he did not want to wait for the Comprehensive Plan update before updating the Zoning Ordinance. Perhaps colleagues could draft a Colleague's Memo regarding changes to the Zoning Ordinance. He requested Staff provide some cost-benefit modeling of examples. Changing the landscaping for commercial enterprises in Research Park and the Baylands would have a greater impact on water reduction than other measures and would recreate natural habitat. Mr. Coale stated that the City's permitting requirements were more onerous than elsewhere. He inquired whether Staff had any data regarding the benchmarking to neighbors.

Ms. Elvert reported the program had not been in effect long enough to compare water reductions among program participants. There had been a significant increase in calls and emails to the customer service center. In general the feedback was positive in that people were seeing water use information in a different manner than what they saw on the water bill.

Council Member Burt felt the City did not do a good job of capturing data. If the City had supporting data, then people would appreciate that measures were effective.

Ms. Ratchye noted Staff was required to perform an annual evaluation for the home energy report. Consultants performed a thorough analysis to determine the savings.

Council Member Burt stated the Finance Committee had never seen that data. Many elements of the community were not willing to accept conclusions without data.

Ms. Ratchye would obtain the data eventually.

Council Member Burt indicated Staff could share the electricity data.

#### AGENDA CHANGES, ADDITIONS AND DELETIONS

Mayor Shepherd announced Agenda Item Number 11 would be heard before Agenda Item Number 10.

#### CITY MANAGER COMMENTS

James Keene, City Manager, announced the landfill gas flare at Byxbee Park was dismantled, resulting in improved views. The driveway between the Art Center and the Main Library was closed for construction. Police Chief Burns was selected as the 2014 Tall Tree Award winner for outstanding civic service. The home page of the City's web site now contained a Connect With Us button for social media. During the week, construction contractors would begin exploratory work on California Avenue for water line replacement. On February 28, 2014, Caltrain released the Draft Environmental Impact Report for electrification of the corridor between San Jose and San Francisco. Written public comment would be accepted through April 29, 2014. Because four Council Members would not be present, the Council meeting scheduled for March 10, 2014, was canceled.

#### COUNCIL MEMBER QUESTIONS, COMMENTS AND ANNOUNCEMENTS

Council Member Price gave two presentations as a Santa Clara Valley Transportation Authority (VTA) representative at the Seventh Annual Global Infrastructure Leadership Forum. At the conference, she learned about large infrastructure projects worldwide. Use of public-private partnerships for funding of projects was widespread.

#### ORAL COMMUNICATIONS

Catherine Martineau invited the community to the Palo Alto Arbor Day Festival on March 8, 2014 at Mitchell Park. The Council needed to proclaim Arbor Day in order to maintain the City's status as a Tree City USA.

Bill Rosenberg related his wife's experience with an electric vehicle charging station at a City parking lot. He suggested Staff review the use of charging stations.

Laura Boudreau, Ronald McDonald House Chief Operating Officer, reported on the expansion project of Ronald McDonald House on Sand Hill Road.

Harlan Pinto attended the Newell Street Bridge Replacement Project meeting on February 27, 2014. Staff endorsed two options, both of which would create two lanes of traffic traveling 25 miles per hour. Both options seemed to violate City Policy T27 relating to increased capacity.

Jerry Underdal urged the Council to fully explore the options of trenching or tunneling the Caltrain corridor through Palo Alto. The Council needed to think 50 years in the future when discussing the Caltrain corridor.

### CONSENT CALENDAR

**MOTION:** Council Member Price moved, seconded by Council Member Berman to approve Agenda Item Numbers 3-7 adding \$20,000 to Agenda Item No. 7 for Turner Construction amendment as noted in the at-places memorandum.

3. Recommending Authorization of Indemnity Agreement With Santa Clara Stadium Authority to Allow Provision of Requested Law Enforcement Services to Levi's Stadium.
4. Approval of Amendment No. 3 to Contract No. C12141152 Between the City of Palo Alto and Leidos Engineering, LLC.
5. Approval of the Purchase of 38 Multi-band Radios for Police and Fire for a Total Amount Not to Exceed \$116,000.
6. Request for Authorization to Increase Existing Legal Services Agreement with the Law Firm of Goldfarb & Lipman, LLP (S13149272), by an additional \$175,000 for a Total Not to Exceed Amount of \$230,000 and Adoption of a Budget Amendment Ordinance 5234 entitled "Budget Amendment Ordinance of the Council of the City of Palo Alto to Appropriate \$175,000 from the Residential Housing In-Lieu Fee Fund for Legal Services."
7. Authorize the City Manager to Execute a Take-Over Agreement with Fidelity & Deposit Company of Maryland and Federal Insurance Company Establishing Terms for Completion of Construction of the Mitchell Park Library and Community Center and Amendment No.2 With Turner Construction in the Amount of \$740,000 for Extended Construction Management Service.

**MOTION PASSED: 9-0**



## ACTION ITEMS

8. From Finance Committee Review of Development Impact Fees: List of Public Facilities Capital Needs.

Lalo Perez, Administrative Services Director and Chief Financial Officer, indicated Staff was asked to review Development Impact Fees (DIF). Information was introduced at the Finance Committee a few months prior.

Nathan Perez, Vice President of David Taussig and Associates (DTA), reported DIF were not taxes, special assessments, or user fees. DIF could not be used to cover ongoing operations, maintenance costs, and the like. Per AB 1600, DIF were an attempt to allow municipalities to recover their fair share from new development. DIF had a nexus requirement and could not be arbitrary. DIF required a great deal of demographic research and costing of projected facilities throughout the timeframe of the Nexus Study update. The current study covered the timeframe through 2035. Previously the City asked DTA to provide a comparative survey of DIF for peer communities to Palo Alto. There were not many peer communities to Palo Alto. Sometimes information was difficult to obtain, because staff in other cities were not always helpful. Per the Finance Committee's request, DTA reviewed DIF as a percentage of average home sales price. With the \$1.5 million average home price in December 2013, Palo Alto was in line with other cities on the Peninsula. DTA recommended updating the Citywide transportation fee, adding a public safety fee for the Public Safety Building, and adding a general government fee for larger municipal offices and capital improvements. DTA sought the Council's approval of the needs list. Following Council approval of the needs list, DTA would calculate fee levels and then prepare a draft and/or final Nexus Study for review. If the final study reflected updates to fees, they would be incorporated via City Ordinance and could be a source for additional revenue in the future.

Mr. Lalo Perez noted the Infrastructure Committee was working on funding for infrastructure projects. Some of the numbers on the needs list would not align to the infrastructure item later in the Agenda. Staff requested the Council focus on the list itself. The cost and funding sources would be updated as decisions were made. The needs list contained more projects than the infrastructure project list, because the Infrastructure Committee was considering projects that were not fundable with existing City funds. Staff compiled the needs list beginning with projects that were currently in the Capital Improvement Program (CIP). The needs list was a snapshot in time for projects likely to be undertaken. Staff initially had an effective date of July 1. It became evident in Finance Committee discussions that Staff needed more time to review the project list. The Finance Committee questioned why the water, sewer and storm drain fee connections seemed to

be higher than surrounding benchmarked cities. In 2008, the Council approved an increase in fees be phased in over three years based upon a fee analysis. The resetting of that fee was based on a complete analysis of the total cost including projected needs for infrastructure. The City provided an exemption for residential remodeling. The Finance Committee also questioned the possibility of changing the residential remodeling exemption.

Council Member Burt, Chair of the Finance Committee in 2013, reported the Finance Committee recommended the topic be an action item in order to provide adequate transparency and additional opportunity for public participation and Council comment. Three main areas dominated the Finance Committee's discussion: 1) whether the transportation fee was adequate; 2) why the wastewater fee was higher than surrounding cities; and 3) should the City have a public safety or fire fee. The Finance Committee did not want to limit Council discussion to those three topics.

Vice Mayor Kniss requested the Finance Committee's determination as to why the City did not have a public safety or fire fee.

Council Member Burt stated the Finance Committee did not make a determination.

Vice Mayor Kniss asked why the City did not have a public safety or fire fee.

Council Member Burt noted the Finance Committee discussed that.

Vice Mayor Kniss wanted to know what would be required for the City to develop a public safety or fire fee. The City was always searching for ways to augment revenue.

Mr. Nathan Perez needed the Council's approval of the needs list in order to develop fees. DTA would then utilize demographic information and cost to arrive at estimated fees. To calculate a fee, the costs in any given category were divided by generally the number of dwelling units projected over the horizon of the fee update.

Vice Mayor Kniss felt the Council first should determine whether or not the City needed such a fee. She understood Council Member Burt wanted Council feedback. She wanted to know what the Council needed to do to get a policy on the table and then to decide whether or not to implement a fee.

Mr. Lalo Perez referenced Attachment A of DTA's report, Item B Public Safety facilities. The first item was the Public Safety Building (PSB). At the time that the listing was compiled, the Council had multiple options for funding a PSB. Once the Council made decisions regarding a funding source, the \$57 million amount in the table could change to \$0. A fully funded project could

not be contained in the needs list. As the Council made decisions, Staff could calculate an amount for a potential fee.

Council Member Scharff asked if DTA would recommend changes to fee amounts based on the Nexus Study.

Mr. Nathan Perez explained that consultants typically did not recommend new fees that were less than existing fees. The Council retained the authority to charge less than the existing fee amount.

Council Member Scharff noted the City's park fee was substantially less than park fees charged in other cities. He inquired whether the Nexus Study would suggest the maximum park fee the City could charge.

Mr. Nathan Perez reported the Nexus Study would utilize the costs noted in Attachment A divided by demographic numbers to calculate a projected fee moving forward. Park fees were omitted from the list because he understood that park fees would not be increased based upon total costs.

Mr. Lalo Perez explained that most of the projects identified for parks was funded through the CIP. The net cost for identified park projects was very low. Community Services and Public Works Departments were approximately one year away from completing a Master Plan for parks; therefore Staff did not have a full picture of parks needs.

Council Member Scharff did not believe Staff was ready to move forward with the study. He asked why a purchase of land for parks was not included in the needs list.

Mr. Nathan Perez surveyed every City department for a list of projects. The threshold for needs for parks would not result in a higher fee.

Council Member Scharff felt there were many needs for parks over the next 30 years. He was not comfortable moving forward on that basis.

Mr. Nathan Perez reported the parks list of projects was inclusive, but the ultimate cost of the facilities on that list would not be great enough to increase the fee.

Council Member Scharff asked if the list contained all the facilities, including additional parks, that could possibly be needed. Staff presented information before completing the Master Plan for parks.

Mr. Lalo Perez noted the Council in the future could consider any fees that were not adjusted at the current time and have the Master Plan as a source.

If the Council delayed its decision, it could lose the opportunity of adjusting other fees at the current time.

Council Member Scharff asked if the Council could carve out the parks fee and return to it in the future.

Mr. Nathan Perez answered yes. Parks could be omitted at the current time and the fee would remain the same. DTA could either add new categories or increase other categories as applicable.

Council Member Scharff reiterated that the parks fee would remain in place and the Council could review it at a later time.

Mr. Keene indicated the Council typically reviewed DIF every two to four years. Staff could perform the review more often if the Council directed them to do so.

Council Member Scharff asked why Cubberley was not included in the needs list.

Mr. Lalo Perez reported the needs for Cubberley were not fully known.

Council Member Scharff stated the amount for a PSB was not known, and asked how that discussion was different from Cubberley.

Mr. Lalo Perez explained that the review of DIF had been delayed because of the number of pending decisions. At the current time, the Council was more likely to make a decision regarding the PSB than Cubberley. Cubberley needed a great deal of negotiation and discussion. To include Cubberley in the needs list, Staff needed a degree of certainty that a project would occur.

Council Member Scharff inquired whether the needs list was a vision for the community through 2035 or simply a list of projects that needed a funding source. He did not see a consistent methodology.

Mr. Keene commented that the goal was to set a fee that was applied in a given year to a new construction project. The Council could adjust fees each year. Nothing precluded the Council from marginally adjusting one area without reviewing all areas.

Mr. Nathan Perez noted the recommendations considered the total cost per category. Given the lack of dollars in some categories, DTA determined that updates could be better discussed at a later time.

Mr. Keene reported the needs list did not contain all definite unfunded capital needs or community facilities. The Council could set a policy

direction to add those needs. At the same time, DIF were practically applied when a building permit was obtained. If the Council delayed adjustments on recommended categories to obtain information for all categories, then the City would lose revenue from increased fees for recommended categories. Moving forward on some categories was in the City's best interests even if the Council acknowledged it needed additional information for other categories.

Council Member Scharff understood the City Manager suggested reviewing DIF more frequently. He asked if more projects should be contained in the needs list even though they could be removed from the list by November 2014.

Mr. Lalo Perez acknowledged that Staff should have given the Council the full list of areas considered so the Council could appreciate the extensive review. The full list for parks and recreation facilities contained 33 items totaling a net cost of \$57 million and included \$6 million for athletic fields at the Golf Course, \$11 million for a City gymnasium, Cubberley field restrooms, Cubberley roof replacement, Cubberley mechanical and electrical upgrades, and Cubberley tennis courts. Even after including those dollar figures, the analysis determined that an increased fee was not warranted.

Council Member Scharff stated rates did not necessarily decrease.

Mr. Nathan Perez responded correct. The Council retained authority to charge less.

Council Member Scharff asked if the City was forced to lower the rate because cost amounts were insufficient to maintain the current fee amount.

Mr. Nathan Perez replied no.

Council Member Scharff inquired whether legally the Council was required to reduce an existing fee.

Mr. Nathan Perez indicated the law did not specifically state that. City departments did an excellent job of reviewing projects. He did not encourage benchmarking or finding a certain number that would result in increased DIF. Staff developed a list of needs that did not meet the threshold to increase rates. It could happen in a few years, at which time the rates could be updated.

Council Member Scharff inquired whether a decision was made on the three issued mentioned at the Finance Committee meeting.

Mr. Nathan Perez remarked that if the Council chose to eliminate big-ticket items from the list, then they would be removed from the list prior to calculating fees.

Council Member Scharff added that some big-ticket items needed to be added to the list prior to calculating fees. Council Member Burt mentioned a transportation fee, a wastewater fee, and a public safety fee. The question was whether they would be included in the study to determine a fee.

Mr. Lalo Perez reported a transportation fee would be studied because the net cost of many of the projects was relatively stable. Several projects, especially the PSB, might be eliminated resulting in a low amount of costs and a smaller fee. The Council should proceed with consideration of a transportation fee until it made the final decisions on those projects. The general government facilities fee could proceed, because MSC funding sources were unclear.

Council Member Scharff asked why the MSC with an approximate cost of \$300 million was not included in the list.

Mr. Lalo Perez Staff explained that the dollar amount was not reliable and was part of the CIP process.

Council Member Holman noted that parking impact fees were not included on the list to be increased and had not been updated since 1989. The in-lieu parking fee for Downtown development was updated in 1995 and recommended for update. She asked why those were not included on the list.

Mr. Nathan Perez agreed that those fees may need to be updated. Zonal fees were outside the scope of DTA's contract.

Mr. Lalo Perez explained that Staff was reviewing fees in manageable groups and would continue the process with all fees.

Council Member Holman stated the definition of home demolition needed to be changed, because of the exemption from impact fees and the lack of proper assessment for property taxes. She inquired about the number of projects that were more than 50 parcels in reference to page 87, Residential Subdivisions of Over 50 Parcels.

Mr. Lalo Perez did not have an answer but would report back.

Council Member Holman felt the number should be lower, certainly not 50 as she could not think of a single project over 50 parcels. She asked if a California Avenue in-lieu fee was outside the scope of the presentation.

Mr. Lalo Perez answered yes.

Council Member Holman concurred with Council Member Scharff's comments regarding parks. She inquired whether Staff presented the impact fee to the Parks and Recreation Commission for consideration.

Mr. Lalo Perez replied no. That had not been a part of the process.

Council Member Holman suggested Staff not be married to process. The chart was all based on residential information.

Mr. Keene noted non-residential, commercial and industrial could be found in the middle of the chart.

Council Member Holman had nothing to compare non-residential information to as the chart was not provided in the packet. It was important to know how Palo Alto tracked with other communities.

Mr. Lalo Perez would include that information in future Staff Reports.

Council Member Holman inquired whether Staff could provide that information when the item returned to the Council.

Mr. Nathan Perez replied yes.

Council Member Holman noted the Staff Report did not contain the chart referenced in the Finance Committee Minutes, which made it difficult to follow the discussion. The chart appeared to be misleading because it included the sewer hookup fee in the water, sewer, and storm drain fee.

Mr. Nathan Perez could reflect it either way. It was an outlier in otherwise consistent data.

Council Member Holman felt it should at least have a footnote.

Mr. Lalo Perez indicated each agency within Santa Clara County set fees in different manners.

Mr. Nathan Perez reported the comparison was difficult because Palo Alto suggested a larger water main diameter than other cities. Each city had different requirements that had to be considered in a comparison.

Council Member Holman was unsure whether commercial and industrial was lower than residential.

Mr. Nathan Perez would provide that data. Palo Alto was relatively lower compared to peer communities on the non-residential side.

Council Member Klein inquired about the amount of money collected and the length of time required to collect sufficient funds to construct a PSB.

Mr. Nathan Perez did not believe the City would collect sufficient funding over the timeframe of the study. Fees would assist with funding but would not solely fund a \$57 million project. The cost of the project had to be allocated between existing and new development. Using 25 percent for new development, the fee would finance a maximum of \$15 million.

Council Member Klein inquired about the source of 25 percent.

Mr. Nathan Perez explained that 25 percent was an approximation for discussion. It generally considered existing versus future demographics.

Council Member Klein assumed that new construction, both commercial and residential, would result in 1-2 percent of existing stock.

Mr. Nathan Perez concurred. Palo Alto was largely built out. The Nexus Study could result in a figure closer to 15-20 percent.

Council Member Klein clarified that 15-20 percent was over the 20-year period. Utilizing gross numbers, the most a fee devoted to the PSB would generate was 20 percent of the cost over 20 years.

Mr. Nathan Perez agreed.

Council Member Klein calculated the present value to be a quarter of that or 5 percent. That fee would generate only a few million of the needed \$57 million.

Mr. Nathan Perez concurred.

Council Member Klein inquired about the amount of funds collected from DIF.

Mr. Lalo Perez did not have a cumulative total, but the transportation fee collected \$600,000 and the wastewater fee collected \$1.3 million.

Council Member Klein asked about the time period over which those collections spanned.

Mr. Lalo Perez reported funds had to be utilized within a five-year period.

Council Member Klein noted the report was delivered to Staff in May 2012, and asked why Staff delayed presenting it to the Council for 22 months.



Mr. Lalo Perez indicated the lack of a Budget Director prevented the project from being a high priority for Staff.

Council Member Klein believed the City had cost itself money because the project was not presented sooner.

Mr. Lalo Perez agreed there could have been a loss of revenue on the transportation side. He did not know whether Staff would have had a good inventory of projects if the project was presented sooner.

Council Member Klein inquired whether Staff could have hired a temporary person with sufficient skills to shepherd the project.

Mr. Lalo Perez explained that such a person would need a certain amount of internal knowledge to navigate the multitude of departments and personnel to obtain data.

Council Member Price recalled Mr. Nathan Perez's comments regarding cities not being forthcoming with information. She inquired whether the various city categories in the chart of comparative survey results was a true picture of all fees.

Mr. Nathan Perez reported it was a true picture except for the City of Santa Clara.

Council Member Price felt the information contained significant gaps, and asked if Mr. Nathan Perez was comfortable with the information.

Mr. Nathan Perez replied yes.

Council Member Price asked if the information was complete.

Mr. Nathan Perez responded yes. Affordable housing was the one category that was charged incredibly differently across all cities. The affordable housing category was sometimes difficult to equalize on a per unit basis.

Council Member Price concurred with other comments regarding adding Cumberley to the list. This was a phased approach to DIF, because the Council was attempting to determine a logical and proper methodology. She inquired whether Mr. Nathan Perez's experience included situations where DIF contained automatic Cost of Living Adjustment (COLA).

Mr. Nathan Perez reported that was quite common.

Mr. Lalo Perez added that COLA was utilized when fees were below 100 percent. The Council policy was not to set some fees at 100 percent. The

Council was concerned about total impacts to projects. That was the reason Staff did not mention use of an inflator.

Council Member Price asked if Staff considered cumulative impacts rather than built-in adjustments for each category.

Mr. Lalo Perez indicated that was the Finance Committee's focus.

Council Member Price suggested Staff include more clarification points in the chart. In facility costs or estimated facility costs, Staff should note the baseline year. She inquired whether Mr. Nathan Perez was aware of the Council's sensitivity to projected rates of growth promulgated by different agencies.

Mr. Nathan Perez answered yes.

Council Member Price asked if his assumptions were consistent with Council policies.

Mr. Nathan Perez replied yes.

Mayor Shepherd indicated the impact fees were for a new unit of housing. She viewed the project as an effort to capture brand new fire stations and police stations. There was a parks policy which Staff followed.

**MOTION:** Mayor Shepherd moved, seconded by Vice Mayor Kniss to approve the Development Impact Fee (DIF) Project Needs List prior to having the City's consultant prepare the quantitative analyses and narratives needed to update some categories of the City's Development Impact Fees.

Mayor Shepherd expected the discussion would evolve and recognized that the Council would need to make decisions regarding infrastructure.

Vice Mayor Kniss agreed the discussion would continue. Staff asked the Council to approve a particular recommendation.

Council Member Burt noted the Committee reviewed DIF in early November 2013. Since that time, the Council had moved forward with infrastructure projects. The Finance Committee was interested in vetting thoroughly a number of major areas. Because of changes over the last five months, returning the item to the Finance Committee for an update could be appropriate.

**SUBSTITUTE MOTION:** Council Member Burt moved, seconded by Council Member Scharff to return this item to the Finance Committee to be re-evaluated.

Council Member Burt reiterated that a number of projects had changed since the Finance Committee reviewed DIF. Returning the item to the Finance Committee would not require a great deal of Staff time. He wished to move the item forward rapidly and integrate the study with changes made in infrastructure planning.

Council Member Scharff felt a more thorough vetting by the Finance Committee would be productive and would save time.

Mr. Keene reported returning the item to the Finance Committee would require some direction to Staff. Staff and DTA could continue with the rational nexus component. Staff could work more quickly with clear direction from the Council about specific gaps in the capital facilities needs plan.

Council Member Klein was aghast that the Finance Committee would require six months to vet the item. He requested Council Member Burt amend the Substitute Motion to indicate the Finance Committee would provide a recommendation to the Council, hopefully on the Consent Calendar, within 60 days.

Council Member Burt felt 90 days would be reasonable.

Council Member Klein wished the Finance Committee would complete its review prior to beginning Budget hearings. Perhaps the Finance Committee could provide a recommendation by May 15, 2014.

Council Member Burt requested the City Manager comment.

Council Member Klein suggested the Finance Committee would have more work than Staff would have in vetting the item.

Council Member Burt noted Staff needed to reflect changes made by the Infrastructure Committee, input from the Finance Committee, and input from the Council discussion.

Council Member Klein agreed to the item returning to the Council in three months, by the Council's first meeting in June.

Council Member Burt concurred. The item might be imperfect at that time, but it would be more contemporary.

Council Member Scharff preferred to wait for work to be complete than to have imperfect information. He questioned whether the item should return on the Consent Calendar.

Council Member Klein indicated a return on the Consent Calendar was only a hope. He wanted to see an item returned to the Council by the first meeting in June 2014.

Mr. Keene explained that if the Finance Committee identified other capital facility objectives, then that would require a rigorous analysis by Staff. Projects should not be driven by a desire to set a new fee. The same Staff would be working on this item and the Budget.

Council Member Scharff would agree to the Finance Committee hearing the item in May 2014. The Finance Committee could decide it was not ready for the Council at that time. He did want the Finance Committee to hear the item prior to beginning the Budget.

Council Member Klein expressed concern that the item had already been delayed two years as that cost the City money.

Council Member Scharff felt acting too quickly could also cost the City money.

Council Member Klein believed if the Finance Committee did not finish the item prior to beginning Budget hearings, then it would have a good excuse not to work on it.

**INCORPORATED INTO THE SUBSTITUTE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER** to direct Staff to bring this back to the Council on Consent Calendar, contingent on a unanimous vote by the Finance Committee, and to return to the Council by the first meeting in June 2014 with whatever portion is ready.

Council Member Holman requested Staff answer questions such as the meaning of residential subdivision of over 50 parcels. She inquired about the basis for Mr. Nathan Perez stating commercial impact fees appeared to be low compared to other communities. She suggested the Finance Committee complete as much work as soon as possible and then determine whether a second phase of work was needed.

Mayor Shepherd indicated the Finance Committee would have to make that determination.

Council Member Burt agreed with the Finance Committee having the discretion to bring some or all of the item to the Council at the same time. The item would return on the Consent Calendar only if there was unanimous approval by the Finance Committee.

Council Member Schmid agreed with many of Council Member Scharff's comments. The Council was assessing DIF by utilizing the current CIP. Using the CIP allowed the Council to determine the real expenditure for the range of infrastructure needs at a point in time. The Council should not chase itself by going back to the Finance Committee and removing some items. The goal was to get a picture at one point in time and use that as a framework.

Council Member Price inquired whether Staff had sufficient information and guidance to make some progress on this item, to make changes.

Mr. Keene reported if the work at the Finance Committee was anything like the current discussion, Staff would not return for a long time. The Amendment to the Substitute Motion was important. Staff did not provide a meaningful response about the amount of work needed for this item. Staff work needed to be contained if the Council wanted action at the current time or in three months. The Council would have to settle for something less than all the topics mentioned during the Council discussion. To do the work correctly, Staff would need additional involvement from the Planning Department, which was involved in many other Council projects.

Council Member Berman indicated Council Member Schmid's comments were profound in that the Council could be chasing itself in trying to find the perfect list of projects. He inquired whether the Finance Committee would remove projects that were on the infrastructure list and maybe add projects that had not been identified.

Mr. Lalo Perez stated that was his understanding. Staff would focus on the three areas in their recommendation, rather than everything else.

Council Member Berman asked if the PSB would be removed from the list if the Council decided to fully fund it regardless of the item returning to the Finance Committee.

Mr. Lalo Perez answered yes.

Council Member Berman asked when the analysis would be completed if the item was not returned to the Finance Committee.

Mr. Nathan Perez reported the goal would be to provide estimated fees for the categories discussed to Staff within a month, and then to review those fees with the Finance Committee or the Council. He wished to provide fee levels as soon as possible.

Council Member Berman inquired whether projects contingent upon a community vote would remain on the list.

Mr. Nathan Perez responded yes.

Council Member Berman would support the Motion, because the information was sufficient.

Mr. Nathan Perez added that if the PSB were removed in two months, he would have to redo everything because the PSB was such a large project.

Council Member Klein would not support the Substitute Motion because of the language regarding the Finance Committee providing whatever portion was ready.

Mayor Shepherd would not support the Substitute Motion. Council Member Schmid articulated the situation well. The changes the Council made with regard to infrastructure would be reflected in the list without returning the item to the Finance Committee for review.

**SUBSTITUTE MOTION AS AMENDED FAILED:** 3-6 Burt, Holman, Scharff yes

**MOTION PASSED:** 8-1 Holman no

Council Member Holman inquired when Staff could provide requested information regarding fees.

Mayor Shepherd indicated Staff could provide the information outside the Council meeting due to the lack of time. She inquired whether the Council would have sufficient time to address Agenda Item Number 10, naming the Main Library.

Mr. Keene announced naming of the Main Library would be continued to a date uncertain.

**MOTION:** Council Member Scharff moved, seconded by Vice Mayor Kniss to discuss Agenda Item No. 11 prior to Agenda Item Number 9.

**MOTION PASSED:** 7-2 Schmid, Shepherd no

Mr. Keene requested a time check-in at 10:00 P.M. to determine whether Staff could be excused from the meeting.

11. Infrastructure Project and Funding Plan.

Richard Hackmann, Management Analyst, recalled that the Infrastructure Committee met three times since the item was last before the Council on December 9, 2013. The Infrastructure Committee recommended the Council

proceed with a 3 percent Transient Occupancy Tax (TOT) increase; prioritize funding of a Public Safety Building (PSB); proceed with TBWB's, the City's communications consultant, outreach work regarding a TOT tax increase; direct the City Manager to develop a plan for a PSB; and not to perform additional surveys regarding which type of revenue measure to pursue. The Funding Plan was a list of key unfunded projects and funding sources. The main goal of the Funding Plan was to align specific infrastructure project needs with specific funding sources and demonstrate the impact of a revenue increase on the City's ability to fund certain projects. The highest priority project under the proposal was the PSB. The entire cost of a PSB would be funded through existing sources and Certificates of Participation (COPs) from existing hotel revenue. No funds from a TOT tax increase would fund a new PSB. All revenue from a 3 percent TOT tax increase would fund projects in Step 2 of the proposal. TBWB outlined a plan for public outreach and ballot language preparation, anticipating that the Council would make a final determination regarding a TOT tax increase in June 2014. The latest possible date the Council could place a ballot measure for November 2014 election was on August 4, 2014.

Council Member Klein, Chair of the Infrastructure Committee, reported the Infrastructure Committee faced literally a hundred different variables in determining infrastructure projects and funding sources. Given the number of variables, the Infrastructure Committee's proposal was not the only possible proposal. If the Council chose to add projects, then it would need to eliminate other projects with a similar dollar amount or determine ways to increase funding. The Infrastructure Committee carefully reviewed the costs of proposed projects. Fire Station Numbers 3 and 4 were both obsolete and inadequate. The Infrastructure Committee tried to coordinate its recommendations with the Capital Improvement Program (CIP). The City's consultant recommended not including an advisory measure on the ballot with a tax measure.

James Keene, City Manager, explained information contained in the spreadsheet. The list of projects totaled \$140.8 million and existing funding totaled \$113 million. The Infrastructure Committee chose to fund a PSB in Step 1 for a total of \$57 million and identified revenue of \$57 million. In Step 2, remaining unfunded projects totaled \$91.8 million and existing funding totaled \$37 million. The Infrastructure Committee selected a majority of those remaining projects for a total of \$75.2 million and utilized all the remaining funding along with the 3 percent COP to fund those projects. Projects remaining after Step 2 totaled \$16.6 million. If the Council supported the list of projects, funding sources, and a 3 percent TOT tax increase, it could accomplish virtually all infrastructure projects.

**MOTION:** Council Member Klein moved, seconded by Council Member Scharff to approve the Infrastructure Committee recommendation that Council approve the Infrastructure Project Funding Plan that allocates existing and potential future City funding to a prioritized project list with the recommendation to move forward with a three percentage point Transient Occupancy Tax (TOT) increase.

Council Member Scharff indicated the Council was in reach of fulfilling almost all infrastructure projects. Assuming the Motion passed, the Council could be proud it was resolving 90 percent of the infrastructure issues.

Council Member Berman felt the Infrastructure Committee's decision to prioritize a PSB and to allocate existing resources to it was remarkable. He agreed with the list of projects; however, he was not convinced that a TOT tax increase was the correct revenue measure. Currently Palo Alto's TOT tax rate was comparable to neighboring cities. If Palo Alto increased the TOT tax rate 3 percent, it would have the highest rate in the Bay Area. Palo Alto's current sales tax rate was 8 3/4 percent, the same as most other cities in Santa Clara County. San Mateo and Alameda Counties' baseline sales tax rate was 9 percent. If Palo Alto increased its sales tax rate by 1/8 cent, it would be marginally higher than other cities in Santa Clara County and lower than San Mateo and Alameda Counties. A sales tax increase warranted further study to determine the community's support. He questioned the validity of polling results for a sales tax, because of the way survey questions were asked and the list of general infrastructure projects mentioned with sales tax questions. Palo Alto could pass a TOT tax increase for anything. This could be an opportunity for the City to utilize a different revenue measure that might not be easy to pass in the future. A TOT tax increase could be utilized for future projects. There was sufficient time to poll on sales tax.

**SUBSTITUTE MOTION:** Council Member Berman moved, seconded by Vice Mayor Kniss to direct Staff to do another poll testing a 1/8 of a cent sales tax increase.

Vice Mayor Kniss agreed that a TOT tax increase was the easy way to generate revenue. The Council should consider a sales tax first. A sales tax increase was a way for the community to support the infrastructure projects in which the community believed. If a sales tax increase polled at 61 percent, it stood a good chance of passing. She preferred for Palo Alto to remain competitive with neighboring cities and to give the community the opportunity to support infrastructure projects.

Council Member Price would not support the Substitute Motion. Given the analysis and polling that went into compiling the report, she was comfortable



with the TOT tax increase. With the current level of economic vitality and job growth in the region, she suggested other cities were considering adjusting their TOT tax rates. The direct comparison of TOT tax costs was challenging, because other cities charged other fees that rolled into their TOT tax rates.

Council Member Burt referenced polling results for TOT tax and sales tax on page 4 of the Staff Report. The results for sales tax were marginal, and the range concerned him.

Council Member Berman noted the results Council Member Burt mentioned applied to a 1/4 cent sales tax increase.

Council Member Burt inquired whether Staff had any insights regarding polling results for 1/8 cent sales tax.

Brad Eggleston, Public Works Assistant Director, recalled survey questions asked first about a 1/4 cent increase. A follow-up question asked about a 1/8 cent increase. Polling results for the 1/8 cent increase indicated 61 percent support.

Council Member Burt asked if that was after opposing arguments.

Council Member Berman indicated the information did not provide that detail.

Council Member Klein felt a TOT tax increase would be easier to sell to the community. There was always a chance a tax could lose in a vote. A sales tax increase had a greater chance of losing. If the community voted against a revenue measure, the Council would not propose another measure the following year. If a sales tax measure lost, it could be five years before the Council could propose another revenue measure for infrastructure projects. The projects went to the heart of public safety and parking problems. The Council could not take the risk of a sales tax measure failing. Some of the same arguments were made when the TOT tax was last increased.

Mayor Shepherd requested Council Member Klein address the Substitute Motion.

Council Member Klein indicated the choice for the Council was a sales tax increase or a TOT tax increase. When the Council last increased the TOT tax, other cities increased their TOT tax rates to match Palo Alto's rate. That would likely happen again.

Council Member Schmid preferred a bond issue for public safety; however, the Council was moving toward COPs supported by the City's most dynamic

tax. He assumed the revenue measure would be a general tax which required 50 percent support on a referendum. He asked if application of revenue from the tax would be guaranteed in some way or at the discretion of the Council.

Joe Saccio, Assistant Director of Administrative Services, reported Staff programmed into the spreadsheet revenues that were based on conservative assumptions for occupancy and the daily rate. Based on current TOT tax collections, revenue could be 30 percent higher than stated in the spreadsheet. Staff included a cushion between the amount of TOT tax expected and the amount dedicated to funding infrastructure projects.

Council Member Schmid asked if the Council was guaranteeing a certain amount of money would be spent each year.

Mr. Saccio explained that the General fund was responsible for paying debt service. Staff hoped the conservative projection of funding level would be sufficient to pay debt service in a depressed economy.

Council Member Schmid inquired whether the Council was stating that public safety needs were associated with the tax increase.

Mr. Saccio clarified that a portion of funding for public safety would come from new hotel revenues.

Council Member Schmid requested a definition of new hotel.

Mr. Saccio reported new hotels were those identified with estimated opening dates.

Mr. Keene indicated new hotels were those approved and/or under construction. If a developer proposed a new hotel project, it would be beyond the proposal.

Council Member Schmid noted the General Fund would be required to pay debt service if TOT tax revenues decreased. He asked if recent questionable sales tax revenues were considered in the ten-year financial forecast.

Mr. Saccio reported the unique sales tax revenues received at the end of Fiscal Year 2013 and beginning of Fiscal Year 2014 were not used as a basis for the forecast.

Council Member Schmid inquired whether the Council was going into an election with the expectation that the City was healthier than it really was.

Mr. Saccio responded no.

Council Member Schmid asked if the General Fund had the flexibility to meet unexpected needs if a period of no growth occurred in the future.

Lalo Perez, Chief Financial Officer and Administrative Services Director, explained that situation would be no different than the period in 2009 and 2010 when Staff and the Council restructured the General Fund.

Mr. Keene noted the Infrastructure Committee left an \$8 million Infrastructure Reserve amount unallocated to handle unexpected expenditures or unexpected revenue flows.

Mr. Perez added that the present and prior Councils were prudent in managing the Budget Stabilization Reserve (BSR). The Council could choose to decrease the target percentage for the BSR to bridge any adjustments. The City was well positioned to adjust for cyclical downturns.

Council Member Schmid stated the list did not contain the lease of the existing PSB in the amount of \$19 million.

Mr. Keene clarified that the potential lease amount was technically unallocated future funding.

Council Member Schmid commented that in three or four years the lease amount could be a flow of income to help the reserve.

Mr. Keene reported revenue from a lease was more likely to occur in six or seven years.

Council Member Schmid noted the Golf Course reconstruction could impact the General Fund, and asked if that would affect an election.

Mr. Perez noted the Golf Course reconfiguration and the Post Office acquisition were concerns. Staff was considering borrowing from the Stanford University Medical Center Fund to bridge funds needed for the Golf Course or Post Office. Funds generated by COPs would reimburse the Stanford University Medical Center Fund.

Council Member Schmid inquired whether the Substitute Motion called for a 1/8 cent sales tax increase and a 2 percent TOT tax increase.

Council Member Berman replied no.

Council Member Schmid believed a 1/8 cent sales tax increase by itself would not cover expenses; therefore, a 2 percent TOT tax increase would still be needed.

Council Member Berman disagreed.

Mayor Shepherd requested Council Members remain on point in the discussion.

Council Member Schmid reiterated that a 1/8 cent sales tax increase would substitute for a TOT tax increase.

Council Member Scharff understood the Substitute Motion would produce \$43.4 million less than the Motion. A 3 percent TOT tax increase would create \$79.8 million.

Mr. Keene clarified that the 3 percent TOT tax increase created \$46.2 million.

Council Member Scharff asked if the revenue amount was from all hotels.

Mr. Hackmann explained that tax revenue included the new hotels coming online in addition to the TOT tax increase.

Mr. Keene added that revenue was more than just the 3 percent marginal increase.

Council Member Scharff stated the difference then was \$10 million.

Mr. Keene reported a 3 percent TOT tax would generate \$46.2 million and a 1/8 cent sales tax increase would generate \$36.4 million.

Council Member Scharff believed the Council would need to reduce projects by \$10 million under a 1/8 cent sales tax increase.

Council Member Holman remarked that a sales tax increase was not as certain as a TOT tax increase, and inquired whether a sales tax increase could be placed on the ballot with a TOT tax increase.

Mr. Keene reported the general feeling was negative regarding two measures on one ballot.

Mr. Eggleston recalled the consultant stated a measure with the polling level of sales tax probably would fare poorly if accompanied with another measure.

Mayor Shepherd liked the Infrastructure Committee's recommendation because it accomplished almost all projects. The Council should proceed with a strong statement of how it would collect revenues in order to catch up infrastructure needs. A TOT tax increase was compelling.

**SUBSTITUTE MOTION FAILED:** 2-7 Berman, Kniss yes

**AMENDMENT:** Council Member Berman moved, seconded by Council Member Burt to change the TOT tax increase from three percent to two percentage point.

Council Member Berman felt increasing the TOT tax rate to the same rate charged in San Francisco was more palatable than having the highest rate in the Bay Area. A 2 percent TOT tax increase created \$15 million less revenue than a 3 percent increase; therefore, the Council would have to find \$15 million in funding or move \$15 million in projects to the CIP. The only unfunded project he wanted to fund was parks catch-up in the amount of \$4.3 million. With respect to cash flow concerns, not all projects would be constructed at the same time which would allow funds to be utilized for cash flow. He could accept allocating the \$8 million Infrastructure Reserve to some projects or to bridge a funding gap. Low priority projects could be transferred to the CIP.

Council Member Burt agreed that revenue projections were conservative. Based on his calculations, revenue from the lease of the existing PSB would cover the gap between a 2 percent and 3 percent TOT tax increase. Additional funds could be found in Staff's conservative projections for revenue. Therefore, the City had sufficient funds to meet the capital goals of Step 2 with a 2 percent TOT tax increase. Exceeding the highest TOT tax in the region could harm Palo Alto's reputation.

Council Member Holman supported the Amendment. Having the highest TOT tax rate did not reflect well on Palo Alto's image. Other communities would raise their TOT tax rates if Palo Alto increased its rate.

Council Member Scharff did not believe a 2 percent TOT tax increase would accomplish all projects as construction costs and land prices continued to increase. Any notion that people would not stay in Palo Alto because of a TOT tax increase was illogical.

Vice Mayor Kniss felt a high TOT tax rate could be perceived as Palo Alto treating visitors callously. However, the community would support a TOT tax increase. It was important for the Council to agree on an amount to recommend to the community, because the community needed to feel the Council was in unison.

Council Member Klein initially favored a 2 percent TOT tax increase; however, he was persuaded in during the Infrastructure Committee that a 3 percent increase was necessary. The Infrastructure Reserve may be needed for cash flow differentials. He did not recommend use of funds from a lease

of the existing PSB, because the revenue was too far in the future. Other cities had a TOT tax rate in excess of 15 percent. He favored a TOT tax rate of 14 percent, because it would accomplish all projects.

Council Member Price felt strongly the TOT tax increase should be 3 percent. This was an opportunity for the Council to accomplish infrastructure projects. She anticipated other cities would increase their TOT tax rates if Palo Alto did so. The reputation of Palo Alto would not be affected by an increase in the TOT tax rate. The improvements would have a positive effect on Palo Alto's reputation.

Mayor Shepherd wanted to accomplish all infrastructure projects. If the increase was only 2 percent, the Council ran the risk of not accomplishing all projects. A TOT tax increase would not affect the number of people staying in Palo Alto.

Council Member Holman requested clarification of, "the Infrastructure Project Funding Plan."

Council Member Klein called point of order.

Mayor Shepherd indicated the Motion was contained within the Amendment.

Council Member Klein explained the Amendment changed 3 percent to 2 percent only. Council Member Holman could speak to the Motion after a vote on the Amendment.

**AMENDMENT PASSED:** 5-4 Price, Scharff, Schmid, Shepherd, no

Council Member Holman stated that "Infrastructure Project Funding Plan" was vague. She suggested "Infrastructure Project Funding Proposal as included in the March 3, 2014 Staff Report" to clearly identify the document under discussion.

Mr. Keene agreed the language change provided clarity; however, the document was \$10 million short in funding.

Council Member Holman reiterated that the Motion was vague with respect to the document being discussed even though it would need to be amended in the future.

**INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER** to change the following language in the main Motion, "Infrastructure Project Funding Plan" to "Infrastructure Project Funding Proposal as included in the March 3, 2014 Staff Report."

**MOTION AS AMENDED PASSED: 9-0**

**MOTION:** Council Member Klein moved, seconded by Mayor Shepherd to refer this back to the Infrastructure Committee to consider changes in light of reducing the TOT Tax from 3 percent to 2 percent.

**MOTION PASSED: 9-0**

Mayor Shepherd noted that Agenda Item Number 9, Comprehensive Plan Update, would be continued.

~~9. Comprehensive Plan Update- Revised Approach, Schedule, Scope of Work, and Contract Amendment in the amount of \$597,206 with The Planning Center | DCE for Consultant Support Related to the Ongoing Update of Palo Alto's Comprehensive Plan for the Future of Our City.~~

**MOTION:** Council Member Scharff moved, seconded by Vice Mayor Kniss to move Agenda Item No. 10 "From Policy & Services Committee Staff requests direction from Council on the naming of the Mail Library" to a date in March 19, 2014.

Council Member Klein requested a date certain for discussion of naming the Main Library. The Library Director previously indicated the matter was time sensitive.

Mr. Keene reported naming the Main Library could be placed on the March 17 or 24, 2014 Agenda.

**MOTION PASSED: 7-2 Schmid, Shepherd no**

~~10. From Policy and Services Committee Staff Requests Direction From Council on the Naming of the Main Library.~~

ADJOURNMENT: The meeting was adjourned at 11:09 P.M.