



CITY OF PALO ALTO CITY COUNCIL TRANSCRIPT

Regular Meeting
April 4, 2016

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

Present: Berman, Burt, DuBois, Filseth, Holman, Kniss, Scharff, Schmid, Wolbach

Absent:

Special Orders of the Day

1. Selection of Applicants to Interview on April 28, 2016 for the Human Relations Commission, the Library Advisory Commission, and the Utilities Advisory Commission.

Mayor Burt: Our first order is a selection of applicants to be interviewed on April 28th, 2016 for the Human Relations Commission, the Library Advisory Commission and the Utilities Advisory Commission. Do we have a Motion or discussion on this topic?

Council Member Kniss: I would be glad to make a Motion. I would move that we interview all the candidates who have applied.

Council Member Berman: Second.

MOTION: Council Member Kniss moved, seconded by Council Member Berman to interview all applicants on April 28, 2016.

Mayor Burt: Motion by Council Member Kniss, second by Council Member Berman, to interview all candidates. I see no more lights or cards. Please vote on the board. That passes unanimously.

MOTION PASSED: 9-0

TRANSCRIPT

2. Acknowledgement of Recipients of Mayor's "Green Business Leader Award."

Mayor Burt: Our next item is acknowledgement of recipients of the Mayor's Green Business Leader Award. Josh, would you like to come forward and kick things off in any way? I can make my ...

Joshua Wallace, Utilities Department: We would, of course, like to thank you all for coming for the Mayor's Green Business Award. Really glad to have a full house here and a full stack of plaques to give out tonight. Very proud of this year's turnout. I know that Mayor Burt is going to be talking in some greater detail about the numbers. The big takeaway is that we've got a very enthusiastic and very successful energy efficiency community here. Everybody should be very proud of all the work they've done.

Mayor Burt: Thank you. The City of Palo Alto supports energy efficiency and sustainability for all of our residents and businesses. The City Council initiated the Mayor's Green Business Leader Award in 2012, and the award supports and rewards local businesses that not only talk the talk, but walk the walk in supporting our community and our environment. This award is given to business owners and managers who have worked to improve the energy efficiency of their buildings. The Environmental Protection Agency Portfolio Manager Program allows building owners to benchmark their buildings against similar facilities in similar climates across the U.S. For those businesses that work to benchmark their buildings' energy efficiency and compare it to others, our hats are off to all of you. Very efficient buildings become an Energy Star certified facility. Energy Star certified buildings on average use 35 percent less energy and are responsible for 35 percent less greenhouse gas emissions. In Palo Alto, those buildings that received Energy Star certification in the last year we consider you to be 2015 Green Business Leaders. Congratulations to all of you. I think at this time we're going to ask the recipients to come forward one at a time.

Mr. Wallace: Allow me to ask you, Mr. Mayor, to come down so we can hand out the plaques and have a photograph. We'll have all of the recipients along the wall, and then we'll take a group photo. Thank you, Mr. Mayor, for your help with all of this.

Mayor Burt: I'll just say first that 30 Palo Alto buildings qualified for the Energy Star rating in 2015. This is up from six in 2014. These award-winning buildings represent over 2.3 million square feet of energy-efficient floor space in Palo Alto. They are contemporary, high-tech buildings right alongside buildings from the 1920s. From a regional perspective, Palo Alto's 30 Energy Star-rated buildings make up one-third of the San Jose metro

TRANSCRIPT

area's entire Energy Star certifications. Quite an achievement. If Palo Alto were rated in the Environmental Protection Agency (EPA) small city category, we would be Number Two in the country. Palo Alto is definitely a leader in the energy-saving effort, and we thank you for what you've done. Our first recipient is Hewlett Packard Enterprise (HP) at 3000 Hanover Street, 1/2 million square-foot building. In addition to all of the efficiency initiatives, HP now holds the honor of being the largest solar energy installation in Palo Alto. This is their second Green Business Award. The next recipient is Hudson Pacific Properties for their buildings at Embarcadero Place at 2100 and 2200 Geng Road and their buildings at Clocktower Square at 600 and 660 Hansen. Hudson is a new property company and immediately came to have their buildings Energy Star rated. They're first-time award winners. Our next recipient is the International School of the Peninsula at 151 Laura Lane. This is the third year they've received the award. They're not only a Green Business Leader, they've signed up for 100 percent Palo Alto Green and 100 percent Palo Alto Green Gas. They're not only energy efficient, but they're carbon neutral. Next award goes to the Palo Alto Unified School District. Fourteen schools earned Energy Star certification. A fabulous effort. Some of these buildings are almost 100 years old. The School District acknowledges that all of their energy efficiency efforts for all school facilities are a team effort. Everyone's a winner. Along with continuing Energy Star efforts, the School District is also focused on water savings. They just won a Silicon Valley Water Conservation Award. We're proud of the School District as they once again are teaching by example. We have Board Member Camille Townsend and others here to receive it. Our next award winner is SAP and Orchard Commercial for their returning buildings at 3450 Hillview Avenue, a three-time winner, and 3412 Hillview, a two-time winner, and two new winners at 3460 Hillview and 3475 Deer Creek Road. Great to see SAP here again. Thank you for your effort. The next recipient is Stanford Real Estate for their properties at 3200 and 3210 Porter Drive and 975 Page Mill. This is their fourth time receiving a Energy Star rating and Green Business Leader Award for 3210 Porter and the third time for 975 Page Mill, and 3200 Porter is a first-time winner. Accepting the award is Nicole Evans. The next recipient is Stanford Real Estate for their properties at 3200—I'm sorry. The next winner is Union Bank at 400 University Avenue. This is the second Green Business Award for Union Bank. The building is 50 years old, retaining its charming brick and ivy exterior while maintaining modern, energy-efficient systems. Our last recipient, only last because this is alphabetically given, is Wilson Sonsini Goodrich and Rosati for their buildings at 601 California Avenue and 650 Page Mill Road. This is their fourth Green Business Award for both buildings. 601 Cal. Ave. is an eight-time Energy Star-rated building. For 650 Page Mill, it's the ninth time. Wilson Sonsini has been an EPA Green Power Leadership Club Member since 2008 through

TRANSCRIPT

their participation in Palo Alto Green. Congratulations. Thank you all, and congratulations to everyone. Please keep up the good work.

Study Session

3. Open Data Presentation.

Mayor Burt: Our next item is our Open Data System Study Session, to be led by Mr. Reichental. Welcome.

Jonathan Reichental, Chief Information Officer: Now for something completely different. Good evening, Mayor Burt, Vice Mayor Scharff and Council Members. I'm Jonathan Reichental, your Chief Information Officer. Tonight I want to talk to you about two technology (tech.) topics that impact our community in a very positive way. I want to talk about open data, what that is, and talk about some of the City applications (apps.). That's my goal tonight. My presentation's only about 20 minutes or less, and then I'd love to get your comments and feedback. I just want to also thank my Information Technology (IT) managers tonight who have shown up in force over there. If you'd just show us where you are. It's very nice to see them this evening. Thanks for coming. What I wanted to do was start with a picture of Boston in January 2010. In January 2010, it snowed an awful lot in Boston. It was called snowmageddon because of that. One of the things that happens during snow is there are more fires than usual. Intuitively, people are making fires in their homes, and they set their houses on fire. When the fire services come, they want to be able to find the fire hydrants as quickly as possible. Unfortunately, when there's a lot of snow, it's very difficult to find the fire hydrants because they're covered in snow. The fire service knows approximately where they are, and they go and dig around the fire hydrants and they finally get them. When your house is on fire, time is of the essence. The question is how do you solve a problem like that? A software engineer, no less, decided to travel up to Boston in the summer of 2010 with a completely different idea about how you might make it easier for fire service personnel to find fire hydrants during the snow. The idea he came up with was to make the fire hydrant adoptable. You would use an app. to adopt your fire hydrant in your community. During the year, you would make sure it was maintained. When it snowed, you would dig around it; thus, when there was a fire, it would be available. The question is did it work. It was amazing success. The following year there was a lot of snow again, and people who adopted the fire hydrants dug around them, and it was more available for the fire service. The question is what does that really illustrate? A couple of things. It says, first of all, that we have different ways to solve civic problems today. It also says that we can use technology in completely new ways. It means we can use apps. that run on tablets and

TRANSCRIPT

laptops and smart phones, and use data to completely change the game around a really difficult problem to solve. That's the sort of theme this evening that I want to talk about, and one of the themes we're seeing in local governments and governments around the U.S. and around the world. I want to talk about this topic real briefly called open data. I'm pretty confident you've heard the term in your travels and probably heard it here at the City more than once. Open data ultimately is a responsibility that cities are now living up to, to make the data that they store on behalf of their communities available to their communities. This data, by the way, is not secure data or regulated data. This is the public data that everybody should have easily accessible to them. The one thing that cities have in absolute abundance is data. In a world of constraints, we have enormous volumes of data here in Palo Alto, in the cities around here and at public agencies across the world. One of the things about open data is a couple of definitions that are important. The data should be in its most basic format, available to everybody, and it should be machine consumable. That's a very fancy term for meaning that computers can use the data easily. You can import it into analysis programs and import it into financial programs and into applications. Here at the City of Palo Alto, we've embraced open data now for almost four years. We have a lot of different types of data. Just this slide illustrates sort of three different types of data sets that we make available to our community. We have a rich set of our geospatial information. This is everything about our roads and our streets and our signage and our pipes and all sorts of things that make up the infrastructure of the City. We've a whole lot of core data I'll talk about in a second. We also have an open data budgeting platform which today contains five years of budgeted and actual data available to anyone who wants it. It's in a format that's highly accessible. It's in the form of visualizations, but also in a basic form that people can import in Microsoft Excel. If they want to do their own analysis, they're now empowered to do it. Our open data work has been recognized around the world in many different forums, including a number of awards. Our financial data program, which we call Open Budget, has won a couple of awards with the Government Financial Officers Association. Our Colleagues in Administrative Services Department (ASD), under Lalo Perez's leadership, has done great work. What is this open data? If you go to our website from any device anywhere in the world, at data.cityofpaloalto.org, which I have up on the screen, you can see we have quite a different set of data. We have multiple decades of library data that, if you so choose to evaluate and analyze, you can access right now. Anyone in the world can do that. We have information about emergency preparedness and energy and crime. All of our Business Registry data that's public is available right now. One of the areas of great interest is all of the City's employees' salaries are easily accessible and made available each year on our open data platform. As an example just to kind of put substance

TRANSCRIPT

around this, our open Geospatial Information System (GIS) or geospatial information system allows you to see interesting things like this slide, which is land-use designation. In this particular picture that you're looking at, it's visual, which a lot of people find quite beneficial. You can also analyze and download the underlying data, the longitudinal and latitudinal stuff and everything else that goes into combining to make up a visual like this. We have lots of different types of geospatial information that a very large range of stakeholders are interested in. We get many, many calls and emails over the course of a few months from different stakeholders. We had an email just the other day from the National Park Service wanting our geospatial information on our parks. All I had to do was point them to a website and say, "Everything you want is right there." It's really convenient and open to the world. We've been publishing open data sets or our data at the City here in a public manner for closing in now four years. We're approaching 100 different types of data sets. It's worth taking a look to see the variety and know that we continue to publish data sets as they either become available or as departments choose to make those data sets available to whoever wants them. What ultimately is the benefit? On one level it's just about freedom of access to data that belongs to the people. It's a transparency solution. Open data is certainly not a Palo Alto phenomena or California or American phenomena. It is a global phenomena. More and more governments are embracing these platforms to make available these important insights. An organization called Open Data Impact sort of summarized the four key benefits of open data to communities. The first one, it improves government. An example of that is being more transparent increases trust in communities and more things can get done. Open data, as a second point, empowers citizens because now they have access to the same information all of us have access to, often at the same time. A more informed populace is a more empowered populace. The third reason is it creates opportunities. For example, you'll remember two years ago we had the Palo Alto Apps. Challenge. Out of that, almost 100 different teams in Palo Alto participated to create solutions for the City. In fact, one solution today, Adopt Me app., is a real business that employs real people in real jobs. The fourth one is it helps to solve public problems, because it empowers all sorts of decision makers with valuable information. I just want to give you two quick international examples. There are many, but here are two that I thought were interesting to illustrate the value it's having on a global basis. In the country of Uruguay, everybody in that country has to make a healthcare choice once a year. It's very difficult to do that because information is difficult to come by, just getting up-to-date, quality information on healthcare choices. Uruguay decided to use their open data initiative to put all the relevant health data available online in an easily consumable way. Now, more people are more empowered in Uruguay to make important healthcare decisions for their families. In Brazil which has

TRANSCRIPT

unfortunately a poor track record of corruption, they recently started using an Open Budget Platform, somewhat like ours here in Palo Alto. It's having material impact on the reduction of corruption in that country, just by using the open data solution. This is highly valuable and globally embraced. What is the future here for us at the City of Palo Alto? We're going to continue to post more and more data sets. The more data sets we get out there, the more value there is. We're going to continue to update data. One of the things we are experimenting with and continue to experiment with is to make the data what we call near real time. For example, when somebody submits for a permit request today, in less than 24 hours that permit is available to anyone in the world through our open data platform. There are a lot of interested people in that data. Finally, we look to mature the platform. How can we in the City of Palo Alto align with the global initiatives around the work we're doing? The dominant, globally adopted approach to open data is through a forum called the Open Government Partnership, of which the President of the United States and other leaders around the world signed off on to really show commitment and value in the open data work. There's lots of outcomes from that that even a City of our size can adopt and use to mature and bring even more value to our data efforts. That's a quick update. Now what I want to do is shift to our digital services. They're not completely disconnected topics. The most valuable digital solutions in any organization are those that either create very valuable data or run using very valuable data. It might surprise you to learn that the City of Palo Alto has over 60 digital services. These are either services you can access using a smart phone or tablet or a website that you can go to, to conduct City business. More and more of what we do at City Hall can be done in your pajamas from the luxury of your home without having to come, wait in line at City Hall. Every few months, we add additional services to that. Just to sort of put a bottom line on this. This is industry wide; a manual process costs per transaction anywhere from \$35-65. On the high end it's \$65. Here at the City of Palo Alto, IT delivers a lot of our help desk support at around the \$35 mark per transaction. When it's done digitally, it's measured in pennies, much less than a dollar. We have a cost opportunity, not only a quality and efficiency opportunity, but over time as you get more and more services online, one would hope you would see the downstream impact of less cost for a lot of these services. What are some of the examples? You can access these right now or after this event. We have services that provide good information for community members and others around crime, crime data. People can pay for their utilities bill. We're making some significant improvements on that in the months ahead. They can participate in government through their comments on Open City Hall. We have really a wide range of digital solutions now around the permitting process, the work that Peter Pirnejad is doing at the Development Center, to support more transparency and more capabilities in the City's Development Services. In

TRANSCRIPT

the realm specifically of apps., of which we have many, we have an increasing number of library capabilities now digitally available from a smart phone. Everything from borrowing digital books to downloading music, a whole lot of other things like that. One of our treasures is Palo Alto 311, which now is used by all the appropriate community-facing services in the City. I was looking for an updated number, but I have a number that's just a couple of months old which shows that we've had now well in excess of 2,000 downloads of the Palo Alto 311 app., both for the iPhone and Android, and around about 2,000 requests are now coming through the smart phone device. What might the requests be? We get requests around Code Enforcement. We get questions about park drinking fountains. The community members have been using it to Report drought-specific water waste issues. Of course everyone's favorite, for reporting potholes. The service now is entirely transparent. When someone Reports an issue, they see when a Staff member is dispatched. They see now when it's repaired. Now, they can even evaluate our service at the end of the lifecycle using Palo Alto 311. Our police Colleagues have an app. for logging non-urgent police items as well as timely information on public safety-related items. That's through the police app. This is just a sample of the 60 different digital services. If anyone would like to access these at any time, I have included the link there, which is cityofpaloalto.org/services. Within the services, we also have a Palo Alto app. store where we have our different apps. listed. What is the future of digital services? There's no question that we are increasingly moving to technology platforms for delivering City services. My expectation is we would continue to see departments embracing different apps. for different things. Just today we launched in partnership with the Transportation Management Association a produce called Scoop which is like an Uber but for workers to get to work. That's an example of now us embracing more and more tech. for achieving some important goals for the City. With that, I wanted to just finish real quick—see, that was brief—and talk about Hawaii for a second. In Boston they sort of solved their fire hydrant problem by having people dig around them. It was so popular people would compete over which fire hydrants to adopt. After its success, the Mayor of Honolulu called the Mayor of Boston and said, "We're interested in your snowmageddon app." I don't know about you, but I've been to Hawaii many times. On the sea level, it doesn't snow. On the volcanoes, it does; there's some snow up there. You'd wonder why was the Mayor of Honolulu calling. In Hawaii, they have an issue around the potential for tsunamis. Occasionally, when there's earthquakes in the Pacific, it creates tsunamis. As a result, there are what are called tsunami sirens that circle all the islands. Fortunately, tsunamis don't happen often, so these sirens go into disrepair. They get rusty; the wires break. More often than not, the batteries get stolen. When they're needed, the sirens do not work. What the Mayor of Honolulu wanted to do was to have people

TRANSCRIPT

adopt the tsunami sirens. During the year when there was no issues, they would make sure that they were painted and oiled and there was batteries. The Mayor of Boston said, "Yes, please, have the software. It's open source. We want you to use it and just change where it says 'hydrant' to 'tsunami siren.'" They've now begun to roll that out over in Hawaii. That's my final item. I just wanted to share that with you, because we certainly live in a different time where cities and states are collaborating at different levels using really unique technology. My guess and prediction is we will see an awful lot more like that in the months and years ahead. Thank you. I welcome any questions or feedback.

Mayor Burt: Thank you. I thought you were going to offer hydrants for adoption for canines. Colleagues, Council Member Kniss.

Council Member Kniss: This will sound as though I'm singing your praises loudly and widely, but it's absolutely true. You probably know and many of you will be aware that when I've gone to conferences, we often see the apps. that have been developed here used by other cities. One in particular is the one that is on page—I don't know what. It's called Civic Insight. It's one of the ones that I don't remember which other cities were using exactly, Jonathan, but they were extraordinarily enthused about this. Karen, I think you were with me when we were at one of the conferences.

Council Member Holman: Austin.

Council Member Kniss: In Austin, where as I recall you also were there. It was great to see other cities say how pleased they were with their apps. and how delighted they were that they had been developed. I think it's important to mention that this is shared by many other cities. What we do here gets copied and makes a difference to another city. Thank you.

Mr. Reichental: Thank you so much for those very, very kind comments. It's one of the privileges of working in such an amazing place as Palo Alto. People want to know what we're doing, and they want to copy us especially when we get it right. We do good stuff.

Council Member Kniss: I presume you don't charge them, Jonathan.

Mr. Reichental: We certainly don't charge for best practices and all the successful things we do. Where it's a vendor-provided software, they work out their own arrangements.

Mayor Burt: Council Member Berman.

TRANSCRIPT

Council Member Berman: Thanks, Jonathan, for the presentation and to your team for all the good work that they do. One question I wanted to—I guess two quick questions and then maybe a more challenging one. Is there anything that other cities are doing, that you've seen that we're not doing, and that we should be or are we perfect? Which is a totally acceptable answer.

Mr. Reichental: At a City of our size, we don't really have comparables. Often our peer cities are looking to us to sort of break new ground. I don't know why I'm stumped, but I can't think of something that we either are not working on or thinking about that another city is doing, that I wish we would do. I get great support from the City Manager here to pursue a lot of this. There's lots of very interesting things happening in the world of the internet of things, having smart traffic signal systems. We're doing that too. I'll have to get back to you when I think of it. Right now, I can't think.

Council Member Berman: That's a good ...

James Keene, City Manager: I'm not ignoring you all. I'm actually sending in a 311 app. request on a broken bike rack that I saw this morning while he's talking.

Council Member Berman: Thank you, Jim. Thank you for the transition, because I wanted to ask about the 311 app., which I think is great. I had an experience a couple of months ago where some residents reached out about a crosswalk between (inaudible) School and the Jewish Community Center (JCC). We had some problems with the 311 app. First, we couldn't find the work order on there. Then I think it said it was completed. What was completed was a work order had been put in to make improvements to the crosswalk, but the improvements hadn't actually been made. The resident saw that and thought nothing's completed. Do we have user experience or constantly kind of looking for bugs and making improvements? What kind of training does Staff have to make sure that they're using it properly?

Mr. Reichental: I'm very familiar with that particular instance. Fortunately, that is the exception. Of course, it happens. When a ticket, an issue, is moving between departments, there can often be some bumps along the way. Generally the feedback—you're able to give feedback in the app.—is very, very positive. People get the issue resolved, and there's transparency. We have now finally rolled it out to all the departments that are community-facing, and they're all at different levels of training. One of the kind of interesting consequences of doing something like this is it forces departments to really understand their existing processes, their manual ones. Sometimes when you take a manual process that maybe isn't

TRANSCRIPT

optimized and you make it electronic, you make a less optimized electronic process. I think as we more and more embrace this, we have to refine that, and we have to identify the bugs. We do provide training to users, and the vendor provides training. Lastly, I think your question was are bugs identified and fixed. For example, right now there is a little bug in one part of it. We alert the vendor to that. We tell them it's a priority. They will resolve it soon. The last point, though, about this is the product is made by a company called PublicStuff. It was recently acquired by Accela who do our permitting software. It is what's called multi-tenancy which means if one city wants a benefit that they adopt; every city sees the benefit of that feature. The system we use is used by several hundred cities in the United States, so we benefit from any bugs that are discovered and fixed for everybody. We benefit from any new features. Any one of us can also recommend features too. It has that function within the app.

Council Member Berman: Thanks.

Mayor Burt: Council Member DuBois.

Council Member DuBois: Thank you. A lot of good stuff. I know we're using Open Government for some of our stuff. Where do they fit in? Maybe you could talk a little bit about some of the tools you're using on open data (crosstalk).

Mr. Reichental: Open City Hall or Open Gov. in Redwood City, which one?

Mr. Keene: Open Gov., right?

Council Member DuBois: Open Gov., yeah.

Mr. Reichental: We have the unique distinction of having co-created that solution that is used by over 500 cities today. It started in Lalo's office with me and Lalo and two enterprising students from Stanford. Today it's a big success story. We use it. It's on our finance website.

Council Member DuBois: It's just financial data like the other numeric data. We just use other tools?

Mr. Reichental: Open Gov. today is solely focused on actuals and budgeted numbers. However, they will have to tell market place (inaudible) themselves, but they certainly have ambitions beyond that.

Council Member DuBois: Are we using open source platforms for some of the other tabular data that we're reporting?

TRANSCRIPT

Mr. Reichental: Beyond Open Budget? For example, with the Open GIS platform, which is many, many geospatial information data sets, we created that. The software is free. It's based on Google's fusion tables and Google's mapping technology. It's sort of a mash-up of the two. It's free as in the software is free. I don't know if it's open source. We would be delighted to share it with anybody.

Council Member DuBois: You actually started this initiative for the City. How long have we been doing this? Three or four years?

Mr. Reichental: The open data specifically?

Council Member DuBois: Yeah.

Mr. Reichental: It's coming on about—by the time we kicked it off and made it real, it's about probably four years, almost four years.

Council Member DuBois: A lot of good progress. I think it'd be useful you come, I guess, once a year, every so often, to Council, to see maybe usage stats. Are you guys tracking what's getting used and what kind of feedback we're getting from users?

Mr. Reichental: We do on a few, not on everything, not on all 60 different experiences. Palo Alto 311 which is sort of a flagship product for the City is one we track very closely. We definitely can track and produce data on downloads of apps. that we manage. We have that. We also track and manage the open data usage. I think the data point I had up on the slide was, since we went live, there's been 17,000 visits to our open data platform.

Council Member DuBois: I think it would totally help you. If we could even start to track—I don't know if we've seen decreases in public record requests once data goes live. I think we're actually avoiding costs and providing services. It'd be great to try to show some of that over time. I was looking at some of the open data website pages. It'd be great to see a feedback link there. When people do run into any issues, you can get the feedback.

Mr. Keene: Could I just jump in on that to amplify your comment, Council Member, about just trying to be proactive on putting out information, so we don't have to necessarily respond to public record requests? It was a couple of years ago when—this isn't our data to assemble. We actually have to do it if we get a public records request. We just said, "As it relates to all employee pay information, to every employee and every aspect of their annual pay, let's just put that on our open data, on our website, to be available each year when we do this, and not sit around and wait for the

TRANSCRIPT

public record request for that information." That's just one example of the arena in which we're just trying to put things out in advance.

Council Member DuBois: It's hugely powerful. We're saving time. We're saving money. This is a huge win. I think figuring out now kind of what people are using and what they like the most is kind of the next phase probably. I was really glad to see the Business Registry data up there. I do want to file a bug report. I was trying to sort on square footage, and it seems like it's sorting right justified instead of left justified. Like, 998 square feet comes up before 99,000 square feet. I don't know. It's very odd right now.

Mr. Reichental: We'll take a look at that. What I would recommend is to download it as a ...

Council Member DuBois: Export it to Excel or something.

Mr. Reichental: Export it, yeah. That's your best bet.

Council Member DuBois: It's great to have that option. Again, on the open data side of things, I think just trying to start to get some feedback on it. Your users will tell you if there's any problems. On the digital services side, I'm curious what your backlog looks like and how you prioritize what you're going to work on next.

Mr. Reichental: It actually takes more of the form—I'll actually have an answer to that in a moment; I just thought of one. When we adopt a new solution at the City, we have two architectural messages we send out. One is we're Cloud first, and then we (inaudible) by exception, and mobile first which means the solution has to have a mobile capability. Where that has been possible, we do that. Whatever is on the roadmap of projects over the next 12-24 months, we will adopt the mobile capability within that. I think probably if I was to quantify the most popular or the most often requested app, it's to be able to do time and expenses on an app. We have every intention of doing that as part of the Enterprise Resource Planning (ERP) project.

Council Member DuBois: That's an internal, Staff app. I guess. Do you have a backlog for public-facing apps.?

Mr. Reichental: We don't actually. We don't. We'd welcome requests through the website.

Council Member DuBois: The thing about both these areas, the apps, and the data, just to kind of have the sense—as I said earlier, I think you have a

TRANSCRIPT

huge opportunity here. If you came to Council and said, "If I spend a \$1, I'm going to save \$1.20," I don't think you'd find any hesitation. I think starting to really show us where you're getting the biggest bang for the buck and what we're saving in terms of time or effort or just cost avoidance would be a huge addition to these annual updates. I really think if you think about key performance measures for your group, like I said, you could get a huge budget just by showing us where you're saving us money. Thanks.

Mayor Burt: Council Member Holman.

Council Member Holman: Thank you. Thank you for the presentation and all the great effort. I have a couple or three questions. Council Member Kniss mentioned something that we had seen at a conference. I think it was Austin, but it's been a couple of years ago. It's great to talk about this, but there's nothing like showing a demonstration. Even tonight, if you put something—I don't know if you have a laptop with you—on the screen, here's how you access Open Government. We were pretty amazed that you can go to Utilities Department and see what the Staff positions were two, three, four years ago, what the salaries were two, three, four years ago. It's just amazing data that we could use to a much greater extent than we do in our budget discussions. Again, I think it's great that I can be talking about it, but there's nothing better than a demonstration. I don't know if you can do anything ...

Mr. Reichental: I'm up for the challenge.

Council Member Holman: While you're doing that, I have a question about 311. I haven't had occasion to use 311 myself; I'm sure I will. I'm wondering what's the response. You submit a pothole, what's the response that the user gets?

Mr. Reichental: In terms of the experience or in terms of the timeline? It immediately registers that the City has received your submission. You should get a unique identification (I.D.) If you've signed up as a user; you get an email where you can track the issue. You can use 311 without registering, but I recommend you register to use it to get a better experience. Once somebody touches the ticket—for example, an analyst goes in in Public Works and evaluates it; you get an email saying it's been opened and being evaluated. Once an engineer is dispatched, you get notified. There is this sort of ongoing notification. Some people actually said it's too much; others like it. When it's resolved, it says we've resolved it and here's how you can provide feedback. One of the selling points is that transparency and interaction that you get as a user of the experience.

TRANSCRIPT

Council Member Holman: 311 for Code Enforcement—there's another place on the City's website that you can turn in Code Enforcement complaints. Can 311 be used for Code Enforcement and have that kind of response back?

Mr. Keene: Sure, you can. What I would say is—I don't know if Jon would put that up right now. We have an evolving list of issues or problems that we also look to modify based on the kind of feedback that we get. Somebody can actually enter an issue themselves. If it's a thing that we get like trash left on the street or we've got a leaf blower tagline right now that you can look up. They'll be nested in some broad categories. Within those, you go into it, and you can hit a bunch of different items. The nice thing, of course, is it's geo-coded. If you do it at the location where you are—that's what I typically do as opposed to what I was doing here. Take the photo, send it in right then and there, hit the topic. I'll sometimes type in a little solution. When we first put it up, it was kind of slow on the uptake. You sort of felt like I want to click it, take this page and move on. Now it's actually really pretty quick. I feel like within 30 seconds for the most part I've got something photographed, identified, described and sent in, and gotten a response.

Council Member Holman: One last question about it, I think. Once there's a 311 turned in and someone touches the ticket, is there any kind of—I'm not aware of it if there is—timeframe? A ticket is touched within 24, 72 hours, and then an item should be closed within—it would depend, of course, on what the item is. There's a target of items are resolved or addressed within X amount of time or there's an email sent to the person who has submitted the 311 complaint, if you will, about what the next steps will be.

Mr. Reichental: I wonder if there's anybody here from Public Works, potentially, who could speak to that.

Council Member Holman: It could be Public Works; it could be Planning. Jonathan is here. Code Enforcement, for instance, wouldn't be Public Works necessarily.

Mr. Keene: I think it's useful to think that, as something Jonathan said earlier, this is a dynamic, interactive approach between the technology, the community and the organization. We actually limited 311 to Public Works for a long period of time and didn't branch out into other departments. One, there are a lot of complaint areas within their area. I'd say that probably they're the most facile in the intake and the standards that they've established and the routineness of their response. As we've deployed it into other areas, I think you have the same learning curve within a department.

TRANSCRIPT

We haven't established, for example, uniform standards across the whole organization; although, we talk about both that and being able to have more analytics and measurement ourselves as an organization as to what we're doing. We defaulted to saying we'd rather start getting more feedback from the community, and then modify and design our responses rather than trying to figure out how to design it all in advance and then go out to the community. It's an ongoing process. I would say we're still constantly learning. We made some adaptations recently that I've been complaining about, about adding too much input that, I think, a user would feel it gets onerous. You know what I mean? You're asking for too much information. We're kind of constantly getting feedback from our users in making modifications.

Council Member Holman: What you're saying is it started out with Public Works, which makes sense, and now it's been deployed over, say, Utilities, Planning. Other departments are utilizing the 311 now as well.

Mr. Reichental: Yes, all community-facing services are now.

Mr. Keene: Just for example—again, this seems like hodgepodge because it's been evolving and things are nested within here. There's bicycle, City building maintenance, Code Enforcement, computer issue, dangerous condition, debris in parking garages, debris in roadways, drought, waterways, environmental issue, graffiti removal, health hazard, homeless, illegal dumping, leaf blower enforcement, missed street sweeping, noise complaint, storm drains, street lights and traffic signals, sidewalk. All of those pop up in the drop-down menu.

Council Member Holman: You have a demo?

Mr. Reichental: Massive risk in doing this, but we'll do it.

Council Member Holman: We're forgiving as well as demanding.

Mr. Keene: Go into the City Council portal that we put up—no, just kidding.

Mr. Reichental: To be cognizant of the time, I'll just do two demos real fast. The first is the open data website, which you could get to by typing data.cityofpaloalto.org. That takes you to this page here which is sets of data that are logically grouped around major areas, City services, library. I'm actually just going to go, because it's topical, to Palo Alto 311. Hoping it all behaves nicely. It's going to take a moment just to spin up the different reports. This is data that's called near real time; data created this afternoon on Palo Alto 311 should be showing up here. Let me see if there's anything interesting to show you. Down here, this is probably—I'm struggling

TRANSCRIPT

actually only because I can barely see the screen. If you were to see right now what is the most popular request, by far it's graffiti removal. Tree care is next. If this is something that's interesting to anyone, it's made to be intuitive to anyone. We simply click on that, and now—that's better for me too and all of us. Now you can see the actual numbers of the different areas; 114 reports of graffiti removal. The second one is 80 reports of illegal dumping. It actually is really fascinating if you want to understand the City of Palo Alto at all sorts of different dimensions. I'd recommend just spending a bit of time in there.

Council Member Holman: Jonathan, could I point out one thing on this page? It says this list was last updated on April 24, 2014. Is that correct?

Mr. Reichental: It's not correct. That's the kind of thing we have to keep on top of. That's a manual update; I'll fix that. My hope is this is issues as of earlier today. It's really very fascinating to peruse the entire site and see what other insights that you find. What I wanted to do to move on—just to summarize on that. You can do that for any one of these areas here. Down here we have—which might be worth launching real quick—is the Open Budget Platform. It visually looks very appealing. There's instructions to sort of navigate your way around this. Very quickly, you can see just by hovering over certain colors here and certain times, you can see totals of budgeting and spent data. Every department is represented, and you can drill very, very deep into this to find out on any one of the last five years enormous detail about how the City spends money on different aspects of our work. Finally, I wanted to just navigate you to Palo Alto 311 itself. This is the City's homepage. Right up here under most popular is "submit a request now." Palo Alto 311, while we've been promoting it in this conversation as an app., is also accessible via website too. We want to have it accessible through the most amount of forums. There's a video here if people want to learn more about it. All you have to do is click on the button here called "make a service request." Again, hoping everything runs nice here. You just follow the prompts here to log an issue. If you're registered, which you can register, you'll get notification when the work begins on the particular thing you're reporting. If you are interested in the apps., if you go to the homepage, click on the Palo Alto 311. At the bottom here we provide the links for the free download, which anyone can do anywhere, to download the iPhone app. and the Android app. and use it on their devices straightaway.

Council Member Holman: That's all very helpful. Thank you for the walk-through.

Mayor Burt: Council Member Wolbach.

TRANSCRIPT

Council Member Wolbach: Thank you for the excellent work and the great presentation. A couple of questions. We had an Open Data Proclamation back in 2014. Have we really adopted an Open Data Policy since then? I've heard that Los Angeles (LA) has a pretty good one. I know San Jose is voting on one tomorrow, really emphasizing this common value of open by default. I just wanted to check whether that's something we've explored, whether it's something we ought to explore. Then I've got one more question after that.

Mr. Reichental: At this time, we are not pursuing a policy. Extensive dialog with the City Attorney and City Manager, we thought a Proclamation was appropriate, and we could adopt the qualities of open data across our organization without having to make it compulsory or have repercussions if you didn't do certain things. At the time, I recall—I agreed with this—part of it was just the maturity of where we were at in our evolution here. I don't think it's unreasonable that in some future date, not too far, that we would want to mature this into a charter or a policy that had a bit more oomph to it, but currently not.

Council Member Wolbach: I'd definitely be interested in exploring that. No terrible rush. The fact that our neighbor San Jose is doing that this week, just interesting timing. That got me thinking that's something we ought to explore as appropriate. The other question I had relates to campaign finance data. This is an area where the City of Palo Alto already has available campaign finance data for ourselves and for candidates running for local office. It's already available through the City website as a whole. Its format is not, to use your phrase, machine consumable. You can't set up an Application Programming Interface (API) key to just pull off the data as it gets updated, as I understand. You can get it in PDF form which is a nightmare to work with. You can also get some of it—I think it's a Comma Separated Values (CSV) file. It's not part of our open data portal. I was wondering if you've had any discussions with the City Clerk's Office about putting it up on our—transitioning it over to our portal homepage maybe under the government tab or somewhere else on the open data portal. Any thoughts about campaign finance data being made available? Part of my impetus for this is I've heard that the open disclosure team with code for San Jose is working on collecting data on campaign finance around the region. Making sure that that's available, that that's available to the public, I think, is important to the public. I just wanted to know if there's been any discussion among City Staff about that.

Mr. Reichental: I love that; terrific suggestion. I will personally commit to meeting with Beth, our City Clerk, in the next couple of days. We have a fairly easy process for taking data and uploading it. Assuming there's no

TRANSCRIPT

unknowns, which could be there, we'll commit to getting that published soon, very soon.

Council Member Wolbach: That would be great. Thanks so much.

Mayor Burt: Council Member Schmid.

Council Member Schmid: Thank you for an interesting presentation. My major point was covered by Council Member DuBois. I think the notion of showing how you can be effective in making government more efficient, in having the public easier access to the data, if there's ways of showing that, it would be of immense value moving ahead. One comment. I guess, as a user of data I find my greatest frustration is that very often as a Council Member, where you're looking for where did this come from, a lot of the data stops in the year 2000. If you try and look for anything earlier than 2000, you run into a stone wall. A further issue is how you search for, not data as much, as issues. I find that that's another wall to going through several hundred things, but they're all identified by use of words rather than the documents that are necessary. I say that as a Council Member where I've had frustration. I notice the public, when they want to participate in an issue of importance to them, also could be more effective and could help us by having a data source that allows them to find things easier than it does now. I guess that's one thing I think when I see you coming with digital services and open data that you can help with these kind of issues as well. Thank you.

Mr. Keene: If I might just say something. We're in the process right now of taking a look at improvements and updates to our website. Some of its driven by who the provider is of the services right now and how far we could go to sort of restructure the website. One of the key concerns has always been, even from when we did the redo four or five years ago, that the search function is just pretty clunky. We've had that recognition. A lot of it is that it's PDF based, the original format, and then the ability to put tags and those sorts of things just haven't been there. It is one of the things that the team is taking a look at, how we can make some improvements there. As far as before 2000, I don't know about that one.

Council Member Schmid: As an example, if you just type in Downtown Parking Assessment District and try and find out what it is, you'll have a hard time.

Mayor Burt: Thank you. First, Jonathan, thanks to you and your team for really great progress. Each year, it just keeps building. I just had one quick comment and then one final question. We talked about digital services, but

TRANSCRIPT

we don't include our digital library services as part of this definition, as far as I can tell. Did I get that right?

Mr. Reichental: We do. (crosstalk)

Mayor Burt: I just didn't see it as part of the report. I know it's not predominantly initiated by your Staff. Your Staff may very well be providing support for those efforts.

Mr. Reichental: We provide support to the Library, yes.

Mayor Burt: I wonder whether that's actually the largest digital service that we provide in the City. I don't know the data. I would certainly encourage to continue to include that. It was pointed out to me just recently some services that I've not been taking advantage of coming out of the Library now and their digital services. Second, in response to the question about whether any other cities are doing things that we aren't doing, you said not ones that we either haven't done or are not presently pursuing. Can you briefly recap some of the next things that you're working on? The report had talked about expanding Open City Hall and the Scoop app. that just got launched. Are there other things that we should be aware of that are on the horizon?

Mr. Reichental: I think two that are interesting and important. One would be the mobile support for any of our new enterprise resource system work that we do. We talked about time and expenses being highly desirable here at the City. We can imagine for a new Human Resources (HR) system and a new Utilities system that there's going to be a lot more—we'd expect it to be a lot more mobile capability. We know our Utilities users, which is the whole community, would like to be able to interact easily with paying their bills and seeing the status of their bills and entering credit card information, all through mobile devices. It'll be a whole suite, I think, of mobile solutions around the ERP work. The other area that we're seeing a lot of interest in and progress around is apps. that support different modalities of transportation. Our Chief Sustainability Officer, Gil Friend, has spoken about mobility as a service concept that originates in Helsinki. Now we're starting to see a lot of adoption here in the United States of an app. that will give you a multitude of options for getting from "A" to "B" with pricing and all the tradeoffs. Our Planning Department has that as a priority to pursue mobility as a service as an app., and then potentially other transportation-related app. solutions.

Mayor Burt: Thank you. Before we leave this item, we have one public speaker, Robert Neff. Welcome.

TRANSCRIPT

Robert Neff: Thank you. I first want to say the 311 app. is terrific, and it's a big improvement over the old system of just sending in an email and hoping something would happen. I wonder what is the way to suggest improvements, in particular new data sets that might be of interest to me as a member of the public or improvements to existing data sets. I guess I looked at some of the GIS data, and I was frustrated that exactly how to identify the author was not clear and if there's a way to identify where to send questions. If I thought there was an error in the data set, who should I send that to? I don't know if that goes straight to the top or if you want to think about putting that into the information that's there. Thank you.

Mayor Burt: Thank you.

Mr. Reichental: Can I respond?

Mayor Burt: I think that concludes this great Study Session. Thank you very much.

Mr. Reichental: Thank you very much.

4. Prescreening of a Proposed Hotel Development at 3200 El Camino Real That Requires a Variance or Ordinance Amendment to Modify or Eliminate the 50'-0" Special Setback Along Hansen Way.

Mayor Burt: Our next item is a prescreening of a proposed hotel development at 3200 El Camino Real that requires a variance or Ordinance Amendment to modify or eliminate the 50-foot special setback along Hansen Way. Welcome, Mr. Lait.

Jonathan Lait, Planning and Community Environment Assistant Director: Thank you, Mayor, good evening. Good evening, City Council. Jonathan Lait, Assistant Director with the Planning and Community Environment Department. I'm here with Sheldon Ah Sing with M Group. He is a consultant planner helping us out with our development application processing. We'd like to present to you this evening a prescreening application for a hotel project at 3200 El Camino Real. There's no action being expected of the Council tonight; no formal decisions being made. The reason this item is before you is projects that require a Legislative Action or that include a Legislative Action come before the City Council via prescreening. This application may require such an application. Projects that also have some potential policy considerations also go before the City Council. This one is an encroachment into a special setback, and we believe that that may have some policy implications that warrant Council's input. It is for those reasons that this item is before you tonight. This is an overview of the property. I believe that's Communications and Power Industries (CPI)

TRANSCRIPT

in the foreground. To the left is Hansen Way, and on the corner, the white building, is the subject property. El Camino extending from left to right across the upper portion of the photograph. The subject property has a width of about 100 feet on El Camino and a depth of 276 feet along Hansen Way. The property was constructed with a hotel in the late 1940s. It has 36 guest rooms. There's also a special setback shown on the left side of the diagram here that runs half the width of the property, 50 feet wide from Hansen, all the way from the front to the rear property line. This special setback was established about 12 years after the hotel was originally developed. On the right side of that diagram is the proposed hotel development. As you can see, there is an interest in developing this hotel that would encroach into the special setback. The project, in addition to being subject to Municipal Code (Code) standards, the Architectural Review Board (ARB) findings which includes compliance with the Comprehensive Plan, is also subject to the El Camino Real Design Guidelines. Those would all be evaluated in accordance with the review process that is required for the project. Interestingly to the conversation or interesting to note is that there is a property to the south of the subject property that has an office building, I believe, that was constructed in the early '80s that actually encroaches into the special setback. Staff has researched as to how that may have come to pass, but we've been unable to find any discretionary or Legislative Actions that would have authorized that building to be constructed into the special setback. The setback on Hansen for that particular project is 36 feet. To encroach into the special setback, there is two options that are identified in the Staff Report. One is a Variance Application; this is a discretionary review. It is subject to meeting certain standards and subject to findings. There's another avenue which is a Legislative Amendment which would amend the district map or the setback maps to eliminate or modify the special setback. The Code does not allow encroachments into the special setback above grade or below grade, but does permit surface parking. Tonight we're again interested in not necessarily sentiments of support or opposition for the project, but we are interested in conceptually if the Council has interest in a possible development at this location. If it is reasonable or warranted to encroach into the special setback, what would be valuable to Staff and the applicant is that information and then also the path to consider that request, whether it be the discretionary review process with a variance or a Legislative Action. I believe the applicant has a brief presentation as well to make. I'll conclude there. Thank you for your attention.

Mayor Burt: At this time, we're going to hear from the applicant. Is there a time that they have to speak? I see they're requesting 10 minutes. Is that the discretion of the Council? Go right ahead; 8-10 minutes, something like that.

TRANSCRIPT

Yatin Patel, Applicant: Good evening, Mayor Burt, Vice Mayor Scharff, esteemed Council Members. My name is Yatin. Our family has owned and operated the property at 3200 El Camino for nearly 30 years. We've done business in Palo Alto for over 35 years. I was a little boy when my family first acquired the property from the original owner, the late Mrs. Milner. At the time I was still making my way through the Palo Alto school system, first at Hoover when it was still at Barron Park, then on to Jane Lathrop Stanford (JLS) and then finally Gunn High School. In fact, the only time that I've been away from my home town of Palo Alto is when I went away for my studies, undergraduate and graduate studies. Since early last year, we've engaged in discussions and embarked on a journey to replace our mid-century hotel with a product that more closely matches the demands of today's travelers, particularly given our proximity to the Research Park. I'm proud to represent my family this evening in introducing each of you to a unique constraint on our site with unintended consequences which impacts our ability to construct a more competitive product in this important area of Palo Alto, at the base of the Research Park. We come to you today as members of the Palo Alto community with decades of local ties. Moving forward, we hope to be positioned to preserve our local ties and remain a local business for decades to come in the very community I so proudly grew up in. We're excited by this opportunity and understand that the process will be a journey. I would like to begin that journey this evening by introducing you to our entitlement consultant, Randy Popp, who's here to take you through the presentation in your Packets. My family and I thank you for your time this evening.

Randy Popp, Architect: Good evening, Honorable Mayor, Vice Mayor and Council Members. Thank you for having us here for this discussion. I've lived in this area for 46 years and have been working on buildings here for 29 years now. I've been asked to be part of Yatin's project team for what I consider to be a really smart and very positive proposal. I'll just jump right in. We're not interested tonight in talking about Floor Area Ratio (FAR) or height or design. That's all going to come later. The first thing we really need to understand is how much of the site we have the ability to use. That will determine where we go with this. The drawings that we submitted for a ARB Study Session previously are no longer consistent with our thinking. Until we resolve this discussion, we really won't have clarity about anything further. In doing a bit of research of our own here, we came across this aerial from 1948. It's fun to see. I was surprised to find the building existed prior to most of the adjacent structures we're all familiar with. Just for orientation, as Jonathan mentioned, El Camino runs across the sheet. The Fish Market site is an empty lot. Right now you can see the abandoned train spur that shows in this drawing as an active line. The site clearly looked like it was flat enough to allow for landing of a small plane that's

TRANSCRIPT

parked along El Camino on what becomes the Varian and CPI property eventually. In this photo, Hansen Way and the Research Park are not yet present. Moving on. This fast forwards to 2002, and El Camino is now six lanes. The area of the site has been dramatically reduced at the El Camino frontage. At the northeast Hansen corner, there's been a taking for the channelized right-turn from El Camino. The building itself remains in the same configuration. This is just a more clear shot of that from 2007. The current configuration as we see it today. The only alteration in all this time is the removal of the pool which was old and failing. It was removed with the agreement of the Health Department. Here's what you see when you're passing by the site today, a late 1940s, 36-unit motel at the base of the Stanford Research Park. As Yatin described, the simply constructed, wood-frame building is almost 70 years old. We're an exterior-access motel and want to be a modern, interior-corridor hotel with amenities consistent with the desire of the modern business traveler. Our goal is to make a long-term commitment which would be good for the owner's family and for the community. What brings us here tonight? As Staff described, redevelopment will trigger compliance with an archaic, 50-foot special setback enacted for an unknown purpose roughly 10 years after the motel was built. Why do I say unknown? Both our team and City Staff have searched the history, but nothing concrete can be located. We would only be guessing. Here's what we do know. This is a Commercial Service-zoned (CS) parcel fronting onto El Camino at the base of the Research Park-zoned (RP) region. It's an island. Just by virtue of zoning alone, it cannot bear the same restrictions. Here's what's important to understand. This 100-foot deep lot has an unmanageable 50-foot special setback imposed along its street-side frontage on Hansen Way. If we do a quick analysis, our site is 0.6 acres. RP zoning describes a minimum site of five acres or eight times the size of our lot. RP zoning describes a minimum lot depth of 250 feet and a minimum front setback of 100 feet. For the sites in the Research Park, this makes the special setback irrelevant. Special setbacks are unique in that nothing other than a driveway or a landscape feature can realistically be constructed on them. You're allowed to park in a special setback area, but required parking must be accommodated within the buildable area. By this interpretation, if the setback were to be taken for some other purpose, the property would then be under-parked. Here's the picture. We have a constraint placed after the building was constructed, which created a nonconforming condition the moment it was enacted. It is consistent with the zone in which it primarily exists, but for our site the special setback makes it virtually undevelopable. The resulting buildable area is narrower than what I have available for a single-family home on my lot in south Palo Alto. If we don't know what the special setback was intended to constrain and it dictates a poor result, it should be removed from the site. Here's why. We hope to build a new hotel adding 64 rooms approximately with

TRANSCRIPT

standard guest amenity space. We plan to build a sustainably responsible building which uses the site more effectively. We want to create a modest corner presence. El Camino and Hansen is an important intersection. We want to be consistent with the upper mid-level hotels being built today. We love the Clement, but we don't want to compete with it. We want to improve safety and access by shifting the building towards El Camino, relocating our driveway off Hansen Way. We already have guests who identify the reason they choose us is being walkable to the Research Park. We love that. We want to create for our staff and guests a 21st century Transportation Demand Management (TDM) program which reduces Vehicle Miles Traveled (VMT). We know this is consistent with the desire this Council has recently voiced for this area. Just to clarify, we're not looking to create zero setbacks from the street. The concept for a site plan that we show here, just a concept, will increase the El Camino effective sidewalk from eight feet to 12 feet or more, consistent with the updated El Camino Real Design Guidelines. On Hansen Way, our street side effective sidewalk and planting area is already unusually wide and will remain more than 22 feet deep. You can expect we will be Code conforming, we will generate increased Transportation Occupancy Tax (TOT), we will enhance safety, we will reduce VMTs, and we anticipate no negative impacts. Here's some thoughts for your discussion. A special setback adopted years after hotel construction with no ascertainable purpose which dictates poor design outcomes should be removed. A Code conforming project requiring no exceptions and providing significant benefit to the City should be offered the opportunity to be reviewed without the incongruous setback requirements. Look forward to your comments and your discussion. Happy to answer any questions that you might have as we're going through the process here. Thank you for the time.

Mayor Burt: Thank you. We'll now return to the Council for questions and discussion. A reminder that we will not be taking any action tonight. No one wants to go? Council Member Wolbach.

Council Member Wolbach: I'm trying to remember off the top of my head. I think I raised the question about special setbacks when we were having a housing discussion recently. I'm not 100 percent sure where we should go with this. This is something I think we should have an exploration of. It's actually larger than this particular project. That's all I really have to say about the special setbacks right now, but I'm still undecided about this one. One question I have is really around shifting parking off of Hansen onto El Camino Real. I'm curious if the applicant's thought about some of the potential downsides as it relates to traffic flow and bicycle safety along El Camino Real. If we're talking about trying to improve bikeability, maybe at some point in the future even having protected bike lanes on the edge of El

TRANSCRIPT

Camino Real, the greater the number of curb cuts and driveways along El Camino Real, the harder it is to have a smooth bike route along El Camino Real. That's one of my concerns that would accompany adding an additional driveway to El Camino Real (ECR). Any thoughts about that one?

Mr. Popp: Right now this is a channelized right-turn onto Hansen Way. As such, it's a pretty short throat in terms of what you would normally expect for making a turn into a site and negotiating a corner and doing all those sorts of things. You generally in planning try to stay about 100 feet away from a signalized intersection when you create a driveway. Just by the nature of the dimension of this site, only being 100 feet deep in and of itself, we're going to be much less than that. I can tell you that right now with the driveway at the corner where it is, it's very challenging for cars who are making the turns and bicycles who are trying to negotiate and looking for people. Our thought was really that if we move the driveway ingress/egress up onto Hansen, that it would really improve safety and help to control how traffic flows in a much better way. I understand your point about placing driveways along El Camino, and I don't disagree with that. I just think that because of the dimension of this particular site, it's pretty challenging.

Council Member Wolbach: I'll also just add as the Council's liaison to the El Camino Real Rapid Transit Policy Advisory Board for Valley Transportation Authority (VTA), there's certainly been discussion and a lot of questions around what does the future of El Camino look like. People are talking about maybe trying to reduce the number of curb cuts, the number of driveways along El Camino Real both for improved bus routes, whether dedicated lane or shared with regular traffic, and also for bicycling. I'll just leave that out there as something for the applicant and also for Staff and my Colleagues to consider. I guess I could see pros and cons either way on this one. Thank you for thinking about safety on this one.

Mayor Burt: Thank you. Council Member Kniss.

Council Member Kniss: Two or three questions. This would be for Staff. Across the street, as we drive down Hansen, is an enormous parking lot. I think I'm hearing this building is not per se, in the Research Park. Is that correct? It somehow just has a little blip that's on the edge.

Mr. Lait: Are you referring to the CPI property or across—across Hansen is in the RP district.

Council Member Kniss: We're going way back.

Mr. Popp: I don't have a mouse to circle it, but up where that blue arrow—now I do. I may be a little too far away.

TRANSCRIPT

Council Member Kniss: Let me just establish, is there a large parking lot across the street?

Mr. Lait: Across Hansen, there is the CPI parking lot.

Council Member Kniss: As we look at that and as we look at this little blue square there, did I hear correctly that it's actually not in the Research Park as far as the zoning is concerned?

Mr. Lait: That's correct. The subject property is ...

Council Member Kniss: It's an outlier in an enormous Research Park area, correct?

Mr. Lait: There are a few properties that are zoned CS, the subject property, the Fish Market, McDonald's. That's captured in that yellow area of that blue square that's on the screen right there.

Council Member Kniss: If something were to be developed across the street, what is the zoning there?

Mr. Lait: Across El Camino or Hansen?

Council Member Kniss: No, on the same side as Hansen.

Mr. Lait: That's Research Park property, so you could have your Retail and Development (R&D) offices.

Council Member Kniss: It would not have the same setback requirement, correct?

Mr. Lait: There is a 50-foot special setback on that side of Hansen as well.

Council Member Kniss: They were both done at the same time? Unless I'm not hearing it correctly, this was done after the hotel was put in. It is not part of the Research Park. The Research Park on the other side does have a 50-foot setback. Correct?

Mr. Lait: Along Hansen Way, there is a 50-foot special setback.

Council Member Kniss: We don't know why, or do we know why?

Mr. Lait: We've not been able to identify the specific reason. All we can do is draw some assumptions. Increasing the roadway or having a greater roadway for automobiles that came in the last '50s, the setback was established. There's any number of speculative ideas that we could put

TRANSCRIPT

forth, whether it's for utilities now or infrastructure, bicycle, pedestrian. I don't have the answer that (crosstalk).

Council Member Kniss: That's all I want to know; you don't have the answer. That's helpful. As we look at other parts of the Research Park, do we see any other 50-foot setbacks in any other particular areas?

Mr. Lait: There are special setbacks throughout the City. There are other special setbacks within the Research Park. I'd have to pull up a map to find that.

Council Member Kniss: Again, not really sure why.

Mr. Lait: Right. I've not been able to find that out.

Council Member Kniss: Come back to another aspect of this. Even though my Colleague here says he has trouble with the word, I want to ask the applicant what in this case would a gateway mean?

Mr. Popp: Gateway. I'm using that ...

Council Member Kniss: Gateway turns out to be not ...

Mr. Popp: I'm using that term essentially to indicate that this is the front door of the Research Park off of El Camino. Hansen Way and virtually all of the streets that travel through the Research Park are these sort of meandering, wide, well-landscaped roadways. We sit right at the corner of that as this tiny little parcel. Maybe to add a little bit of information to the answer that Jonathan gave. On this printout here from the City's Zoning Map, you can see the green lines that are traveling around all the roads here. Throughout the entire Research Park, there's a 50-foot special setback that's essentially just been written everywhere across the Research Park. It's sort of blanketed by that. The condition that we're describing is that we think it just got struck across our site too, because they were just kind of doing everything. Our site can't tolerate it. That's what we're here to talk about. It's this extreme ...

Council Member Kniss: Your argument is this isn't part of the Research Park ...

Mr. Popp: It's not.

Council Member Kniss: ... and it's not part of the 50-foot that was established. You see this as a gateway because it is ...

Mr. Popp: The doorway to the Research Park off of ...

TRANSCRIPT

Council Member Kniss: ... a place for those who are visiting the Park or there for a short period of time to stay. It will be elegant and so forth.

Mr. Popp: It's this great center of technology and development and research and all sorts of things that are occurring inside there. We get travelers from all over the world coming to Palo Alto in order to visit those businesses. We've got a hotel opportunity right here at the corner of that, that's walkable distance to all of those. It just seems like such a great opportunity to put more rooms right where we need them, right where the demand is so that we can have people walking to their meetings instead of getting in cars or Ubers or other things and driving.

Council Member Kniss: Thank you.

Mr. Popp: Thank you.

Mayor Burt: Council Member Holman.

Council Member Holman: Thank you. A few questions. Variance findings. Looking at Number Two of the variance findings, the granting of the application shall not affect substantial compliance with the regulations or constitute a grant of special privileges inconsistent with the limitations of the properties in the vicinity and the same zoning district as the subject property. Substantial compliance, I mean this is a 50-foot setback that an applicant is looking to intrude upon. I mean, it's a 50-foot setback. To give a variance into that or to eliminate it, wouldn't that be a substantial noncompliance? I'm looking at the findings that would have to be made to grant a variance. That's Finding Number Two. While you're looking at that, let me go to a couple or three other points. They're partially questions too. We get a lot of comments from the public about new development. While the applicant says they're not here to talk about floor area ratio, I don't know that the Council can make comments on—even if we could make the findings; I'm not sure if we can or cannot at this moment. I don't know how we can consider a variance without some discussion about floor area ratio. A hotel overlay, like any other zoning, is an up to 2.0. The comments we get back from the public are that buildings create walls at the sidewalk, that buildings are incompatible. You hear that from the Council some too, because you might have four stories right next to something that's one or two stories. Lacking transition. I don't know how we could have a discussion about a variance accommodation, let's call it for the moment, to some extent or other without also considering and commenting about what a hotel might be or any project might be. I had a conversation earlier with the Legal Department. I'm not advocating this, but I just want to put it on the table. Should the Council be interested in some aspect of a variance, I

TRANSCRIPT

would suppose what's on the table for our consideration is not just eliminating the 50-foot setback, but saying maybe it could be relaxed to a 40-foot setback—I'm just making up a number here—or maybe it's a 20-foot setback at some points but no more than 25 percent of the Hansen frontage. I'm just putting these things out there for consideration. I'm not suggesting these. The other thing is the presentation talked about the hotel being 70 years old, and it's an outdated structure and being replaced with a green building. I really am—I could use stronger words here—pretty tired of us just redeveloping everything as opposed to adaptive reuse. It's not green to just tear down everything and build new. It doesn't consider what the material, manufacture, transport and energy that it takes to build new buildings. It's not very creative in my way of thinking. The other thing that I wanted to just put out there is—this goes back to the findings and being able to make the findings—the property is, depending on site square footage you use and with the current development, currently at approximately a 0.63 FAR. It's hard to understand how a hardship is being imposed on an applicant when 0.63 FAR is already greater than the 0.4 FAR of nonresidential use that would be allowed on the parcel otherwise. I'm not sure how we'd be imposing a hardship if we retained the variance or didn't grant a variance. The other comment, I guess I would say, is just comments from the public that we hear a lot, that new development is just unsympathetic to adjacent developments. That's something we also hear back from the community a lot. While the applicant doesn't want to talk about FAR, I think any potential accommodation of a variance or some aspect of a variance needs to keep—the developer would need to keep in mind that sympathetic relationship that should be brought forward in relation to the other developments. I went out there today just to remind myself of what's adjacent. The adjacent developments are one and two-story. Except for the property that is immediately behind, which I understand from either Staff or the applicant is a 36-foot setback. Everything else has really large setbacks. It is in the 50-foot setback, this parcel was. I can't imagine that it was an accident that the City Council, when this 50-foot setback was applied, made not a conscious decision to continue this as part of a thoroughfare or a boulevard to have also that 50-foot setback. The development was already there, so it seems like if there wasn't an intention to have a landscape buffer of this 50-foot setback, at the time they would have taken this parcel out of that consideration. I put those comments forth. I'll stop there.

Mayor Burt: Vice Mayor Scharff.

Vice Mayor Scharff: Thank you. I guess the first is that it doesn't seem to make sense to have this 50-foot setback. I guess I'm still waiting for why shouldn't—that's one of the options you give us. From a policy perspective,

TRANSCRIPT

why wouldn't we just get rid of the 50-foot setback along Hansen Way? If this came before us today, should we be imposing a 50-foot setback here or not? What are the policy discussions around this?

Mr. Lait: I think that's why we're here. We do believe, as it was mentioned, that we have these special setbacks throughout the Research Park and elsewhere. I agree that it probably wasn't by accident that they were established, but there is no record that I've been able to uncover as to why. That is the essence of why we are here, to evaluate for this particular property which does seem to be perhaps maybe a little bit of an outlier to—you've got the RP zone across the street, and you've got the CS zoning across El Camino. Does it make sense at this particular property to have that 50-foot wide setback? If we are interested in landscaping, maybe there's a way to achieve that without a 50-foot setback. If we're interested in road widening, I think that's a different conversation, but that's not a part of our Capital Improvement Project (CIP), and we're not having conversations about road widening. We're actually (crosstalk).

Vice Mayor Scharff: Also in our Comprehensive Plan, it says we don't widen the roads, if I recall.

Mr. Lait: Right.

Vice Mayor Scharff: It would be inconsistent with our Comprehensive Plan to be widening the roads for 50 feet, especially along Hansen Way. It sort of goes against everything in smart planning these days.

Mr. Lait: Right. For whatever the reason was in 1959 when the special setback was established, does that align with today's perspective about what we want to do with our roadways? It may not be just road widening. Again, there could be areas of—I don't know how feasible these are, but there might be some utility needs. There may be some shuttle needs.

Vice Mayor Scharff: I think you're just speculating now.

Mr. Lait: Totally, yeah.

Vice Mayor Scharff: We've got a particular site, a particular road. If you came to us as Staff—that was sort of my criticism of the Staff Report. I understand why, but it doesn't really say on this road a 50-foot setback doesn't make sense, or on this road a 50-foot setback might because we're looking at putting a bike lane right there. I don't see us putting a bike lane right there. I don't think anyone has ever talked about putting a bike lane there. I don't think we have any need for utility easements. I mean, I don't see any event being identified. What you've asked us to do is two things.

TRANSCRIPT

You've asked us to either say under no circumstances would we grant a variance on this, guys. Go home. Or you've asked us to say we could grant a variance or you've asked us to look at the broader picture and say, "Should we get rid of the 50-foot setback?" Is it just on this property or along Hansen Way? I understood it to be along Hansen Way, but maybe I'm wrong.

Mr. Lait: Our focus is just the property, not all of Hansen Way.

Vice Mayor Scharff: It's just the property.

Mr. Lait: That's correct.

Vice Mayor Scharff: We could do a Zoning Ordinance to just get rid of it on this property as opposed to doing a variance.

Mr. Lait: That would be an option.

Vice Mayor Scharff: That would be an option. What's the difference, in Staff's view, of what difference does it make if we go either way on that?

Mr. Lait: Either way being the property or all Hansen Way?

Vice Mayor Scharff: No, the property in terms of doing a variance or in terms of doing a zoning amendment.

Mr. Lait: Exactly why we're here. We've got the discretionary action or process that Council Member Holman was just articulating some of the findings. With the limited amount of information that you have about the project now and the site characteristics, if instinctively you thought, "There's no way we could support a variance on this because it's not passing Finding Two or Finding Three," that's information for us. If you were still interested in allowing for an encroachment to the setback, the legislative path would provide you a little more flexibility to do that.

Vice Mayor Scharff: I think the legislative path is clearly cleaner. Otherwise, you get stuck on—if we were looking at this today, I have a hard time believing that any of us would vote to put a 50-foot setback on this property, if we were starting with a clean slate and being asked to do that. I haven't heard any reason of why we would want a 50-foot setback on this property. If we basically try to shoehorn—I'm going to quote Council Member Filseth who once said if we don't like the rule, we should just change the rule as opposed to going to try and shoehorn in a variance. I think in general that's probably right. I guess I would lean towards doing the zoning amendment and having a thoughtful policy discussion about what

TRANSCRIPT

the setback should be rather than trying to make a variance work and say, "We're going to give you a variance of X number of feet for whatever reason." The setback should be whatever Staff thinks the right policy and should make a recommendation to Council about what an appropriate setback would be if you started with a blank slate. I think that's where I'd come out on this. I think it's a lot easier than trying to say, "Let's do a variance, and let's try and meet these, and let's try and shoehorn it in," because it doesn't make sense. I was a little curious on the broader question, though, of why do we need a 50-foot setback on all of Hansen Way. Is there good sound reasons to have a 50 or should we just get rid of the 50-foot setback all along Hansen Way? Should Staff propose a setback that makes more sense? Fifty feet seems really long. Are we moving towards wanting these big, landscaped—I mean that sort of goes against some of our green things about how we're thinking about these things these days. It's a very suburban Research Park feel. I'm not sure that's where we are these days.

Mr. Lait: I would agree that that's a policy conversation that's worth having about special setbacks for all the points that you've stated and Council Member Wolbach earlier. It would be helpful to us to understand what is our interest in these special setbacks today with this new mindset of not only sustainability but mobility and what we want to see in these areas. That's a much broader conversation. Again, we're just kind of focused in on the specific application.

Vice Mayor Scharff: We don't have to be. If we're talking about a zoning amendment, we can talk about—I think there's three ways to approach it. One, we could say to ourselves we're just going to do a variance. I think that would probably be the wrong way to go. We could say we're going to do a zoning amendment for this property in particular and limit it to that. We could say since we're doing a zoning amendment, we could do a zoning amendment all the way along Hansen Way and just limit it to that for now. It's a broader thing. I'm not saying necessarily—it doesn't seem like it's that big a road as it goes through there. I think that would at least put it in context for the whole thing. Maybe there are reasons why you'd want it in the rest of that, and then you'd limit it to that. It seems to me that there's some reasons to look at a broader policy perspective here, at least on the site.

James Keene, City Manager: May I just add a—same sort of drift but a little bit of a different sort of take also. Actually in listening to you, Mr. Vice Mayor, you did subsequently answer a number of the questions that you were asking. The idea about what's the reason for the 50-foot setback. As best as we could look at it, it seemed embedded in an older, suburban,

TRANSCRIPT

Research Park mindset. That could make sense as a default sort of thing. This was one of the applications that I actually sat down with the Planning Director and heard from the applicant also. We were having difficulties with the fact that the 50-foot setback was there for all the reasons that Jonathan was just talking about, not being able to identify the utility of it. That being said, I don't think—I think if the Council is interested in sort of taking a holistic kind of systems look at these sort of things that make sense. On the other hand, I think if you were not able to do that, a case could be made where this lot on the corner is distinctive. The fact that it really can't be effectively redeveloped given its size and its shape with the existing setback and it's definitely, regardless of one's view about architecture or anything, which I think Mr. Popp indicated are discussions down the line, in need of redevelopment at that location. We did feel that the fact that the 50-foot setback had already been broken on the lot immediately adjacent to the south in a sense sort of isolated this lot from the whole rest of the street. A case could be made that on that particular corner a variance or a particular zoning amendment could make sense if we weren't in a position to be able to make the bigger decision for the long term about what the whole setback ought to be along the way.

Vice Mayor Scharff: I think that's a really good point you make, that the setback was already broken in 1983. Therefore, this property sort of becomes an island unto itself and, therefore, meets those variance criteria.

Mr. Keene: I would add to that, though, we wouldn't make the same case on the property to the south of the lot that's already broken it, because you're talking about not—in the case of this lot, it's a tiny, landlocked piece between the existing thing and El Camino Real. I don't think that we would automatically just make that same case if you had the lot just there to the south. That said, the larger discussion about what the appropriate setback is, is a sensible conversation also.

Vice Mayor Scharff: Thank you.

Mayor Burt: Council Member Schmid.

Council Member Holman: Mayor? Mr. Mayor, could I ask a procedural question first?

Mayor Burt: Okay.

Council Member Holman: Is it possible please—I look to the Assistant Director here—for the public to be informed and the Council be informed of what the communication was between the applicant and the Assistant Director? It'd be great to have all that in the public record.

TRANSCRIPT

Mr. Lait: Mayor? Mr. Popp was informing me that there is a setback of 100 feet on Hansen Way, and that the 50-foot special setback doesn't really impact development of those properties on Hansen Way.

Council Member Holman: I'm not quite following that.

Mr. Lait: There's a special setback that we're talking about which doesn't allow any encroachments into the above or below grade. There is a development standard which is a setback requirement of the building to the property line. The Zoning Code standard for that is 100 feet. No building can encroach to within 100 feet of the property line. That's above and beyond the special setback.

Council Member Holman: Thank you. That's helpful to know.

Mayor Burt: Council Member Schmid.

Council Member Schmid: Let me talk a little bit about setbacks. Who would vote for a 50-foot setback today? It's quite dramatic if you drive around the block, Hansen, Page Mill, El Camino. It is very striking the setbacks all the way around that block. It is an important City transition between the City and the Research Park. By having those setbacks around the street, especially along Hansen, it creates what has been suburban research parks with greenery and pleasantries and a lot of very innovative companies on that block that have done well. When you get to the corner of El Camino and Page Mill, there are two of the tallest buildings in Palo Alto, Palo Alto Square. They have been accepted in the City. One reason is the substantial setbacks of those buildings, that they leave space and openness on that very important intersection. Playing around with the notion why are there setbacks here as a transition from the City into the Research Park, it makes a lot of sense to me. I think those setbacks of the two Palo Alto Square buildings are extremely important for the aesthetic and visual impacts they have. What's being proposed on this site is a 50-foot building of four stories which is near the street, very close to the street. If you would look then across from the east side of El Camino what you begin to see are the two big blocks of Palo Alto Square and now another solid square on the Hansen side of the street, all of a sudden visually the Palo Alto side begins to change. That's an important issue. This is the only Palo Alto site—it's a very small site that's in with the zoning restrictions of Palo Alto that we have some impact on. It's very important how we deal with this and what statement we want to make. Let me bring up a couple of other issues. Traffic. We all know that traffic is on the minds of the Palo Alto citizens, residents and voters. It's been the most prevalent issue during the last three annual Citizen Survey. Traffic is getting worse. What we're talking about here is by

TRANSCRIPT

giving up the exception, we are doubling or tripling the size of the activity in the building on the Palo Alto thing. What does this mean to traffic? We've got to take that into account. We also are committing, by building the exception and putting more activity there, to Palo Alto as a commuter center and point of transiency, moving through. We are not investing in the community. Who's investing in community in that particular place? Look at Stanford. Over the last year, Stanford has put substantial housing on California Avenue near College Terrace. They're building now along El Camino, just to the north of Page Mill. They are transforming Escondido Village, putting in housing. They are showing us, showing to us the importance of community, of keeping a community. Question is what can be done with this site under CS zoning. It allows mixed use. Maybe we should be talking about housing. If you want to five exemptions or exceptions, maybe they should be on the housing side. One other question I would raise is right across the street is CPI. As I recall, a couple of weeks ago the Council passed a notion of let's move these dangerous chemicals from near people on Chimalus Way northward, moves it right to where the hotel is being built. The question is what are we doing on a health basis by encouraging CPI to move chemical activities which had some health impacts closer to what we say is going to be a big luxury hotel. I think there are a number of questions about that site. It's important, one, because it is the only site in that area that the City controls through their zoning and exceptions and 50-foot setbacks where they have some impact on this transition from the Research Park to the City.

Mayor Burt: Council Member DuBois.

Council Member DuBois: I have a couple of questions on this diagram of the existing and proposed. On the existing, it seems to show the property extending onto the sidewalk. Could you clarify that?

Mr. Lait: I don't believe it does extend into the ...

Mr. Popp: If I may? I studied the drawings pretty carefully. In the Geographic Information System (GIS) system, the line is drawn inconsistently. The surveys that we have of the site accurately reflect that the property line is essentially back of sidewalk and does not extend over the way it is described in that little diagram. The diagram is just not accurate.

Council Member DuBois: Which is how you have it in the new diagram. I appreciate the owner coming here tonight. You've owned the property for 30 years. I assume you were aware of this setback on the property.

TRANSCRIPT

Mr. Patel: I was a little kid when it was bought, but I take it my parents or my uncle and aunt probably knew. I don't know. They weren't sophisticated enough to research all of that back then. I certainly didn't know.

Council Member DuBois: I was heartened to hear it wasn't a speculative purchase, counting on kind of changing the setback.

Mr. Patel: No, it wasn't.

Council Member DuBois: The last question. The Palo Alto guidelines say for El Camino that the entrance should be on El Camino.

Mr. Lait: It encourages a primary front entrance on all of El Camino.

Council Member DuBois: I did drive by the hotel. Next to it is a house which acts as the office for the Fish Market. There's the Fish Market, McDonald's. The area in CPI across the street is actually very green. There's a lot of trees there, grass that kind of hide the parking lot. You have that kind of school setting for the front of CPI, because if the company failed, they were going to turn it into a school. The building behind it is actually pretty nice as well. There is that one building that extends into the setback, but the rest of them are further back. There's a bunch of fountains and pools. It's very much kind of a campus setting back there. I agree with Council Member Holman that there's a relationship between height and density and the setback. It's a little bit hard to comment on the setback in the absence of those other things. For myself, given the context there, I would not want to see a hard corner with the building as the gateway. I would really like to see some landscaping that maybe mirrors CPI across the street. A green opening to the Research Park there would actually respect the context. The Research Park really does have a lot of park-like settings. These 50-foot setbacks really does have campus feel. I'd prefer to see us focus on this property and not talk about redesigning the Research Park. I agree with Council Member Schmid that the aesthetic of the Research Park is a good one. My gut would be open to some changing on the setback, but I'd really like to see landscaping at the corner. Ideally, I'd like to see the entrance on El Camino similar to some of the other new hotels like at Arastradero and on El Camino. One other note that's kind of a side note. I don't know if anybody's been on Hansen at rush hour. At some point, it would actually be good for the City to have this street cut over to Hanover. It's full of cars, and they route through a parking lot. Essentially the parking lot is effectively a street in the middle of Research Park. I'm not suggesting we widen the road. I don't know if that's why the setback was there. Actually having a road that connected those two would relieve traffic on Page Mill. Thanks.

TRANSCRIPT

Mayor Burt: Council Member Berman.

Council Member Berman: Thank you very much. I think similar to Council Member DuBois. I'm open to the idea of decreasing the 50-foot setback. Whether that's by a variance or by a zoning amendment, I'm fairly ambivalent. I think Vice Mayor Scharff made some good comments as to why a zoning amendment would make more sense. I agree with 75 percent of what Vice Mayor Scharff said, but I really do think it's important just to look at this site, for the main reason that it doesn't seem to have been discussed much which is that every other site on Hansen Way is hundreds of feet deep. Therefore, it's a lot easier to have a large setback and not impact the usage of the parcel. As has been mentioned numerous times, this site is long and narrow with the long side on Hansen, so there's just not a lot that you can do. The suggestion was made maybe renovate the site and don't rebuild it, but it seems like about 60 percent of the parcel has a really short setback on Hansen Way right now. That might have been in the material somewhere and I skipped over it, but what's the setback right now for about the 60 percent that includes the hotel? The one where you had the 50-foot setback covered in red. No, what currently exists, not what you want to build.

Mr. Popp: What is it today?

Council Member Berman: Yeah, what's there now.

Mr. Popp: This is what the existing parcel looks like today.

Council Member Berman: What is the setback for the area where the hotel is currently ...

Mr. Popp: Six inches.

Council Member Berman: It's six inches on Hansen?

Mr. Popp: From the property line, six inches to two feet roughly. The entire wing of the building that's at the lower portion and half of it going up is nonconforming. That building sits on the special setback currently.

Council Member Berman: The setback from Hansen is six inches?

Mr. Popp: It's a nonconforming structure because it was built long before the zoning was put in place.

Council Member Berman: If you renovate it, we have practically zero setback (crosstalk).

TRANSCRIPT

Mayor Burt: We wouldn't be able to. To renovate that under the current regulations, you'd have to tear it down. It would be impossible under current regulations to keep that portion of the building ...

Council Member Berman: Thank you.

Mr. Popp: ... unfortunately. I respect Council Member Holman's ...

Mayor Burt: Thank you.

Council Member Berman: It goes back to the question of what's the purpose of having the 50-foot setback. I don't know why the decision was made 40 or 50 years ago. It sounds like there aren't good enough Minutes of the meetings, but it's also kind of irrelevant to me because situations in communities change. What's considered best practice changes. I think we should be analyzing that question today under today's context of what we want there and not necessarily the rationale behind it 50 years ago when the area looked very different. I see Council Member DuBois' point in the sense of there's nice landscaping along Hansen and some of these properties. If you look at an aerial view on Google Maps, for the acres around there it seems like more than 50 percent of that area is parking lots which current thinking says is probably the most inefficient use for land these days, especially if you can build it underneath a building. I'm sure this is totally empty 16 out of the 24 hours a day. I agree that aesthetically we don't want to make it seem like there's a building right up against the street. I think that's something the applicant should definitely take back and consider. I don't think you need 50 feet of landscape that might be using a lot of water to achieve that goal. I'm not going to repeat a lot of what other folks have said. I definitely think that this is a unique parcel along Hansen. I totally disagree it's a gateway, but that's a whole different conversation we can have. I do think that it's an anomaly in comparison to the parcels around it. I don't think a 50-foot setback necessarily make sense on this corner.

Mayor Burt: Council Member Filseth.

Council Member Filseth: Just briefly, maybe I can answer Council Member Berman's question here. I went out there this morning and looked at it and paced off the property. It looks to me like the existing hotel, the distance from the edge of the sidewalk to the outer wall of hotel—I think it's actually on the parking lot of the hotel—looks like about 12 feet right now. It's really, really close out to the sidewalk. If you look at the building next door, which I gather is a 36-foot setback, it actually looked like it was a lot less than that to me. It looked like it was about 18 or 20 feet back from the sidewalk, again depending on where exactly the property line is. As other

TRANSCRIPT

people have mentioned, every other building all the way down Hansen on both sides has these huge setbacks. It's at least 60, 70 feet back, maybe more, with landscaping and greenery and so forth and trees and so forth in front. I think if you were looking at it from a perspective of compatibility and aesthetics and so forth, I think it'd be tough to make a case for a variance on this one based on that. The existing Hotel Parmani sticks way out. It's real obvious when you're out there on the ground. What the new one would like TBD. Anyway, that's sort of the environment out there right now. Just in general, not this specific property but in general, we ought to try really hard to minimize the number of variances and spot zonings we do in general for stuff for a number of reasons. One is that it takes a lot of Staff time to assess and negotiate all these things, especially if we set an expectation that all this is flexible. The second is these things don't exist in isolation. Each time we do one of these things, then it basically opens the door for the person that owns the property next door to come back and ask for the same thing. In this case, there is a little bit of that in that the one next door violates the setback. Nobody remembers why or how it happened or anything like that, but it's there now. That's one of the arguments for a variance that we've heard tonight here. Finally, again, this isn't the case in this case because the family's owned the property for decades. Land value is affected by zoning. If we train people that our zoning is flexible, then we're kind of encouraging speculation which I think is a lot of undesirable things around town. Again, not the case here with this particular property, but just in general. Thanks.

Mayor Burt: First, I want to get a clarification. We have this up here as to what the existing setback is from the leg of the building that is on Hansen. Can Staff clarify that? I see we've got a copy here. Mr. Popp thought it was inches, but it looks like Council Member Filseth is correct. You can loop back to me in a minute if you want to look at more.

Mr. Lait: I can tell you that the right-of-way from the face of the curb to the property line is 16 feet on Hansen.

Mayor Burt: From the curb to the ...

Mr. Lait: From face of curb to the property line is about 16 feet.

Mayor Burt: From the curb to the property line. We have this; it's right here.

Mr. Lait: I can break that down for you a little bit more. The planting strip on Hansen is 9 1/2 feet. The sidewalk is six feet wide. The curb face is another 1/2 foot.

TRANSCRIPT

Mayor Burt: From the edge of the sidewalk, the inboard edge of the sidewalk, to the building, is that our current setback?

Mr. Lait: That's 9 1/2 feet. The property line is 9 1/2 feet from the edge of the sidewalk, the property line. The City owns the sidewalk and that planting strip. Then there's about a six inch setback from the property. So about 10 feet from the edge of the sidewalk is where the building sits.

Mayor Burt: They're talking about building to the edge of our planting strip, not to the edge of the sidewalk?

Mr. Lait: Correct.

Mayor Burt: it took a long time tonight for that to become clear.

Mr. Lait: I apologize for that. It occurred to me too in the conversation that that needed to come out.

Mayor Burt: One of the things is that I know the applicant wanted us to consider this outside of the context of the actual building. I can tell you I have two different reactions. If they were to want to build a four-story right back to the setback line—I mean to the edge of the property—that's different from whether they want even a significant intrusion into the current setback or a change of that setback. I can't really answer that question as if we're going to look at this in isolation from the building. I think it's unfortunate because that hurts our ability to give a meaningful response tonight. Second, we're looking at essentially either Legislative Action or a variance at some future date. For me those are both essentially discretionary actions. The variance has certain findings, but they're still both discretionary actions. My openness to allowing that is not only contingent on the mass and the scale of the building and its compatibility with the surroundings, but also with some of these other elements. There was a reference to a 21st century TDM program. Does Staff know what that means? If there was a binding program that would mean basically that there would be no net increase in trips from this expansion, I would be much more open to granting a setback which, in effect, would allow the building of something between where it is now at 0.65 FAR and the 2.0 FAR maximum that is in our hotel overlay. I want to reemphasize that our FARs are not "by right." They are within all of the other requirements of our zoning and our approval process. Whatever amount there is of that increase, I'm going to think of it differently if there's a program that is binding and measureable that means we wouldn't have any increase in car trips. There was discussion about bikeways along El Camino. I didn't hear anything about Hansen. One of the things that we had begun to have discussion that came up with our Study Session with Stanford and the Research Park is trying to transform

TRANSCRIPT

what was designed as a suburban, automobile-centric Research Park into one that is much more multimodal including by bicycle. Hansen has, I think, a painted bike lane currently. Is that correct?

Mr. Lait: I'm not sure.

Mayor Burt: I'll just say that that would be an important element for me to assure that whatever we have here really helps contribute long term to improving that bike infrastructure in the Research Park. There was also a comment about whether these 50-foot setbacks are really against or supportive of kind of our values around landscaping and a green environment in the Research Park. I don't know that the setback per se impacts that one way or the other. I think that our issues in the Research Park are once again that it's an outdated landscape design. I'm really looking forward to us reforming the landscape requirements for the entire Research Park which would include this parcel. If this is a discretionary approval, this is also one of the elements to the degree that they're going to have landscaping which I suspect won't be a great deal if they get the hotel overlay zoning and can build it if they don't have setback requirement. I want to see us continue on a process of transforming the landscaping in the Research Park so that all of that passive landscaping over time becomes a return toward natural habitat and that it's a transition zone to our open space. This should be a long-term goal, and it'll also move us toward more sustainable landscaping for a water consumption standpoint. There was a comment about Palo Alto square and how it's been accepted in the community because of the big setbacks. I don't agree with that. First, Palo Alto square and its height was one of the building sets that caused our 50-foot height limit to be adopted in the City. The notion it's been accepted is kind of the opposite of what I consider to be accurate history. When I look at, whether it's Palo Alto square or some of these other buildings, I do see that having big expanses of parking lots in front of buildings is not a great urban design. It doesn't welcome interaction with pedestrians. Neither does a solid wall on the sidewalk. I think that we should not be in one extreme or the other. We need street interfaces that are attractive to both pedestrians and, for that matter, people who are moving along El Camino, that they're not in a tunnel and neither are they facing just giant parking lots in front of buildings. I'm trying to figure out now—given that I think a number of us have a concern about looking at this setback in isolation from the building, how do we give meaningful guidance? We certainly have had that input, but we don't have another check-in point that is necessarily identified. Would this project come back for a more substantial prescreening based on certain feedback here or how would we proceed off of what you've heard tonight?

TRANSCRIPT

Council Member Kniss: I think there are some options available to the Council. I think that the comments that the applicant has received has been a little bit more favorable than they received from Staff in the first place about our receptiveness to encroachments into the special setback. I think what the applicant is hearing is that there is an opportunity, at least to explore the possibility of encroachment into the special setback, but it sounds like availability of that would be contingent upon how the rest of the project is designed, height and mass and the density and so forth. One option is applicant receive this information, modifies the plans and goes through the process, whether it's the variance or legislative, and through the ARB process. I believe that the Council, if so interested, could continue the discussion and ask that the applicant come back with a proposal that is consistent with some of the comments that have been received. You could allow it to go forward through the review process, I would say. It's up to you on how you want to proceed.

Mayor Burt: I spoke last and so I don't really have a sense of whether my Colleagues concur with a couple of the things that I brought up. Probably top of the list is how important would it be for this project to have no net automobile trip impacts if we were to consider the setback which basically enables the hotel overlay to be utilized. Is that not important or vitally important? To me, if we're going to ask them to come back, that's one of the elements that I think is substantial. I don't see anybody ...

Council Member Kniss: You're saying no car trips?

Mayor Burt: I'm saying that we're trying to move toward projects that are not going to exacerbate our traffic problem. If we have discretion to allow or not allow a significant new development here, this is mitigation, shall we say, that I think is important. Council Member Berman.

Council Member Berman: I agree with where you're going with that. The one question I have is would it be possible to say with the setback what could they build and have that be the cap essentially, and what would the impact of that be. Then say that's the trip cap. If we soften the setback or decrease the setback, whatever happens you've got to stay at that kind of cap of what you could have built there. I don't know ...

Mayor Burt: I hear you. That's not my position, but that's fair to get that out there. Council Member DuBois.

Council Member DuBois: Again, for me it's really the total package. I think it was a Study Session; they heard a lot of feedback on different points. For me it'd be a combination of enforceable TDM, whatever setback you were asking for, what it'd look like on the corner, where the entrance was. I think

TRANSCRIPT

the whole package. If you come back at a prescreening you can address those holistically together.

Mayor Burt: Vice Mayor Scharff.

Vice Mayor Scharff: For me too it's the whole package. I do lean toward as little trips as possible. I think you could get to that no new net trips; that would be a real positive if you could come close to that. For me, it's not a hard and fast thing. I think it's important.

Mayor Burt: Council Member Kniss.

Council Member Kniss: Given that we just had an extensive report on the TDM at Stanford Research Park, I would think that if we worked together closely with them on how they would see this impact that would probably persuade me the most. Knowing Uber's handy or taxis are handy, there is some movement that's going to take place if somebody is there and they're staying at the hotel in order to be in the Research Park in some way.

Mayor Burt: They have a baseline of trips with no TDM program of their 36 rooms. It's not no trips from the project; it's no net trips from the additional rooms. Council Member Holman.

Council Member Holman: I think you could tell from my earlier comments that I don't really see that we can make findings for a variance. I wanted to see where other Council Members were. It sounds like there's maybe some interest in looking at a legislative change for this parcel. I'm a little lukewarm on that. If that's where the majority of the Council is or granting some extent of intrusion into the setback, I guess what I would want to see, if this were to come back, is some massing models as well as a TDM. I do not want to be in a situation where we're looking up plans on the City's website that went to the ARB and then we're tying the hands of the ARB, saying this is better. I would say better dealing with massing models and something of that nature that address compatibility, transition, setbacks of third and fourth floors from my perspective that are consistent with the South El Camino Design Guidelines and the Grand Boulevard. A proposal that is sympathetic to its surroundings. What I mean by that is not just "this will be sympathetic to a building that's going to be built at some point in time across the street." No. That's how we get all 50-foot height buildings that are such a monotonous, boring streetscape or cityscape, I should say. Those are my basic comments. I also would be very interested in what could be accomplished—I think Council Member Berman may have misunderstood. I'm not talking about remodeling the part that's in the setback; that would be increasing a non-conformancy. I'd actually be interested in what they could do to remodel or enhance the existing

TRANSCRIPT

development that is not non-conforming to enhance the property as it currently is without encroaching into the 50-foot setback other than what it is. Again, that's much greener usually than re-developing. Thank you.

Mayor Burt: Council Member Wolbach.

Council Member Wolbach: I appreciate the comments I've heard from my Colleagues. I'll just make a couple of quick comments now kind of looping back as I started this. I just want to check. If we reduce the setback, that makes it easier to add a parking garage underneath. Correct?

Mr. Lait: Yes. I think the Council could take above the ground and below the ground perspective on evaluating that, so that you can ensure that there's a better efficiency of the parking area.

Council Member Wolbach: Because the current setback applies to any underground garage. Right?

Mr. Lait: Yes.

Council Member Wolbach: You can't even build a garage underneath that setback area. It's not just surface area that's prohibited; it's the underground. I'm as big a fan as anyone of TDM measures and reducing car trips. The parking's also a big issue. That's just something else that maybe makes me slightly more sympathetic to reducing the setback. I'm also less interested in a variance than in a legislative solution if we do change the special setback for that parcel or for the street as a whole. I guess the fact that it is a very different shaped parcel than the ones around it is probably the best argument in favor of reducing the setback. Again, I'm not totally sold on that yet. That's probably the strongest argument for me. I'm still open to (crosstalk).

Mayor Burt: Council Member Schmid.

Council Member Schmid: I support the comments which say let's take a look at the whole package and what it means both trip and density and aesthetics of the setback.

Mayor Burt: Before hearing from the public, I want to ask one kind of follow-up, process question. Actually two related ones. First if we were to do this as a legislative change action, would there be any ability for us to have this contingent on—if we removed it from the 50-foot setback, where would have the ability to link project design favorable elements to it as opposed to if it's under a variance and it would be potentially conditioned on project elements?

TRANSCRIPT

Mr. Lait: You would still have the ARB findings and the ability to impose conditions on the project.

Mayor Burt: The sort of conditions that we were talking about, would those be able to be made through the ARB findings?

Mr. Lait: Possibly. I think that the variance and what the applicant is attempting to do versus what the Council is expressing an interest in may have perhaps more opportunity for us to impose some of those conditions. I do think the next time, if the Council does ask us to come back with this, appreciate the open-mindedness to consider the possibility of a variance. There's some nuance to the variance findings. We're doing some comparisons to the properties in the RP zone. Really the variance is a comparison to the other properties in the CS zone. There is a distinction. I think there may be a little more opportunity to perhaps consider the grounds for a variance if we were able to lay out some of that nuance a little bit more.

Mayor Burt: The other thing that occurs to me is that we're looking at how this project, under our 2.0 maximum FAR for a hotel overlay, fits. We're really talking about some things that perhaps should be part of that allowance for the high FAR or whatever FAR we have for a hotel overlay. We've had some discussion about whether that amount of FAR should be reduced in the hotel overlay. I don't think it's just that issue. If we're giving what we've seen as the market is responding to, viewing that FAR to be a high allowance, especially given the constraints we've placed on other office and commercial development, it becomes an even more attractive alternative for developers. We don't link anything currently to that FAR. We don't require the hotels to have state of the art TDM programs, nor whatever else we may want to link with that. Is there going to be an opportunity for the Council to weigh in on the additional potential conditions or modifications to the hotel overlay zone? Where would that fit in our plan of legislative items going ahead?

Mr. Lait: This application that would be going through the process is not subject to the hotel overlay zone. It's set forth in the Code that you can do up to 2.0 with a hotel. The comments that you're making would be part of a larger policy direction to the Planning Staff to say this is something (crosstalk).

Mayor Burt: I'm asking is there anywhere within our planning schedule which we could address in any modifications that we may want to make to the hotel overlay zone.

TRANSCRIPT

Mr. Lait: I would say that would be considered in the context of the other work that we have. I believe there may be a future conversation about the department's priority projects. If the Council directed it, that would be the path we'd have. The question is what are we not doing to do that.

Mayor Burt: You have a bunch of other zoning updates that are in the second bucket. Is that bucket limited to what you've already identified or could this be part of that?

Mr. Lait: The Planning Code's update, we'd hoped that would be an annual effort. We're finding that, as Part Two is approaching the Council shortly on the ARB findings perhaps that might have been a little bit too ambitious. That certainly is an avenue that exists. My only comment on that is it's not limited by number but by complication. The larger the policy effort, the less resources we add to (crosstalk).

Mayor Burt: We might be able to prioritize within that bucket as opposed to thinking of this as creating a new bucket.

Mr. Lait: Sure.

Mayor Burt: I think Council Member Filseth's the last. Council Member Holman, you've spoken several times.

Council Member Filseth: Just in general, I worry that we're sort of getting in the process of negotiating and designing a project here. We're edging towards implicitly approving something. I think it's premature to do that. I think in general we should favor policy solutions as opposed to one-off projects. I'm a little bit uncomfortable with how this is going. I'd like to see the project too, but I worry we're getting ahead of ourselves.

Mayor Burt: Let's hear from members of the public. Our first speaker is Bob Moss, to be followed by Becky Sanders. Welcome.

Robert Moss: Thank you, Mayor Burt and Council Members. Let me give you a little history on this area. The land is owned by Stanford which means that Stanford's restrictions on land use and development apply. The Stanford Board of Trustees first established land use and development requirements for all Stanford-owned land, the campus and what even became the Research Park in the early 1950s. I've been looking through my files on Stanford land use. I've got two file drawers to go through. It's been quite a trudge, and I still have some more looking to do. I did find references where the Board of Trustees wanted to limit FAR and height, didn't want to exceed what's allowed by the zoning. They did accept the CS zone as being consistent. In 1975 they sent a letter to the Planning

TRANSCRIPT

Commission, September of '75, discussing the Comprehensive Plan which was under discussion at the time. One of the things they said was that we trust the City will be prudent in its encouragement of bold, imaginative and whimsical approaches in any improvements on El Camino. They're concerned about the type of development that would go on El Camino. When they talked about development in general on Stanford-owned land, they had a couple of statements that have not been adhered to. One of them was Stanford wants to be involved—The Board of Trustees said they want to know what's going in on Stanford-owned land. To answer Council Member Holman's question of why we have a 36-foot setback on Hansen instead of 50 feet, nobody talked to Stanford. I'm willing to bet the 50-foot setback was established by the Board of Trustees in the early 1950s Stanford-wide. In terms of what goes on in the commercial areas, the terms of leases on Stanford lands shall not exceed 51 years except for unusual cases in which a longer lease would be allowed. Do they have a lease with Stanford or has the 51 years expired? I don't know. Commercial, retail or service uses shall be limited to those areas already developed for such purposes to such locations as may be required. Administrative, professional, research (inaudible) shall emphasize functions and activities which relate to and enhance the academic purposes of the University. Does this comply with that? I don't know. I think that Stanford—Stanford, where are you? They're not in the room. Stanford land, they own it. They should be involved in what's developed on it.

Mayor Burt: Thank you. Becky Sanders to be followed by Jeff Levinsky. Welcome.

Becky Sanders: Good evening. Thank you for your service, City Council Members. We elected you to look out for our interests. I love this very vital discussion you're having this evening. Yesterday members of the Ventura Neighborhood Association met. Karolyn Brose [phonetic] is here to represent; she's here to show her support, but she's not speaking tonight. Karolyn, will you wave please? There she is. Thank you, Karolyn, for coming. We had a lively discussion, and here are some points. Will this set a precedent for the erosion of the 50-foot setback for all of Stanford Research Park? If this is allowed, future developers will point to this as a precedent. For us it is a slippery slope. Why should some businesses be accorded special treatment, with all due respect to the Parmani family? I totally get their point of view. They seem like wonderful people. Still, it's a slippery slope. Traffic intrusion into Ventura. I don't know why they need so much more parking. They need two levels of parking, but they are going to have no more net trips. I'm working on that one. An enlarged hotel will add more car traffic. Ventura is already subject to pass-through traffic from drivers and commuters who want to avoid the worst intersection in the City,

TRANSCRIPT

Page Mill and El Camino. We have more traffic from the hotel; that will mean more people who are commuting on El Camino. This is just (inaudible) will be dipping into our roads to cut through and avoid that. They are really not sensitive to our neighborhood safety and our values as they race through and run stop signs. I really appreciate everybody saying why are only the ground floor and the two parking levels included. We clicked through to the Godzilla street view. It just looked like a big monolith. We found that very unappealing and unattractive. Also the collective impact of all the developments in the pipeline near El Camino and Page Mill, they're all going to make this intersection even worse. Parmani is not a standalone; it has to be reviewed with regard to all the other things in the pipeline. Of course, we're concerned about residential quality of life and parking and driving intrusion impacts. Across the street from the Parmani, we understand there might be a residence in the pipeline as well. Won't that be not in compliance with the height limit for within 150 feet of residential space. Our ask is that you just do your due diligence. If it were me, I would just say no. I know it's important to compromise, and I do respect the value of compromise. Thank you so much for hearing me. Yeah, thanks so much.

Mayor Burt: Thank you. Jeff Lewinsky to be followed by Doria Summa.

Jeff Levinsky: Good evening, Mayor Burt and Council Members. In a nod to the previous Study Session, I want to thank the City for all the data that it puts up on its website and such. If you go to the City website for this parcel, it tells you that it's 2,000 square feet smaller than the Staff Report. It would be nice if the Staff Report agreed with the City's own open data about this project. Openness would be really good in this process. As a number of you have mentioned, it's really hard to look at this project just as a layout on a map and not see the four-story building that's going to be above it. When you do go look at the plans, it is pretty awesomely large. I agree with the points about you have to look at this from the Hansen perspective and from the Research Park perspective. Something that hasn't been brought up, I believe, is that the same 50-foot setback is not only on Hansen, but it's also I believe on Page Mill and on California Avenue all the way out to El Camino. If you change this rule, then you really should be looking at changing it all over the place, not just for this one case, one project. That goes to a deeper problem here which is that a single project maybe with a compelling situation is becoming then the catalyst for changing everything which then undermines a lot. To that, let me speak to the Research Park. As a person who's worked in the Research Park and for heaven's sakes actually commuted every day on Hansen right through this whole project. Part of the important word there is "park." It was wonderful to sit in the Research Park and look out a window and see a park-like environment. Whether that converts from water-intensive grass to a more

TRANSCRIPT

natural landscape, that's one issue. To give all that up because some hotel wants to get some extra rooms in is insane. I hope our City steps back from this precipice and says, "No, no, no. We want to preserve the Research Park and its beauty and not give it up on this kind of situation." Thank you.

Mayor Burt: Thank you. Next speaker is Doria Summa, to be followed by our final speaker, Herb Borock. Herb Borock, welcome.

Herb Borock: Thank you, Mayor Burt. This property is part of one of the early Stanford annexations, I believe, when Stanford was annexing and requesting rezoning for the area from Hansen Way down to California Avenue. At that time, I think there was just one property that they didn't own. It was Stanford that requested the 50-foot buffer in what was then the Open Area (OA) or open areas zoning to provide separation and limit the impact to neighboring properties. With the use permit, it was possible to use the zone for parking, for minor roads and for other nonstructural uses. When Stanford's Vice President, Alf Brandin, was asked about a green belt or landscaping, he said that none of that open area zoning on Stanford property was intended as a green belt. It's there as open land, but the University never agreed to landscape it. Things have changed over time. I guess that became the landscape zone. There's also the zoning that was requested, the commercial zoning of whatever it is, 300 feet back, 200, 300 feet back for El Camino which would then against, I guess, the original—what was then the Industrial Park properties for Varian and Kodak. This has been there for a long time. I'm not sure why Stanford's not here. Either they know about it and they don't want to be here or they weren't notified, which I would hope—there'd always been communication between Planning Staff in the City and planning staff at Sanford, so they'd each be aware of what's going on. I did have some concern where it seemed to be an attempt to get either consensus or views. I don't see a prescreening hearing to serve that purpose. If someone wants some collective agreement about something, then they file a real application and come through the normal process. This is to get your individual views in the prescreening which are not binding on anybody. Thank you.

Mayor Burt: Thank you. That concludes this item. Thank you very much.

Agenda Changes, Additions and Deletions

Mayor Burt: Our next item is Agenda Changes, Additions and Deletions. We should note that we have changed what was formerly Item Number Eight and is now listed on the Agenda at our places as Item Number 11a. That's the discussion of the recycled water programs and an amendment to a contract. This was done to give the Council opportunity to discuss this in the

TRANSCRIPT

context of broader issues related to our Water and Water Sustainability Initiatives.

City Manager Comments

Mayor Burt: Our next item is City Manager Comments. Mr. City Manager.

James Keene, City Manager: Thank you, Mr. Mayor. Council Members. I did want to share that the City will be participating in an upcoming community meeting on Wednesday, April 20th, along with Santa Clara County Supervisor Joe Simitian and Professional Staff from partner agencies including the Santa Clara County Roads and Airports Department, Santa Clara Valley Transportation Authority, Los Altos Hills and Caltrans to discuss bike safety and proposed interim bike improvements along Page Mill and the I-280 interchange area. April 20th. This area's been an ongoing safety concern, of course, last fall an unfortunate bike fatality along Page Mill. The meeting will start with an open house at 6:00 P.M., followed by a formal presentation at 6:30. It will be held at the Los Altos Hills Town Hall Council Chambers, 26379 Fremont Road in Los Altos Hills. Telecommunications work that impacts Downtown pedestrian traffic. Just a reminder, as I had previously mentioned, crews from Crown Castle will be installing 19 wireless cell sites on light poles in Downtown Palo Alto starting this week, which will have some impact on pedestrians and traffic patterns. The antennae will support wireless telecommunications and are specifically for the Verizon network. The new wireless sites will address problems including lost calls, slow data and no signal. All the installations will be in the sidewalk areas with some potholing in the street, directional boring, and open trenching. Installation sites are located on street poles within City-owned sidewalks, on side and adjacent streets to University Avenue. For more information or the latest schedule, go to the Crown Castle webpage at crowncastle.com/project/paloaltocalifornia. Next is World Autism Day took place this past weekend. The City participated in the Eighth Annual World Autism Awareness Day on Saturday, April 2nd, by lighting up the front of City Hall on the eighth floor with blue lights. I know the Mayor had received a request from organizers to see what we could do this year. We're happy to be able to join in. Autism organizations around the world celebrate the day with unique fundraising and awareness-raising events and around the globe using the hash tag #liub, light it up blue, to share their experience across social media. We joined other organizations around the planet lighting up our little part of the world blue. Thank you for showing the photo. Lastly, don't always do this but just thought it was distinctive. Palo Alto Police Lieutenant Zach Peron recently completed a master of arts degree in security studies at the National Post Graduate School for Homeland, Defense and Security which is a very selective program from the

TRANSCRIPT

fields of homeland security, emergency management, law enforcement and fire, military and environmental health. Zach is an 18-year veteran of the Palo Alto Police Department. He was born and raised in Palo Alto and received his Bachelor of Arts (BA) from Stanford and is currently assigned as our department's Public Affairs Manager. If you follow the department on Twitter, you know him well. During the Online Residence Program, he collaborated with Homeland Security officials across the nation on some current policy, strategy and organizational design challenges. His thesis, *Becoming More than a Digital Bullhorn, Two-Way Engagement on Twitter for Law Enforcement*, was nominated for the outstanding thesis award. We want to congratulate Zach for this and look forward to his continuing services on behalf of the City of Palo Alto. That's all I have to report.

Mayor Burt: Thank you.

Oral Communications

Mayor Burt: Our next item is Oral Communications for items not otherwise on the Agenda. I have no speaker cards, so we'll move right forward. Thank you, public, for allowing us to make up for lost time.

Minutes Approval

5. Approval of Action Minutes for the March 21, 2016 Council Meeting.

Mayor Burt: Our next items is Approval of Minutes from the March 21, 2016 Council meeting. Do we have a Motion to approve?

Council Member Berman: So moved.

Council Member Schmid: Second.

MOTION: Council Member Berman moved, seconded by Council Member Schmid to approve the Action Minutes for the March 21, 2016 Council Meeting.

Mayor Burt: Motion by Council Member Berman, second by Council Member Schmid. I see no lights. Please vote on the board. That passes unanimously.

MOTION PASSED: 9-0

Consent Calendar

Mayor Burt: Our next item is the Consent Calendar, Items Six, Seven, Nine, 10 and 11. Do we have Motion to approve?

TRANSCRIPT

Council Member Kniss: Move approval.

Council Member Berman: Second.

MOTION: Council Member Kniss moved, seconded by Council Member Berman to approve Agenda Item Numbers 6-7, 9-11.

6. Approval of Change Order Number 9 in the Amount of \$267,607 to Contract Number C15156474 With MP Nexlevel of California, Inc. for Additional Trenching and Installation Work on Utilities Underground District Number 47; and Approval of a Budget Amendment in the Electric Fund in Fiscal Year 2016, Offset by a Reduction of \$96,000 From the Electric Fund Distribution Reserve to Complete the Installation of Underground Substructures for Underground Utility District Number 47.
7. Approval of a Wastewater Treatment Fund Contract With PSC Industrial Outsourcing, Inc. in a Total Amount Not-to-Exceed \$483,703 for a Three-Year Term to Transport and Dispose of Ash and Sludge for the Regional Water Quality Control Plant.
- ~~8. Approval of an Amendment (Addendum No. 1) to the First Amended and Restated Contract Number C059999 Between the Cities of Palo Alto and Mountain View for Recycled Water Supplies STAFF REQUESTS THIS ITEM BE MOVED TO ACTION.~~
9. Approval of the Stanford University Medical Center Annual Report and Compliance With the Development Agreement.
10. Approval of a Contract With Macias Gini & O'Connell LLP (MGO) in an Amount Not-to-Exceed \$875,569 (Including 10 Percent Contingency Fee) for External Financial Audit Services for Fiscal Years Ending June 30, 2016 Through June 30, 2020.
11. Policy and Services Committee Recommendation to Accept the Auditor's Office Quarterly Report as of December 31, 2015.

Mayor Burt: Motion by Council Member Kniss, second by Council Member Berman. Please vote on the board.

MOTION PASSED: 9-0

Action Items

- 11A. (Former Agenda Item Number 8) Discussion of the City of Palo Alto's Recycled Water Programs and Approval of an Amendment

TRANSCRIPT

(Addendum No. 1) to the First Amended and Restated Contract Number C059999 Between the Cities of Palo Alto and Mountain View for Recycled Water Supplies.

Mayor Burt: Now we go to Item 11A, formerly Item Number Eight which is—let me get the way that we have it agendized. Staff recommends that the Council approve an Amendment, Addendum Number One, which is Attachment A to the Report, to the Recycled Water Supply Agreement between the Cities of Palo Alto and Mountain View. We have a supplemental Packet that was provided At Places which is for information only. It covers the various—an overview of the initiatives currently being considered and pursued for alternative water supplies regionally and in Palo Alto. Welcome. Mr. Bobel, would you like to kick it off?

Phil Bobel, Assistant Director of Public Works: Thank you, Mayor. Phil Bobel, Public Works. I've got with me Karin North and Jamie Allen, also of our Public Works group. If there's questions for Utilities, their involvement, Karla Dailey from the Utilities Department is here. There she is. We're going to move through this briskly. We do have a brief presentation for you. The first slide talks about the Action Item that's actually before you which is an amendment, an addendum to our Recycled Water Agreement with Mountain View. That's the thing you're actually asked to act on tonight. The rest of our slides are all going to deal with background information on our recycled water program and initiatives that are underway that you're going to see in the coming weeks. Since this is the first in a series of Action Items that we're going to have on recycled water, it seemed to make sense to give you this now. Most of the other items will actually be on the Consent Calendar, unless you direct us otherwise. We'll gauge your interest tonight. That's our plan, for tonight to be the prelude for you all on recycled water and related water reuse efforts that we're all doing. A number of these items would follow on Consent. First, what are we up to tonight? We have a Basic Agreement with the City of Mountain View for the Sewage Treatment Plant. Often in the past, we've referred to this as our Basic Agreement. There's three cities involved, Mountain View, Palo Alto, and Los Altos. We call that our Basic Agreement. Then we have other partners, smaller partners, with separate agreements. Tonight though, we're not dealing with that Basic Agreement. We're dealing with a specialized agreement that we have with Mountain View on recycled water. That originated because Mountain View is really our largest user and the only other user currently of recycled water other than Palo Alto. When we built the pipeline to Mountain View, we needed to have an agreement as to who pays for what and how does this whole thing work. We've got this underlying agreement with Mountain View on recycled water. Tonight we're proposing to amend that. Mountain View requested an amendment. It principally has to do with the

TRANSCRIPT

first bullet on the slide, namely the extension to 2060. Sounds like a long time away. If you're spending millions of dollars as Mountain View is, they want some assurance that this is going to be a continued ability on their part to have this water. The current Basic Agreement with Mountain View goes through 2035. If you accept this amendment tonight, we'll be bringing you a companion amendment to the Basic Agreement which will also extend it to 2035. They have to operate together; one isn't—I'm sorry. What did I say? The current agreement is 2035; tonight's action takes the recycled water agreement to 2060. We'll also then be bringing you a companion Basic Agreement modification to 2060. Sorry I misstated that. That's the first bullet. The second bullet—we'll probably get into a discussion about this tonight—is related to the charges to Mountain View or any user for the water. To date, principally because the amount of use has been relatively low and the hassle of charging for water, we've not charged Mountain View for the water. We'll get into more detail on this. You can think of it in three parts. There could be a commodity charge. There could be an operation and maintenance charge. There could be a capital charge for future projects. We'll probably end up talking about all three of those. The plant was set up in such a way that the incremental cost of providing recycled water from the plant—again this speaks from the wholesaler perspective of the plant. This isn't the retail cost of what Mountain View or Palo Alto might charge customers. From a wholesale perspective, there actually was hardly any difference between achieving a level of water that we could discharge to the Bay and achieving a level of quality that we could provide as recycled water. That incremental difference was extremely small. To date, we've made the judgment that frankly it wasn't worth the time and energy to try to put a fine point on that and execute a operation and maintenance cost. We've always told Mountain View that's going to change because the amount of use is increasing, the costs are going to increase, just even the operation and maintenance costs are going to increase. We'd better set ourselves up for a future where we have costs. We've established a new principle in this agreement tonight which is that Mountain View will in fact pay for the—let's think of it as the operation and maintenance costs of the water. That would occur at least by 2020. It really means for us that we need to get started on this right away and have studies. Maybe we'll do them internally, maybe we'll hire a consultant. We've got to determine what that equitable and expense-based cost will be for Mountain View. It'll take us a while to do that. The agreement tonight just sets up a situation where we'll be doing that in 2020. That's the second bullet. The next bullet relates to a different kind of cost. We've got this system, but actually parts of it are many years old now and are going to need capital replacement projects to keep our existing recycled water system going. In tonight's agreement we're also clarifying that when those replacement projects occur, they have to be paid for by the partners that are actually having a capacity allocation of recycled

TRANSCRIPT

water. It would be paid for in the ratio that their capacity allocations are. What is that in practical terms? Right now, there's just two partners using the water, Palo Alto and Mountain View. Their capacity allocations are one million gallons for Palo Alto and three million gallons for Mountain View. If we have to do a upgrade after 2035, this spells out how to do it. If we have to do something before 2035, we'll have to work out a special agreement to do that unless it's a minor cost. We can get into more detail on that if you'd like. The situation to 2035 is covered in our Basic Agreement. Tonight's extension makes it clear what happens after 2035. The last bullet just has us all continuing to work salinity. You've all been involved in discussions about that. You know that one of the things that many people feel is limiting about our current recycled water quality is the salinity. Both Palo Alto and Mountain View continue to be committed. This agreement amendment tonight just continues that commitment, makes it a little stronger and puts it clearly in the agreement, that we're all committed to taking measures in our own systems that reduce the amount of inflow of salty water into the system basically is what it boils down to. Sorry about that longwinded slide. We'll probably come back to some of that. Our next slide is the background now. Two of you, at least, are getting more and more familiar with all the aspects of this because we have a Recycled Water Committee that has started up recently, that Mayor Burt chairs and Council Member DuBois sits on, for recycled water, for what we are now calling the northwest portion of the Santa Clara County (County), basically the service area of the Sewage Treatment Plant, the six entities that comprise it. We have this Committee. This slide sort of describes the new initiatives and the existing ones that we've been working on, on water reuse and recycled water. I'm not going to go into each of these. We are going to set you up for discussion about the one in the upper left-hand corner which is us doing a new evaluation of reverse osmosis or a similar process that would further reduce salinity. That'll be the next action you'll see from us at a future Council meeting, probably May 2nd, where we'll bring a contract to you for working on a new evaluation of reverse osmosis salinity reduction. We did that some years ago, but it needs to have a fresh look given the passage of time. That's the first action you'll see. The second one that you'll see some weeks after that, probably a month or so after that, is a combination of all those purpose bubbles. We were setting up a contract, setting up an Request for Proposal (RFP), issuing it and seeking proposals that encompass all four of those purple components. I'm going to ask Karin to go into a little depth on some of these other components. I'll just summarize it quickly, and then she'll come back to it. The upper right-hand corner is the next steps on Palo Alto's potential next purple pipe, distribution component, which is sort of to the Stanford Research Park, south Palo Alto area. On the right-hand side halfway down, work on groundwater to determine whether it's feasible, desirable, a good idea to think in terms of ultimately having

TRANSCRIPT

what some people are calling indirect potable reuse, which sort of boils down to either storing water or recharging our groundwater. Does that make sense? We need to study it before we can make a determination. We are going to have to spend a significant amount of money here just even figuring that out. It's not an easy thing. The lower right-hand shape is us working with our other partners, not just Mountain View. East Palo Alto is probably the first one, maybe Los Altos, Los Altos Hills, Stanford. Working with them again to determine whether recycled water is in their near-term future or not. In the middle, we bring all these things that you see pictured together more like a year from now, but it'll be part of the same contract, to update our 1992 Master Plan for Recycled Water. We're calling that the Strategic Plan just to differentiate it from our older, early thing. A Strategic Plan for water recycling/reuse combined with storm water and gray water and even black water. We'll put all of this stuff together, all this kind of reuse stuff together. You'll also notice we'll be feeding in segments from Utilities Potable Water Plan from the lower left-hand corner. We're going to try to bring all these elements together and give you a Strategic Plan that hopefully will make sense to you. That's my short little summary of what's in our future. Two Council actions beyond tonight. Karin, could you walk us through a little more detail on this? I'll kick you if it gets too much detail.

Karin North, Watershed Protection Manager: Sure. Thanks, Phil. What we're planning on bringing May 2nd will be the Advance Water Purification Feasibility Study contract. It's already been negotiated with the consultant. We're ready to sign. We're just working out our contractual language, cost sharing agreements with the Water District and Mountain View. The Water District will be paying 80 percent of that, and Mountain View will be paying 10 percent. The Wastewater Treatment Plant will be funding 10 percent of that cost. It's around a \$365,000 contract. That will be coming back to you, anticipating May 2nd. Basically we're trying to look at the size and location of our Advance Water Purification Feasibility Study. Our goal is to get a total dissolved solids for salinity down to 450 which is in line with what they're doing at the purified water and recycled water at the Santa Clara/San Jose Wastewater Treatment Plant. That's just to improve our water quality. If you remember when I was here in September, when we were discussing the Environmental Impact Reports, a lot of the concerns was water quality and Total Dissolved Solids (TDS). Our goal for the purple pipe, recycled water quality, to get that down to 450 TDS.

Mayor Burt: Can I pause there a second?

Ms. North: Absolutely.

TRANSCRIPT

Mayor Burt: Can you clarify that we're not talking about producing the recycled water at 450, but that would be a blended TDS. Correct?

Ms. North: Correct. We take the Advance Purified Water, if we put in a Reverse Osmosis (RO) system, and then we blend it with our existing recycled water to get a TDS for recycled water quality purple pipeline to 450 plus or minus 50. That's our goal. It's looking at how do we improve our existing recycled water quality for our existing customers. Also Mountain View is trying to get more customers online. The most challenging part for them is the TDS. Also that's the concern for Stanford Research Park as well. That's our goal. It's a Feasibility Study, so it's not building, it's not construction. It's just looking at what is feasible, what are the alternatives available out there, how do we deal with brine disposal. There's a lot of other things that go into just treating the water. As you can see, Phase One, we already have recycled water at Greer Park and our golf course. Phase Two is already built; that's down to Mountain View and to the Google and Intuit area. Phase 3 was to get to Stanford Research Park. We've only done the environmental documentation for Phase 3. Part of the next RFP what was just released, the Recycled Water Strategic Plan and Groundwater Indirect Potable Reuse Studies will include a Phase 3 business plan, looking at trying to get funding, and looking at does this make sense in the cost perspective. That's part of that RFP. I'm the main contract manager for it, but the Utilities folks will be in charge of those sections of Phase 3 expansion. These are some of the deliverables for the Recycled Water Strategic Planning effort. The RFP was just released last week, so we are on schedule at this point in time. We're not anticipating either to come to Council either late June or after you guys come back from recess in August to get this contract approved. We are also still working on negotiating with the Water District on how much they're going to fund. There's a lot of negotiations going on right now. At least we've released the RFP. We don't know how much exactly it's going to cost. We're anticipating maybe \$1-\$1.5 million. These are some of the items that we're anticipating the major deliverables. The Phase 3 recycled water expansion, the business plan, the preliminary design and the funding plan. That was based on your recommendation in September. You wanted us to get an updated business plan, updated cost figures; we're working on that. Also, looking at the possibility of indirect potable reuse. If we end up doing this Advance Water Purification System within Palo Alto, right our feasibility studies only look at currently improving the recycled water quality for purple pipe. We also want to look at is there an option for indirect potable reuse within Palo Alto. That's part of the Study as well. These are all things we just don't know, we don't have the information for. We're also looking at a conceptual groundwater motor as well. This is in partnership with the Water District which is why we're hoping that they'll be funding a good portion of this RFP.

TRANSCRIPT

Updating this northwest County Groundwater Study that also goes hand-in-hand with all the work we've been doing and discussions on whether or not there is linkage between the shallow aquifer and the deep aquifer and dewatering projects. We're trying to answer some of those questions, but not all of them. This is really focused on indirect potable reuse for recycled water. Obviously pulling all of that information together and keeping our public informed as we're moving forward on this. The most important thing is can we fund this. Is there Proposition (Prop.) One funding available? Is there Federal funding available? (inaudible) that'll all be part of that. It's a very large Strategic Plan. This is also the Mountain View and Sunnyvale recycled water distribution expansion, just so you know that's also part of this Recycled Water Strategic Plan. As you know, Mountain View is one of our partner agencies. Do you want to take these, Phil?

Mr. Bobel: In the interest of time, let me just say that we've got some visuals here for what our neighbors are thinking about and proposing. In the interest of time and because it may not be something you want to focus on tonight, let us just say that discussions are underway with our neighbors to the south and to the north about ways to connect the systems. If there's questions about that, we can come back and show this series of maps that we have that'll make that clear. Not knowing what your appetite is to hear about that, I think—what is the next slide?

Ms. North: its more maps.

Mr. Bobel: More maps of Sunnyvale.

Council Member DuBois: Could you just clarify what Sunnyvale is doing? They're actually going to potable reuse, which is part of the driver for ...

Ms. North: Sunnyvale is currently going through a major rehabilitation of their Wastewater Treatment Plant. Their ultimate goal is to have everything go to indirect potable reuse. I'm just going to flip to this slide. You can see Sunnyvale's existing purple pipeline system. They are looking for us to potentially feed that purple pipeline system because all of their water—if you see this other line going down here towards the Sunnyvale indirect potable use and the Apple campus, they're hoping their entire flow will go to indirect potable reuse. They're around 13 million gallons per day (crosstalk).

Vice Mayor Scharff: When you say indirect portable reuse, you just mean purifying it to reuse it, tap to toilet.

Ms. North: Purified water to be re-injected into the groundwater to then be pulled out to be used for drinking water.

TRANSCRIPT

Vice Mayor Scharff: It goes into the groundwater.

Ms. North: They're trying to work on regulations for in the future direct potable reuse, where they would be doing purified water, blending it with a treatment facility, and then eventually going back into your tap. That is their ultimate goal. They are working on purifying the water and doing indirect potable reuse. That whole plant of 13 million gallons per day, they will be producing around eight because the rest will be going for RO concentrate. They need to dispose of that. All these existing purple pipe customers, they're hoping that our recycled water, purple pipe quality will help feed their purple pipe customers.

Mr. Bobel: This relates to us because one of the goals that the Water District has had for some time is for the three sewage treatment plants south of the Dumbarton Bridge, ours, Sunnyvale, San Jose, is that they all ultimately tie together for resiliency purposes and to get the water to where it can be used best. Mountain View and Sunnyvale have actually had quite a few conversations about exactly how to tie the systems together from Mountain View, which is the south end of our system, to Sunnyvale. We could get into more detail on that, but that's a short summary of it. What's the next slide, Karin?

Ms. North: It's just the more focused area. It's just showing how close we are. That's it for discussion.

James Allen, Water Quality Control Plant Manager: Our agreement requires that Palo Alto Council approve any water transfer outside of the City of Mountain View and Palo Alto.

Mr. Bobel: Let's stop there. That's our background. Just to bring you back to the actual recommendation, the recommendation is just that first slide. The recommendation is to adopt this amendment which extends the recycled water agreement with Mountain View to 2060. That's the principle thing agreement does. We'll stop there.

Mayor Burt: Thank you. Before we go forward with Council Member questions, Molly, I just wanted to see if there's any legal framework that we need to have as the context for this discussion around the Capistrano case. If you could give us any input on that.

Molly Stump, City Attorney: Yes, thank you. The Capistrano case does include a passage on the recycled water program in that city which is different. A legal challenge was brought to the way that that jurisdiction decided to fund that project. Just let me say briefly that when—non-lawyers sometimes don't realize that when you read a legal case, what lawyers do is

TRANSCRIPT

take from the case an appreciation of what the judges decided that was specifically before them. Often that can't be generalized beyond that narrow point. That can become a subject of debate between lawyers, how broadly or narrowly a decision can be interpreted. In this particular case, Capistrano decided to take their recycled water program, which similar to ours served—it was actually not online at the time that the case was brought. The capital fund to build it—it was going to serve some customers, not residential. The funding was then spread across the rate base. There was a challenge to that, saying that that rate structure was not consistent with the California Constitution because the service wasn't immediately available, which is the language in the constitution, and that it was not planned to be available at all to residential customers. The court said no, it was fine for Capistrano to make that decision because the benefit of it, in a sense, was system wide. We know that that particular type of choice is going to, at least as to that panel of the court of appeal, pass constitutional muster. It doesn't necessarily follow that that funding mechanism is required. The court did not decide that. What the court decided is that the choice that that jurisdiction made was constitutional. It's much more typical for recycled water or very specific types of projects like this to be funded in a way that more tightly links the particular recipients of the service to the cost. That's what we've done. It certainly is completely legitimate. That court case did not suggest that there was any problem with the funding provisions that Palo Alto has entered into with Mountain View or what's proposed before you. Is that helpful?

Mayor Burt: Thank you. Council Member Kniss.

Council Member Kniss: First of all, let me make sure I heard what I think I heard. Let me go way, way ahead and talk about potable water. The Vice Mayor has just made reference to the toilet to the tap, tap to toilet, and so forth. According to people I heard in Arizona last week at a conference, indicate that that's a term they're really trying to eradicate. The new term is—perhaps you can tell me exactly what it is. It involves purification and so forth. What is the new term?

Mr. Bobel: Most people are referring to the product as purified water. The ways of delivering it are at first almost always indirect, meaning you go to the groundwater, and the soil gives it an additional layer of treatment before it's pumped out again and used. We call that indirect potable reuse. The type of water is purified water. San Jose sort of invented that to distinguish it from old-fashioned recycled water which is one less level of treatment.

Council Member Kniss: There was a fair amount of discussion about that particular conference. The message that came from that conference is how

TRANSCRIPT

precious water is, what a shortage there is, especially if you're meeting in Arizona and you have people there who are also from Nevada, where they really feel this and are, I think, further ahead in their planning and their conservation efforts than we are. As we look at this, primarily we're looking at the recycled water aspect of this. Would you agree? We're looking more at that and what our connection will be with Mountain View and so forth at this point. Obviously Mountain View is making a big investment, and they want to make sure that they get the water back that they have negotiated for. I'm far more interested in how we're going to get to this long-term issue of supplying water. Mentioned at this conference was there were just three ways to get water back. One is to conserve; one is to recycle; and the last one is to use this new system of purification or however else we may characterize it. Within this, I'm hearing that. I'm concerned that I'm not hearing a long-term plan for what we may drink in 10 or 20 or 30 years. Do you see that inherent in this, Phil, as well?

Mr. Bobel: We see addressing that in this thing we're calling the Strategic Plan about a year from now after we put these components together. We see addressing it, though, in a stepwise function. In other words, it's not an either/or thing. Are we going to use recycled water for irrigation or are we going to drink it? We hope to not tee it up for you in that way, rather as a stepwise series of actions that we would take. We're already reusing it for irrigation. Should we expand that? Should we treat it to a level that allows us to increase the quality of the recycled water? Also tees this up for producing purified water in the future. What we hope to give you is a package of steps that make sense, that don't predetermine the outcome, but continue to have us move down a variety of paths so we can make choices in the future. Many of these won't be mutually exclusive. We'll do different things. We'll be reusing this recycled water. We may be recharging the groundwater. We'll undoubtedly be using storm water in new ways. We may be using groundwater in new ways. Onsite, we may be using gray water and even black water in new ways. What we're going to try to give you is a plan that shows us moving out on all those fronts, since none of us are smart enough to see is there just one choice for us down the road or are there multiple choices. We can't even answer that. We just want to keep all options open and keep doing the research. When you ask us, "Are you looking into this or that," we don't have to say, "No, we're not looking into that." We can say in good conscience, "We're exploring all of these, and we're going to bring you back a Strategic Plan that shows our activity on all those fronts."

Council Member Kniss: As someone said regarding Hetch Hetchy, probably in the future we should just be drinking Hetch Hetchy and not watering our lawns with it and not bathing with it. It really is so valuable. I think at this

TRANSCRIPT

point we haven't quite gotten to that stage of urgency. It was of concern last week when it was announced that we were maybe getting toward the end of the drought or at least we could cut back on our restrictions. I think nothing changes people's habits quite as quickly as saying, "You don't really need to worry as much about it as you did last year." Especially after two days in Arizona, I am far more aware of that than I would have been before I went.

James Keene, City Manager: Mr. Mayor, Council Member Kniss, if I just might add something to this. I apologize if I repeat ...

Council Member Kniss: As a former person working in Arizona.

Mr. Keene: As a former person in Arizona, yes. Just to put the numbers on this. The Action tonight is really to extend the term of this lease related to the provision of recycled water. You are absolutely correct this is a larger, longer term conversation. We're going to come back on May 2nd, I think, with a Consent Item for a contract for about \$325,000 to engage in a sort of exploratory, Feasibility Study on the purified water issue, which I'm presuming you'll talk about some more. Again, just to put things in perspective. I think even when I got here, we were generating close to 25 million gallons a day at the Sewage Treatment Plant. My understanding is we are down to about 18 Million Gallons per Day (MGD), million gallons per day, because of the drought and other changes in our practices and behaviors. We are using very little actual recycled water right now, so most of it is just being discharged into the Bay. Even though in the terms of the base contract that we have with Mountain View, their share of that would be roughly seven million gallons. The capacity of what can be delivered through this agreement and what—our capacity right now for Mountain View is about three million gallons per day ultimately out of this 18 million that we have. Again, my understanding is we'll have future opportunities to revisit increases or changes in that number. There's obviously a lot of flexibility post this decision on what to do with the remaining water that we are not treating to recycled standards, we're certainly not yet treating to a purified water standard.

Council Member Kniss: I was left with that urgency, as I mentioned, after we left. I appreciate those answers. I appreciate you, Phil, being so on top of this.

Mayor Burt: Let me make sure that we're framing on this discussion. We're not most of the way through the time allocation that we had for it. The Action Item that we have tonight is around this addendum to our Recycled Water Supply Agreement with Mountain View. We have a lot of broader

TRANSCRIPT

issues that, I think, we share interest in here. I think what we're going to have to do tonight is focus any questions or comments around that specific issue. If the any of the broad issues relate or affect our support for this addendum with Mountain View, then that's what we need to discuss tonight. We have to figure out when we would be able to have occasions to have broader, long-term discussions around this whole range of alternatives that Phil described and is in the informational report that we got. We now actually have one speaker card. Why don't we go ahead and hear from Herb Borock, and then return to us and to try focus our conversation around the Mountain View contract for this meeting. We're going to have the desire to have broader discussions in the future.

Herb Borock: Thank you, Mayor Burt. I raised the question about pricing in my letter. As we go on and use more recycled water from the treatment plant, it becomes a question for two reasons. One, currently our share of the treatment plant costs are charged to our Wastewater Utility, which we collect wastewater and bring it to the treatment plant. If we're treating that water so that it can then be recycled and used by what's essentially our water utility in Palo Alto, it may make more sense to be charging that share of the treatment costs to the water utility. The second question is what will happen if using the current way of calculating prices for recycled water versus potable water—that is as customers are able to buy cheaper recycled water, the remaining customers of the potable water are going to have their prices going up, because they have to be covering those larger fixed costs. That's why I raised the question of what is the proper way to do it for Palo Alto. That's a political question as well as a legal question. Related to that is also whether those receiving or the uses of that recycled water are the uses that are in addition, that is, those are the ones that are causing us to have a bigger demand for water use compared to, say, the lower user of water in Palo Alto. That could justify different rates, which would go just the opposite direction. As I understand the contract that's being amended, we have an order from the Bay Area region for California Water Quality Control Board for nine million gallons of recycled water. That will cover 54 potential sites in Palo Alto, Mountain View and Stanford, with Stanford campus being the biggest user. The cost of that project, Mountain View paid for the distribution costs because those pipes are within Mountain View. With Mountain View getting three million gallons a day and us one million gallons a day, we paid for 33 1/3 percent of the transmission costs and 33 percent of the design cost. It's a question of how those project costs go in the future. Thank you.

Mayor Burt: Thank you. Council Member Holman.

TRANSCRIPT

Council Member Holman: I have a couple of questions specifically related to this, and then a couple of questions I probably don't need response to tonight. I want to make sure that we'll have an opportunity to discuss to them. I'm hoping at some point you'll respond to Mr. Borock's questions. On Page two of the Staff presentation, it says capacity share allocation established for capital replacement.

Mayor Burt: I'm sorry. You're referring to the Action Item Report, not the Informational Item?

Council Member Holman: I'm actually referring to the presentation that was made, Page ...

Mayor Burt: The presentation, thank you.

Council Member Holman: ... Slide 2. Bullet Number 3 is capacity share allocation establishment for capital replacement. Maybe this is just a clarification that needs to be for me, and everybody else gets it. I had been informed previously that we could not charge ratepayers for capital costs. It looks like we are recovering capital costs. Is it because Mountain View is not a ratepayer to Palo Alto? Is that the distinction?

Mr. Bobel: I think you're on the right track. The thing that confuses us is you're being asked to wear two hats at different points in time. The Sewage Treatment Plant is the water wholesaler here. Palo Alto could be a water retailer. Mountain View can be a water retailer. The cost we're talking about here is a cost that Palo Alto, wearing its hat as the Sewage Treatment Plant Operator and the wholesaler of water, would charge its partners, Mountain View being one of those. It's not a ratepayer thing that we're talking about in any of these bullets on that slide.

Council Member Holman: It does indicate capital cost share.

Mr. Bobel: Yes. A certain kind of capital cost, a replacement capital cost. It's not general. We have to get into more detail if you want to. Replacement capital costs, replacing stuff that's already there at the plant.

Council Member Holman: It doesn't address expansion then.

Mr. Bobel: This bullet doesn't address expansion.

Council Member Holman: Can we charge expansion capital costs to, let's just say, Mountain View?

Mr. Bobel: Yes, we have to. Somebody has to pay it if we're going to spend it.

TRANSCRIPT

Council Member Holman: Just wanted to make sure on that. The other question that I have refers to probably—the conversation you had in part of the presentation on slide 3 had to do with the lower right-hand box there. If we're going to have an opportunity to have discussion on this in the future without it being on Consent, then I'm fine in getting the answers there. The questions are these. The Phase 3 is Stanford Research Park. I've never really thought that that's probably the best use of any kind of money. Again, I was told that we can't charge ratepayers for the capital expansion, so we would have to pay for it and then charge Stanford Research Park users for the water itself. It seems like it's an awful lot of capital expenditure. If that is accurate, I'd like to hear that. If we discuss it at a future point time, not on Consent, then I'm happy to get the response later. The other thing is you mentioned East Palo Alto in reference to that lower right-hand box on slide 3. I'm wondering why we don't primarily focus on East Palo Alto because of their very low water allocation that they have and where we can do the most good in terms of providing recycled water services. Again, if we're going to have a chance to discuss all of those in the future and something not be on Consent, then I'm happy to get the responses then. If you can assure me of that.

Mr. Bobel: I think we are going to be able to discuss both those points later. The first point is actually in the upper right-hand. That's the Palo Alto potential expansion. The lower right-hand is potential expansion to East Palo Alto and others. You're absolutely right that the main driver for the expansion in East Palo Alto is their own need for water. No question about it.

Council Member Holman: Last point here is, again, future discussion of an update on what I'd understood last year, if not year before last, was that Stanford is looking at for its Research Park and other lands potentially putting in its own water recycling plant. Are we going to have a customer even if we get purple pipe there? Again, we can discuss it later if we're assured of having an opportunity to have that discussion.

Mayor Burt: Council Member Filseth.

Council Member Filseth: Just real briefly. 2060 is a long time. What do you think the biggest risk to us in entering into a contract like this is? Usually if you enter into a long-term contract to supply somebody something, then they make a reciprocal commitment to purchase a certain amount of stuff. I'm not sure that's the right analogy here. Can you just talk briefly about that?

TRANSCRIPT

Mr. Bobel: the principal reason that we don't see a downside to extending the agreement is that the Basic Agreement and the philosophy that that agreement was based on was that each of the Sewage Treatment Plant partners is really entitled to the amount of water that they discharge into the system. It's really their water. It's really is time independent, that entitlement that they have to their share of the water. The thing that gets confusing is there's a number of ways of looking at this. You can look at the permitted amount of water, which our speaker was addressing. That doesn't have all that much relevance frankly any more. There's the basic entitlement that I'm talking about, which in Mountain View's case is currently they're contributing about seven MGD, so they would have an entitlement to that seven MGD. Then you heard us talking about a three MGD number for Mountain View. That's because there's only a certain capacity that we currently have to deliver water. There's a number of ways to looking at this. When we're extending this base agreement, the actual effect of it is to just extend that almost philosophical understanding that everybody owns the water that they discharge to the Sewage Treatment Plant, and they get it back if they want it. That's a very fundamental principle that all of our partners are assuming and share. We don't see any of them being willing to negotiate away from that.

Council Member Filseth: As long as we're actually in the water treatment business, then it should be no big deal.

Mayor Burt: Vice Mayor Scharff.

Vice Mayor Scharff: Thank you, Phil. I actually really like what you're saying. There are a couple of things, though, that seem to be concerning me. The first seems to be just the overall big, Strategic Plan here. Sunnyvale is saying, "Let's purify our water and, therefore, we're not going to have any recycled water." Since we have our purple pipe already, we now need to buy recycled water from someone because we now are purifying our water. It would seem that as we go to 2060, Palo Alto's going to want to purify their own water, and we're not going to want to have recycled water. We're going to want to have purified water. When I read this agreement, it stops that from occurring. That's what this agreement seems to do when I read it. When I read this agreement, it seems to do the opposite of what you say, which is we're going to have Strategic Plan and have lots of options. We're going to weigh the options, and we're going to have different paths we move down. This agreement seems to lock at least Mountain View in, on this notion that they're going to take their seven million gallons as we increase capacity. That will be recycled water, and that will not be purified water. They'll actually have an incentive to fight with us not to spend Capital Improvements to purify our water. They'll want to keep

TRANSCRIPT

it as recycled water. In fact, when I read the agreement, it talks about recycled water all the time. I think there's legal arguments that could be made; I just cursorily read this. They could argue that recycled water is different than purified water and, therefore, that is what the agreement says. It does not say purified water and, therefore, Capital Improvements to purified water, they may not have to pay for it. That would be one concern. Another concern is what I heard you say that they're going to pay for the operation and maintenance costs. When I read the actual agreement, it doesn't say that. It says water wholesale rate ...

Mayor Burt: Page?

Vice Mayor Scharff: Page 183, Packet Page. It would be Section 4.11. It says effective on July 1, 2020. This is the language. It continues to encourage the use of recycled water and ensure that the remaining Recycled Water Quality Control Plant (RWQCP) partners to incur no incremental cost impact. The phrase "continues to encourage the use of recycled water" implies subsidy, implies that you're going to keep it cheaper and, therefore, you do that. That's different than operation and maintenance costs. Then it says and incur no incremental impact from the production of recycled water. Those two seem to be almost compromise language of two competing goals. Palo Alto's goal of, I assume, no incremental costs, which again is different than operation and maintenance costs, which is what you said. I don't think that this agreement here says what you stated. I guess I just have those concerns. I don't see what you're saying to be reflected in the agreement. Response?

Mr. Bobel: I'm not sure I followed all of your problem with the current language. Part of what I was trying to convey was that we'd keep all options open and give you the Strategic Plan. That was wearing the hat of Palo Alto as a water retailer and all of the options that Palo Alto has there. Honestly, I don't think our City Council is the decision maker with respect to Mountain View's water. I wouldn't say the same thing wearing the heat of the wholesaler. Wearing the hat of a wholesaler, I think the truth is that each of the partners will be making the decision how to use their fraction of the water themselves. Palo Alto won't be making that decision for Mountain View. Maybe I misspoke earlier, but I was really speaking from the perspective of Palo Alto as the retailer on our options.

Vice Mayor Scharff: What you've asked us to do tonight is to approve this agreement. My concern is that I haven't heard how this agreement limits our options in the future. I've heard broad things about a Strategic Plan in that, but you're mixing stuff. If we're going to have a Strategic Plan, I'd like to know—let's have a Strategic Plan. Shouldn't we sign this after we have

TRANSCRIPT

the Strategic Plan? Shouldn't we understand our Strategic Plan and where we want to go? One of the key facts that you've mentioned tonight, which I didn't see in the Staff Report, which underlies this whole thing, seems to be that Mountain View believes—what you said is that you think that's the base agreement. The base agreement's not in the Staff Report, so I can't read it. The base agreement said Mountain View's seven million gallons is Mountain View's seven million gallons. That's a different framework from which to think about this. I don't see that in the agreement either. Maybe that's in the base agreement.

Mr. Bobel: It's in the base agreement; that's right.

Vice Mayor Scharff: I guess I'm trying to understand how the base agreement—without looking at the base agreement, it's hard to understand this in context. I guess is what I'm saying. What you're asking me to do is to approve this without understanding the base agreement and without understanding how this limits us. If this agreement said Mountain View's water is Mountain View's water, and we all agreed on that, and they can go do with it. It's not going to affect us and the way we distribute costs; therefore, Mountain View has to pay for whatever costs they use with their water. We pay whatever costs we use with our water. They have to pay the incremental cost of whatever it costs to produce this. I don't think that's what this agreement says. I have no faith that that's what this agreement says. If someone wants to give me that faith and say, "Yes, that's what the agreement says," then maybe I can vote for it.

Mr. Bobel: This agreement is very limited and very narrow. It doesn't contain everything by a long shot. The base agreement is where you find this entitlement that I'm talking about, where each partner is entitled to the water that they contribute. That's where you find that. We're not altering this with this amendment.

Vice Mayor Scharff: I guess I'd have to ask the City Attorney. After the questions I've raised, if a year or two from now when we go through this process, are we going to feel comfortable that we haven't limited our options on this and that we've reviewed it carefully enough that we're comfortable with the terms recycled water, purified water, that we're comfortable with the cost allocations set forth in this will not be unfair to Palo Alto, and that we understand that the term "continue and encourage the use of recycled water" what that phrase means. To me, it means subsidy. When we do things like that, we say we intend to subsidize the cost of recycled water. How that plays into these cost allocations, and how that plays into the whole framework of this. Their water is their water, and our water is our water

TRANSCRIPT

doesn't seem to be said in this amendment. It's supposed to be in the base agreement.

Mayor Burt: Can I complement the concern here and maybe frame it slightly differently with another question? One is what this means, "to continue to encourage the use of recycled water." Does that adequately address what Vice Mayor Scharff was talking about and whether it covers the operation and maintenance costs of that. The second broader question that I have to add is that we have, up until now, framed our costs of providing recycled water as the incremental cost above our wastewater treatment, which is pretty nominal cost above the wastewater treatment. What we see in the future is the wastewater as a commodity in itself. At a certain point in time, we'll say we had the amount of cost and treatment steps necessary to discharge it which have always been thought of as an expense of dealing with wastewater water. As soon as that water becomes reused, those same steps that could validly be treated as expense of treating wastewater become the first step in producing valuable purified water ultimately or the recycled water. I think it's better for the time being to call it non-potable recycled water to clarify that. There's a real, valid question of whether the costs of treating water are actually the initial steps of the cost of producing valuable purified water eventually. Are we locking ourselves into providing at no cost or no additional charge, because they're already paying for their fair share of that first treatment steps. We give them back that water at that stage, and that's probably the valid argument. My concern may be addressed in saying that each partner has paid for that first step and gets back the water at the cost that they paid their fair share. The only remaining question is whether the cost of the operation and maintenance is there. I just wanted to kind of toss out that potential.

Mr. Bobel: I think that's accurate. Jamie's confident and I'm sure he's right that if it helps, we can strike out the part that says "on July 1, 2002," third line on that page. The rest of the sentence goes on "that continues to encourage the use of recycled water." I can see, now that I read that three or four times, how that may bother us. I'm sure Mountain View would agree to crossing that out. We can do that if it helps. Remember there is another principle here that I've got to mention before we get too caught up in this idea that everybody pays exactly for their share. We're actually required by the State to have a recycled water program, because it helps lower the discharge into San Francisco Bay and keep pollutants out of San Francisco Bay. They've never put a particularly fine point on "this recycled water program that you're required to do, how big does that have to be? Is that five MGD, is it three MGD?" We're kind of dancing around in a world. We've expended plant funds which include all the partners on getting us to the point where we are. Just like you said, Mayor Burt, we've treated it to a

TRANSCRIPT

certainly, but that level gets us to the point where we can recycle it. All the partners have paid for that. All the partners have also paid additional costs in getting that pipeline to Mountain View. The plant as a whole kicked in. Why? Because it's a requirement on us to have a recycled water program.

Mayor Burt: That was another question that I had; reminding us who paid for that purple line to Mountain View and, for that matter, the more limited purple line that Palo Alto uses.

Mr. Bobel: Mostly Mountain View paid for the one to Mountain View. I have to point out that the plant kicked in approximately \$1 million, as I recall, out of \$16-\$17 million. We've always sort of done that type of activity to fulfill our requirement to have a recycled water program on the part of all the partners. This is only going to grow in intensity, because the next thing that's coming along are nutrient requirements for San Francisco Bay, reducing nitrogen and ultimately phosphorus that are discharged to the Bay. As those requirements get closer and closer to us, there's going to be more and more justification to have the partners pay for upgraded—we're going to have to reduce ...

Mayor Burt: There is a whole thrust for reducing discharge and, at the same time, that is resulting in a new commodity with value. Council Member DuBois and I heard that Mountain View is already charging their commercial customers for the recycled water at two-thirds of the rate of the potable water. That was news to me. Interesting because I've been kind of dwelling on why isn't anybody charging for the value. They are to their commercial customers like Google and things.

Mr. Bobel: That's very common for the retailer to charge for the water. It's also very common to set that price at two-thirds of the value of your potable water to encourage its reuse, because most communities like us are being required to cut back their discharge to whatever water body they're in.

Mayor Burt: Vice Mayor Scharff's question around—you've already had that one deletion. Do we have enough—that omitted some problematic language. Do we have adequate language to talk about who pays for the operation and maintenance?

Mr. Bobel: We think so. We think that starts at the bottom of that previous page in Section 4.11 where it names certain of these costs including chemicals, energy use, increased consumption. It ticks off a few but not all. It gives a sense that that are the operating costs; these are what we incur day to day. That's what need to be shared going down the road.

TRANSCRIPT

Mayor Burt: Shall we let Council Member DuBois proceed while we kind of digest that?

Vice Mayor Scharff: Let me just basically bring this to a head here. Phil, what I hear you saying is that this makes a lot of sense in the short term. I don't disagree with you. Nutrient discharges, dealing with our current regulatory. You're asking us to go out to 2060. As Mayor Burt has said, this is going to be a valuable commodity. I just want to know that this agreement in the context with the base agreement basically says that Mountain View's water is Mountain View's, and that our water is our water, and that we are going to separate out the costs in a way that makes fiscal sense to Palo Alto and to Mountain View in a fair way.

Mr. Keene: I think you could say that. I think we can say that.

Mr. Bobel: You said it well.

Vice Mayor Scharff: I'm concerned, Phil, that—I only have so much time to read this stuff, and I haven't heard from our City Attorney to assure me that what I've said. I know you want us to vote for this tonight, and I know that you will say that it's there. I don't believe that you've actually read the agreements and have a sense of how they work legally. What I really want to hear is I want assurance from our City Attorney that these agreements do what they say. If they don't, then I want us to rewrite them and go back and look at them. That's all.

Ms. Stump: Thank you, Mayor Burt, Vice Mayor Scharff. The agreements are more general and cooperative in tone. This is an intergovernmental agreement with our partner and neighbor Mountain View and don't necessarily address at a fine point all of these various contingencies. They weren't negotiated for that purpose. I do think it is an area where if Council wants some more specific language, I'm hopeful that we can enter into those discussions with Mountain View. I don't imagine they would have a concern with the direction that you would like to have some additional detail and language of assurance. Those would be some things that we could add into the agreement. What I'm hearing the Staff say is that these principles are kind of undergirding the cooperative relationship. These documents are a part of that, but there is a lot of other history in the way that things are applied and worked out at the Staff level. If you'd like to see some of that made concrete and very specific in the agreement, then we can work on doing that.

Vice Mayor Scharff: I think I would.

TRANSCRIPT

Mr. Bobel: The Basic Agreement, just to remind you, includes Los Altos. If we get back into the Basic Agreement and try to change that, then it's a longer term proposition as we involve two partners.

Mr. Keene: I think that's a subsequent action that we could look at and take. As it understand it, I kind of want to get at a deeper question maybe that your Vice Mayor is asking. At some point in the future, we're going to be producing purified water. As I understand it, in the simplest of terms what we do right now is we treat the sewage to a level that essentially is what we'll call recycled quality, most of which we just discharge into the Bay. The purple pipe recycled system is basically to build the hardware and everything with some additional work to be able to distribute some of that outward into other use rather than discharge it into the Bay. My understanding is that when we move to purification and we build a reverse osmosis plant or whatever, we're not going to skip over the steps that we're doing right now. We're going to continue to treat to the level we are, and then there is a secondary or subsequent treatment that goes through the purification process. That means that whatever water we decide as a City that we want to take that suddenly is a very valuable commodity, that we want to be able to deliver directly as purified, we're going to have the ability to take all of our capacity, if that's what we want to do in the future, and put it to that grade or that stage. Mountain View have maybe made some investment decisions right now to use three MGD of their future supply to deliver it as reclaimed water. My view is they could still be in a situation in the future that they might want to rethink that whole process themselves and say, "Wait a minute. This is a valuable and scarce commodity. Even though we had a sunk cost and we're trying to recapture the cost of delivering it through this purple pipe." They could still even make the decision in the future to say, "We want in on that three MGD," in addition to the fact that they have other water that is not at this stage yet, that very well could be part of the purification process with us.

Mayor Burt: Council Member DuBois.

Council Member DuBois: First of all, I want to say I'm actually excited to be on the Recycling Committee. I'm really looking forward to progress on the plant. I'm jumping to the contracts since that's what we're talking about. I had a mix of comments and questions. On 4.1.1 that we've been talking about, who will the wholesale rate apply to? Right now it's only Mountain View. Does this amendment apply to everybody that's part of the recycled water plan?

Mr. Bobel: This is just an agreement between Mountain View and us.

TRANSCRIPT

Council Member DuBois: If anybody else wants recycled water, they're not covered right now.

Mr. Bobel: It's not clear in the Basic Agreement how that would work.

Council Member DuBois: It would be likely to take these amendments to, say, East Palo Alto and say, "This is what Mountain View signed up for. Would you sign the same kind of deal?"

Mr. Bobel: I think we'd work out something separately with East Palo Alto.

Council Member DuBois: I was using them as an example. Los Altos?

Mr. Bobel: Anyone. Los Altos is different because they're part of the three agencies that make up the Basic Agreement. It's a different agreement than we have with East Palo Alto.

Council Member DuBois: Again, on these costs that we can include, it says directed Staff. Does that mean we can include any overhead costs?

Mr. Bobel: The cost of our own Staff?

Council Member DuBois: Yeah.

Mr. Bobel: I don't know that we've talked to—have we talked to Mountain View about that?

Mr. Allen: (inaudible)

Council Member DuBois: Not overhead is what we're saying.

Mr. Bobel: Jamie is saying that any dedicated staffing is covered.

Council Member DuBois: It kind of goes to the point I think the Mayor was making earlier about as this becomes more valuable, are we accounting for all of our costs. I have a concern there. How would 4.1.3 work? I understand it's kind of a friendly agreement. It basically says if one of us doesn't want to pay the capital costs, we're going to negotiate on water rights.

Mr. Allen: If the capital costs were prohibitive, then one agency could say, "We don't want our allocation anymore." The ones that do want it would have to pick up the costs of the capital repairs. These could be very expensive capital replacement costs. The agencies have the right to back out at that point of their share.

TRANSCRIPT

Council Member DuBois: We would still be processing their share, but they wouldn't be entitled to recycled water.

Mr. Allen: Correct. Let's say Palo Alto didn't want one million gallons a day; they wanted 1/2 million gallons a day. Their percentage of the that project cost would change.

Council Member DuBois: On 5.3, similar kind of mechanism. It says not unreasonably withholding funding. Again, because this is such a long agreement, having some kind of mechanism to deal with failure to agree to how we would share costs would make sense. Similar to what you have in 4.13 and 5.3, it said we'll determine the cost for improvements and Mountain View will not reasonably withhold approval. What happens if they do? What if we decide we really want the purified water but they don't want to pay for it? Should we have the ability to basically adjust their allocation at that point? Do you guys feel like we have so much water that we're not going to run out of it by 2060?

Mr. Bobel: I just have to back up and say this agreement was never intended to answer all the questions that you might want to have answered ultimately. If there are certain things that you want us to negotiate with Mountain View, it would be great to get those enumerated. Then we could go back and try to negotiate that. This agreement was prepared at their request to just extend that date out to 2060 of the basic entitlement. It wasn't intended to answer questions about purified water or things that might come up of that nature.

Council Member DuBois: To me, this is the primary area. It's kind of a gentlemen's agreement, but what happens if one party wants to push further than the other party? What happens to the allocation at that point? I really think it's in this 5.3 and 5.4. Just so I understand, under 5.4, it refers to people a different way. It refers to parties with contractual rights to recycled water. Would that be all the people part of the joint plan or is it just Mountain View? Today, do the other cities have rights to recycled water that they're just not exercising?

Mr. Bobel: The three basic partners would be entitled to the water that they contribute according to the percentages they contribute.

Council Member DuBois: Just the three.

Mr. Bobel: We'll have to explore the other ones to see exactly—the Basic Agreements were never intended to address these kinds of questions. I'm sure one could read those, and our attorneys could read them and draw some conclusions about that. It was not intended to address that question.

TRANSCRIPT

Mr. Allen: Mountain View and Los Altos had their own treatment plants that they retired. They lost the capital value of that plant when they invested in our plant in 1972. To acknowledge the fact that they lost the capital investment, they got the rights back to all the products created, the wastewater products, the biosolids, whatever. That was put specifically into the Basic Agreement to acknowledge their loss of their capital infrastructure.

Council Member DuBois: Thank you. There's this one clause here in 5.4 that I just want to understand how you would see it working. In the second paragraph, it says if a requesting agency wants more capacity than they're getting and the other parties aren't willing to pay their fair share, then the requesting agency will then own rights to the new supply being produced. It seems to say you could own rights to more recycled water than you were contributing.

Ms. North: Where are you? Are you at 5.4?

Council Member DuBois: 5.4, second paragraph, that last sentence.

Ms. North: Talking about water rights and transfer of water rights, is that what you're asking about in that question?

Council Member DuBois: Let's use Mountain View. They're entitled to up to eight million gallons, seven. Let's say they decided they wanted more and they were willing to fund it, does this say that they would own the rights to the new supply? They would own more than seven at that point.

Mr. Keene: Isn't it controlled by that separate—this seems to be the prolonged way to getting to your max. If you were actually to take some actions that generated more supply than you thought, you're entitled to that. You're not entitled to take Palo Alto's fair share of supply.

Mr. Bobel: We'd have to have a new agreement about that. If Palo Alto didn't want to agree to give up its rights, which it probably wouldn't, then it wouldn't agree to that expansion.

Council Member DuBois: The thing I'm most worried about this in 5.4 is we mentioned East Palo Alto's need for water. Do we think we'll get in a situation by 2060 where the amount of water that East Palo Alto wants would cut into our commitment to deliver Mountain View its allocation?

Mr. Bobel: Like I say, the working assumption that we were making as Staff is that this should be treated as though each of these partners were entitled to the water that they contribute. We wouldn't propose to you any agreement that would undermine East Palo Alto or any one of the partners'

TRANSCRIPT

ability to use the amount that they had contributed. We wouldn't agree to that. This agreement wasn't intended to make that clear. We wouldn't propose to you anything that was inconsistent with that underlying allocation methodology.

Council Member DuBois: Do we get in a situation where Mountain View wants lower quality irrigation water even though we potentially have customers for higher use?

Mayor Burt: Council Member DuBois, that wouldn't—what quality they want wouldn't affect the share that goes to each of the other member partners.

Council Member DuBois: If we got in a situation where we saw a need, and we wanted to be able to do that, we would not be able to do it?

Mayor Burt: We would not be able to take Mountain View's share and allocate it to East Palo Alto. If we wanted to take our share, that's within our discretion. What I want to try and do is focus on this action that we have before us tonight and the language change that Staff said they could delete the one sentence at the top of Packet Page 183, that says "continues to encourage the use of recycled water." Does that language change give us adequate clarity on the agreement or do we need to have Staff return subsequently with additional information on the base agreement or any other clarifications that we're seeking.

Council Member DuBois: I think I was raising a couple of other issues. I don't know if other Council Members share my concern. Particularly in 5.3 and 5.4, do we need to be more specific in terms of what happens if one of the agencies doesn't want to make the investment in terms of their allocation?

Mr. Bobel: Do you have a suggestion as to what we might offer if an impasse is reached?

Council Member DuBois: I guess that basically their allocation would go down if they didn't want to share in the costs. It's kind of what ...

Mr. Bobel: I don't think we could get them to agree to that.

Council Member DuBois: That's kind of what 4.1.3 says in a soft way. I just wonder if it should apply in ...

Council Member Kniss: Mr. Mayor, I'd like to make a Motion.

TRANSCRIPT

Mayor Burt: Why don't you hold just one second. What we need to decide really is whether we're going to go forward tonight on a Motion on this or we want Staff to return.

Vice Mayor Scharff: I want Staff to return.

Mayor Burt: That's the first question before us. If we're not comfortable with the information before us, then we should re-agendize it and continue the discussion around the questions that have been raised tonight.

Vice Mayor Scharff: I'd make that Motion.

Mayor Burt: is that an acceptable Motion or you want an alternative? You have the floor.

Council Member Kniss: (crosstalk) Vote against it.

Mayor Burt: Pardon me?

Council Member Kniss: I'm going to vote against it.

Mayor Burt: You have the right to make the first Motion. We could go through that and see whether that prevails.

Council Member Kniss: If Greg wants to make his Motion, go ahead. I can't support this coming back another night. I think we've discussed it extensively. It's been going on for a long time. I am very comfortable with where it is and would move forward with that one change.

Mayor Burt: Giving Vice Mayor Scharff the floor, then go ahead and make your Motion.

Vice Mayor Scharff: I'll make a Motion that Staff, having listened to our comments, goes through the agreements and comes back to us with the changes to the agreement and with an explanation ...

Council Member Kniss: For another discussion another night?

Vice Mayor Scharff: Yes. With an explanation of where we are and our ability to then vote on it.

Council Member DuBois: I'd second.

MOTION: Vice Mayor Scharff moved, seconded by Council Member DuBois to direct Staff to review Council comments, review the language of the Agreement and return to Council with updated Agreement language.

TRANSCRIPT

Mr. Keene: Our understanding on that would be that what we would be looking at would be restricted to this concept of the terms that we have in the agreement before us and just ensuring that we're protecting the City's interests.

Vice Mayor Scharff: That's correct.

Mr. Keene: We're not going to take on a bunch of other issues that need to be subsequent modifications to the overall agreement.

Vice Mayor Scharff: Correct.

Mayor Burt: Is it correct that we want to make sure that the base agreement is fully consistent with (crosstalk).

Vice Mayor Scharff: Yes.

Mr. Keene: I was assuming that that was inherent in the comment.

Mayor Burt: Do we have other comments on the Motion?

Male: I second it.

Council Member DuBois: I seconded it.

Mayor Burt: Council Member DuBois seconded it.

Council Member DuBois: Just one last point which echoes what Vice Mayor Scharff said earlier. I don't know if we have clarity that under 8.3, it doesn't mention additional uses of water like purified water. Again, this contract goes to 2060. It just seemed odd that it didn't talk about purified water at all. I think it's a question of does it need to be in there.

Ms. Stump: I think partly the City Manager was getting at that issue, that that's certainly an idea. There's a proposal that's coming before you to fund a Feasibility Study. It's very early in the planning stages. I think what we would look to do there would be perhaps discuss with Mountain View putting in a sentence that says nothing in this agreement shall restrict future planning on duh, duh, duh, duh. We'll handle it in a way where we will not be trying—we can't answer those questions in the context of bringing forward this limited term extension.

Mayor Burt: I think the concern is to make sure that this doesn't restrict those options in a some legal way that we haven't identified well enough.

TRANSCRIPT

Vice Mayor Scharff: We don't need a sword here; we just need a shield. That's really what it comes down to.

Mayor Burt: Council Member Schmid.

Council Member Schmid: I just wanted to add a note on the concern. On Page 2 of the presentation, you mentioned that costs were for—operations and maintenance costs are agreed upon. The last bullet says continued salinity reduction efforts. We've been working on that for 10 years, and it's not an easy problem. The possibility of the two partners moving in different directions on that as an example of a costly thing. Where they say right now only 16 percent of recycled water is reused, let's get that up to 50 or 100 percent, let's invest in what's needed to get there. Mountain View who's building a major pipeline and a major development on the east side of Mountain View, dependent upon flows of water, is going to say, "I'm going to spend whatever it takes." What the accord says is that under those conditions they have the right to do it, and someone else can take over Palo Alto's agreed upon supply. I can see in the wording potential conflicts between the partners that could be substantial. It would be nice to have wording that could protect us in such cases.

Mayor Burt: Please vote on the board.

Council Member Kniss: Wait, wait. I'd like to explain my no.

Mayor Burt: You have a light.

Council Member Kniss: I did have a light, yet. It goes on and off. Yes, I had a light. I'm going to vote against this. I certainly appreciate that my Colleagues have delved into this extensively. Let me ask Phil. How long have we had this arrangement with Mountain View?

Mr. Bobel: Jamie, when was the first recycled water agreement with them?

Mr. Allen: This agreement was 2005. We've been sending water to them since, I believe, '93 or '91.

Council Member Kniss: I think it's a longstanding arrangement. I think we probably could pick this apart tonight. I would have far rather that we had asked Staff to come back with some corrections and gone ahead and approved it tonight. Instead I think we're going to be back here another night, having a long discussion about it yet again. I think we have to look at how we are taking Staff Reports apart and reconstructing them in real time. It has to be discouraging for Staff at the same time. I realize it's interesting to do this, but it—this is an agreement we have with a neighbor just to the

TRANSCRIPT

south, that's an important agreement that we have with them. It has been discussed at length. I happened to discuss it with them last week. I think they'll be surprised that we don't find it acceptable.

Mayor Burt: I think I want to just briefly comment to that. This is being reviewed carefully because the landscape is actually changing. The basis for the agreement back in '05 was based upon recycled water with really no envisioning of purified water on the horizon and the ramifications of all the things that we're going to be studying. We need to make sure that the agreements do not restrict us. Hopefully we'll come back and the Staff will say, "We've reviewed it very carefully. Here are the reasons why we are adequately protected," or they'll say, "Here are minor modifications to the language to help strengthen and assure that." They've already stated one revision that they would tentatively be making. We had another revision that was in here tonight. It could be argued whether we would have been protected without these changes. I suspect as we're moving into a new landscape, it will be important to reduce the ambiguities that may exist because these agreements were written around previous conditions. That's my point. Let's vote on the board. That passes 8-1 with Council Member Kniss voting no.

MOTION PASSED: 8-1 Kniss no

Mayor Burt: Thank you all very much. This is very informative.

12. Fiscal Years 2017 to 2026 General Fund Long Range Financial Forecast
(Continued From March 14, 2016).

Mayor Burt: Our final item is Council review and comment and acceptance of Staff Recommendation of the Fiscal Year 2017-2026 General Fund Long Range Financial Forecast. Welcome, Mr. Perez.

Lalo Perez, Administrative Services Director and Chief Financial Officer: Thank you, Mayor Burt. Lalo Perez, Chief Financial Officer. Tonight we bring to you the updated 10-year General Fund Financial Forecast. Before we start, I wanted to acknowledge that we have some corrections. They're in the At-places Memo that you should have. We are correcting a couple of tables in the report. We're point them out there, a percentage number. They're Items 1, 2 and 3. There's attachments. We can go through them later, given the length of time. This forecast helps us identify financial trends, shortfalls and issues that we need to address. We make various assumptions that are our best guess, frankly. We use trending data along with some assistance from consultants such as Bartel and Associates. The forecast is not intended as a budget or as a Proposal Plan. To this point, we use salary increases in the outer years that are not meant to be promises to

TRANSCRIPT

our employees. We have recently experienced an economic downturn over the last few years, which has allowed us to increase contributions to the infrastructure needs of the organization. The forecast also includes dedicated revenue from the Hotel Tax increase from 12 to 14 percent and from new hotels. There are many challenges ahead that are known and some that are unknown in terms of the actual costs. We will touch upon that in our presentation. Starting with slide 2, that's what we expect to cover tonight during our presentation. Moving to slide 3. I have another correction here. I apologize for that. The Fiscal Year 2018 where you see the 14.7 percent change, that's comparing it to 2016, which is not what we intended to do. It should read 4.6 percent which should be comparing it to 2017. The gray line is the number that I want to focus you to, which basically says that we have a couple of challenging years ahead of us, in Fiscal Years (FY) '17 and '18. '19 is not that much better, but at least in the positive trend. As you can see, '20 and '21 are also a challenge. We'll go into more detail as to what the forecast has and how we got to it. This next slide here shows you the base forecast. While it looks very positive towards the end of the forecast, as you well know, the further out we get the harder it is to forecast. Keep in mind also that we have several projects and needs in mind that are being discussed that are not part of the forecast, which costs have not been implemented in this. With that, let me turn it over to Joe Saccio who's going to start the discussion with revenues.

Joe Saccio, Administrative Services Assistant Director: This pie chart is self-explanatory. The reason we show this is just to show the diversity of City revenues that are fairly well balanced compared to other jurisdictions which may rely on just sales or Property Tax. You'll note that we've broken out the Transportation Occupancy Tax (TOT) between that that will go to support infrastructure and the old TOT, so to speak, that goes for the General Fund, not that the infrastructure doesn't go for Infrastructure Fund projects. The next slide, this is just to remind you about some basic assumptions that we have. We have used a compound annual growth rate methodology. A Finance Committee recommended using it several years ago. We apply that trend to the out years based on what we're seeing historically. What we mean by inform adjustment is if we see a blip or a one-time event, we'll extract that from historical data such as in Sales Tax in order to have a Compound Annual Growth Rate (CAGR) methodology that makes sense. We did modify this forecast, going back to a question Council Member Schmid raised about a Stanford Hospital Use Tax, which is a one-time revenue source. We did correct for that as well, taking that down over the next few years. You're well aware that we've had a pretty strong revenue recovery since the great recession. Down below, the three more important taxes that we have, you can see that the CAGR. We're doing fine on Sales Tax; although, there is a few concerns about the internet erosion, online

TRANSCRIPT

purchases. Property Tax growing at six percent is certainly in line with what was found for the Fiscal Study in the Comprehensive Plan (Comp. Plan.) Transient Occupancy Tax is doing really quite well. With that high-level review, I'll turn it over to Kiely who is going to talk about expenses.

Kiely Nose, Budget Manager: Similar to the revenue side, we have a slide just kind of over viewing the global General Fund expenses. Overall, the holistic view shows in Fiscal Year '17 we're expecting expenses at \$194 million. In developing this, like Lalo had said, expenses have been adjusted by removing our FY '16 Adopted Budget one-time expenses and updating major cost elements such as salary and benefits. To that note, you can see the majority of the expenses, about 61.4 percent, are attributed to salaries and benefits. That's about \$119 million. This next slide is just kind of going over some of those general expense assumptions. With nearly two-thirds of the annual expenses on salaries and benefits, the assumptions behind this are currently in negotiations with various bargaining groups. We've assumed current Council authority. The annual compound growth is about 3.5 percent which is very similar to what was seen in the December report of 3.6 percent. The remaining expense assumptions are outlined and have about a 2.6 percent CPI. This next slide is just highlighting salaries and benefits over the next 10 years, which represent that 61.4 percent. The benefit costs as a percentage of total salaries and benefit costs have increased from 40.4 percent in FY '17 to 43.6 percent in FY 2026. This is compared to the '16 Adopted Budget, which had benefits of 50.3 percent of total salaries and benefits. As Lalo had mentioned and as you guys are quite aware, this model doesn't have everything in it. There's a significant number of known unknowns, both long term and short term. This slide is identifying those knows and unknowns. In the nearer term, we will revisit and probably see as part of the Fiscal Year '17 Proposed Budget the Infrastructure Plan operating capital expenses, things like the street lights and electric crossings and fire services contract with Stanford. These are all three things that are not included in this forecast but will be brought up again as part of your '17 Proposed Budget process. We also did a couple of alternative Scenario. The first one you guys have seen before. This is the CalPERS poor investment return. These are numbers from Bartel and assume a seven percent rate of return. You can see you're facing deficits through 2023, and then you won't see surpluses until 2024. This is a quick comparison of the retirement contribution rates or the pension rates by plan. In your base case right next to the alternative case with that seven percent return. Another alternative Scenario as requested by the Finance Committee was to model what a three percent salary increase in the out years would look like. That's what this is doing. You can see it's about \$1 million difference between the base and this forecast. For example, Fiscal Year '19 is going from a positive 780,000 in the base case to the negative 118,000 in

TRANSCRIPT

this alternative case. You'll see deficits through 2021, a nominal surplus in 2022, and then surpluses in the out years. I'll turn it over to Lalo.

Mr. Perez: On this slide, it reflects the Three Scenarios, the base Scenario and the Two Scenarios that were asked to present. As you can see, it illustrates the challenges we'll face ahead in the nearer term. It's difficult to predict when a recession could start. We see one about every eight to ten years. It's somewhere in this Forecast that we will see one. In concluding comments here, I think it's obvious that we need to have some fiscal discipline and planning. It is definitely a challenging time because there's also a lot of needs that we have, that we have not addressed in this forecast. One of the things that we have heard loud and clear as a direction from you as a Council is to focus on infrastructure. This plan continues to focus on that. Obviously we don't know the cost updates to some of these projects. We've been mentioning that to you, so that's a concern. The goal for us would be to be able to maintain the existing services that are being provided while exploring alternative service delivery methods. We have shown over the last few years that we can do that on selective type of services with little to no impact or at times improvements in services. As I mentioned, the '17 Budget is being formulated as we speak. We're going to present that to you on April 25th, the delivery of the document. That's our goal. That's where we're going to present to you the City Manager's Proposed Budget which will have recommendations to address some of the needs that have surfaced since the last budget. Other closing comments is that over the years, we've experienced structural deficits of various magnitudes, but we've always been able to address them as an organization. For example, in the period between Fiscal Year '10 and '12, we had a \$20.5 million deficit of which 14.3 million in cuts were structural reductions that we recommended to you and the Council accepted. The rest were in one-time items. We've demonstrated as an organization, with Council leadership, that we can adjust when our budget gaps are in the negative. We recognize that we have the critical infrastructure needs, as I mentioned. The unfunded liabilities of our employees for pension and retired medical, we need to put a plan in Motion, and we're studying that discussion at the Finance Committee level. We continue that tomorrow. Mr. Bartel will be there; unfortunately, he could not be here tonight. He will be here tomorrow. As I mentioned, the additional services. We will work on recommendations that will address the deficits as we come up. We'll have a plan for '17. We expect to bring you a balanced proposal. With that, I open it up to your questions.

Mayor Burt: Thank you. Colleagues, the reprot also reflected the alternative Scenarios that the Finance Committee requested. We don't have any speaker cards from members of the public. It doesn't look like we're

TRANSCRIPT

likely to get any. We can go ahead and go through questions comments, and then a Motion. Who would like to go first?

Council Member Kniss: Not I, not this time.

Mayor Burt: Council Member DuBois.

Council Member DuBois: I'll just ask some questions. We know the Cubberley lease is coming up in five years. Hopefully we're going to be ready to start some construction then. We're assuming full rent for the entire period of time. Is that a reasonable assumption?

Mr. Perez: I couldn't hear the first part.

Council Member DuBois: I'm sorry. Cubberley, the lease is coming up, and we're looking at rebuilding there. We're assuming full Cubberley rents throughout the whole period.

Mr. Perez: We're not at the moment, because we have Foothill leaving. The last date I hear—it keeps moving—is August. It's about \$1 million worth of revenue that the City gets currently. We have an agreement with the School District where we would split the loss of the revenue, so it's about \$500,000 for the whole year if you look at it that way. What we need to do as we're getting high requests for the space, Avenidas being one of them. When they eventually get through the rebuilding of their facility, they want to utilize the space. We have a long list of potential tenants. We'll have to figure out a process that is fair and open. The question in front of you is what will that rent be. I have not started the discussions with any of these groups. Currently, Avenidas is paying \$1 for the ...

Council Member DuBois: My point is if we knock the buildings down to do new construction there, we would lose even more rent.

Mr. Perez: Yes. We do not have that in the Scenario.

James Keene, City Manager: I think the way to think about it is in terms of the Long Range Forecast. In general, we're thinking about during the term not losing revenue. In the nearer term, in this particular budget for example, we may have to think about how we hedge ourselves. With the turnover, there obviously could be some gaps between Foothill leaving and uptake with some other folks. We don't know what that number would be.

Council Member DuBois: Was there any assumption of a Business Tax in the Forecast?

TRANSCRIPT

Mr. Perez: Good question. No, we did not since it hasn't been decided. We probably should have outlined that in the budget.

Council Member DuBois: I may be remembering this wrong. I think a year ago when we talked about Airbnb, we said we would go ahead and try to collect that TOT Tax. Are we doing that?

Mr. Perez: Yes. We cannot give you specifics, but we'll give you a range. It can be anywhere between 400,000 to 800,000 a year. It's climbing. We don't get a lot of specifics. Mostly the agencies that have entered into agreements with Airbnb are in the same situation. At various times when we've looked, we've had over 100 listings for Palo Alto.

Mr. Keene: We are collecting revenue now.

Mr. Perez: Airbnb collects it upfront.

Council Member DuBois: My last question on the Property Tax forecast. You straight lined it Do we have any concern that that's unsustainable?

Mr. Perez: Let me start and maybe Joe might want to add to it. The statistic that gives me comfort in our projection—again, it's a projection—is that we have 43 percent of our residential properties or about 8,000 of them with an assessed valuation under 600,000. At some point, those are going to turn over and be reassessed. I think that's one of the drivers that we've seen. Properties are not necessarily always selling like we have experienced, because people are recognizing that the rent value is also a good income stream versus the stock market, for example, in some situations. In discussing it with some of the realtors, we hear that some of the rents being obtained are rather high, and so people might use it as an investment and hold it instead of selling it. Let me see if Joe has any other data points that he wants to share with you.

Mr. Saccio: When we listened to the Comp. Plan Fiscal Study, the outside consultants used seven percent increase out into the future and felt they analyzed the turnover of the properties and the latent values of the ones that Lalo just talked about in terms of Proposition (Prop.) 13. Short of a recession happening, we think that it's a reasonable assumption to grow by six percent out in the future. As I mentioned before, that's roughly the compound annual growth rate (crosstalk) ...

Council Member DuBois: The key assumption for revenue.

Mr. Saccio: ... One we've been experiencing lately.

TRANSCRIPT

Council Member DuBois: Thank you.

Mayor Burt: Council Member Filseth.

Council Member Filseth: Are we doing questions and comments or just questions right now?

Mayor Burt: You can do questions and comments.

Council Member Filseth: Thanks very much. Thanks very much to Staff for doing this. I'm glad it's finally got here. I couldn't resist passing out a couple of charts which you should have in front of you. The top one has to—I'll be fairly brief here. We sort of talked about this a little bit. A key piece of our City's finances is the unfunded pension liability. It's been our general tendency or practice to treat revenue and expenses pro forma. We kind of tend to do it separately from looking at the unfunded liability. I'm glad that we're sort of edging towards that. I really wanted to see them together. That's what's on this chart. The red and orange lines are General Fund revenues and expenses. The green line is the unfunded pension liability. In this picture, it's just the unfunded pension liability, not Other Post Employee Benefit (OPEB) which is another \$140 million. As Lalo pointed out earlier in the week, some of this goes into the Utilities as well as the General Fund. This is the whole thing shown here. When you look at this, two things really jump out at you. One is we've done a consistently good job of managing our expenses very, very closely to our revenues over time. That includes a little bit of allocation into infrastructure from that as well. Those have matched very closely over time. The second is that the unfunded liability is really big compared to that. It's grown really big compared to that. The whole situation is actually only 15 years old. At the beginning of the century, we had a surplus, so all this is new. It's going to take many more than 15 years to dig our way out of it. Over those 15 years, basically what the actuarial liability represents is a huge additional operating expense. All these are payroll expenses; it's just that we push it out into the future instead of paying for it now. For example, if I hire Karen to fix my car and I pay her with an IOU instead of cash, it's still an operating expense. In theory we're going to pay that off over a long period of time, but there's a lot of assumptions and unknowns about that. In the meantime, it's kind of this major operating expense that we tend to deal with in separate meetings than the ones we talk about here. As we manage our expense to our revenue, we have this other expense that isn't part of that dialog. I think it ought to be. I think the City and the unions have together taken some very important steps toward getting this under control. What this highlights is it's still a very growing concern. Things like the Section 115 that we're talking about is important. The Council should consider as one of the steps we take,

TRANSCRIPT

as we do these Long Range Forecasts, it ought to include a projection for the growth in the unfunded actuarial liability in addition to just our regular General Funds and expenses. I think that's one of the things the Council should consider. The second chart on this page is really just a breakdown on the Unfunded Actuarial Liability (UAL) itself. One of the things you notice is that the UAL actually dipped in the last year which is good. Unfortunately, if you look at the second chart, it's pretty clear that that's kind of an accounting blip on the way CalPERS accounted for the recovery and our asset values. Next year, it's going to continue on its growth track. The other chart is the bottom chart. One of the things I did was I looked at the Long Range Forecast this year and then the previous and then the year before for the same period of time. The bottom two lines are the 2014 Forecast, the green one's the 2015 Forecast, and the blue one's the ones we have tonight. One thing you see here is they're all bigger numbers, which means the City has been conservative on its revenue growth projections, which is very good. Again as you see, expenses have kept track over time with those. It's good that revenues are growing. Expenses have grown too. You hate to be in the situation where expenses grow and revenues don't grow. I think we want to watch that very carefully. One of the things you find is that the growth in expenses, the size of that surplus that we're talking about here in the out years is pretty sensitive to the timing of the expenses and the revenues. I think we want to be really careful with that. We're being asked tonight for two comments on this. I have two. Mine are that fundamentally this is good stuff. Thank you very much. I have two comments. First going forward, I think we should consider adding a projection of the unfunded liability to the whole thing as a third line along with revenue and expenses. It's a big and significant part of the City finances. It ought to be a mainstream consideration. I hope that when the Long Range Financial Forecast (LRFF) comes back next year, we can consider have that part of it. We're going to see the 2017 Operating Budget in a month or two, or we're going to start seeing it. I think we should try really hard and I really hope that the 2017 Operating Budget can stick to the 2017 numbers in the Long Range Forecast here. Sometimes we kind of look at the LRFF as a little bit of an analytical exercise, but I think it's got a lot of value as a planning tool. I think we should take it very seriously, especially when we've got these big liabilities. Maybe we're heading into less certain times here. There's a number of those assumptions, especially on the expense side. One for example is the Long Range Financial Forecast assumes no headcount growth over the next 10 years over the 2016 Budget. That's budgeted heads, not actual heads. We should try really hard in the 2017 Budget to follow that. If we do think we're going to need more people, then it ought to be in the Long Range Forecast, if we're going to really use the Long Range Forecast as a tool. Those two things. Other than that,

TRANSCRIPT

thanks very much to Staff doing this. It's a lot of work, but I think it's important to how we manage our City.

Mayor Burt: Council Member Holman.

Council Member Holman: Thank you. Thank you for bringing this forward. Also to Council Member Filseth for putting together these charts. I have just a few questions. One comports with Council Member DuBois' having to do with the Business Tax, having to do with the transportation impacts. On slide 9, what is intended by the second bullet there, one-time adjustments to '16 adopted budget, Animal Shelter, Fry's Master Plan, University Avenue, Infrastructure? I'm not quite sure I'm understanding that you're meaning by those.

Ms. Nose: These are actions that were approved as part of the '16 adopted budget, but they were only approved for a one year timeframe. You guys have said, "We'll fund this through Fiscal Year '16, but that's it." There were no ongoing costs. As part of the Forecast, we go through and pull out anything that was approved one-time. We norm the '16 adopted budget.

Council Member Holman: If there's something like the Fry's Master Plan that we haven't actually commenced work on, that would just roll forward.

Ms. Nose: Correct.

Council Member Holman: On Slide 11, that's where the transportation costs are. One thing I didn't see—I'm loathe to bring this up, but I think I should—is the golf course.

Mr. Perez: You're right. We lumped it up with the infrastructure, the first one, the capital expenses. To give you a quick update, we anticipate—we had a little bit of the language in the report. Staff is going to come to you before your break with an update including the status of the permit process. We're working on updating the costs since we have a sense of the estimated costs and also the business plan that was prepared. Both of these were prepared in 2012. We're working on getting all of those updated to come to you and give you an update.

Council Member Holman: Airbnb was mentioned too. How is that collected? Does Airbnb just write a check to the City?

Mr. Perez: Yes.

TRANSCRIPT

Council Member Holman: How do we track that? I think I actually heard Council Member Kniss—correct me if I'm wrong. I thought that there was indication that there was 500 Airbnb listings. I think you mentioned 100.

Mr. Perez: I haven't looked recently; it could be a much higher number than the last time we looked. It would be indicative of the amounts that we're seeing, as I mentioned earlier. What happens is when you go in as a user of the system, where you're looking for a place to stay, once you get through the acceptance of the location, you get into the payment process. Airbnb collects it for us for each transaction. What they do is they remit one check monthly.

Council Member Holman: Do we have any spot checks on auditing that?

Mr. Perez: We've been in discussions with San Jose and Santa Clara who have similar agreements as ours. We're trying to see if it makes sense and how you go about doing that. We are looking at how we would do that, what cooperation we would get, and have that review. It's something that we're exploring, how we would accomplish it. We don't get detailed information.

Council Member Holman: Just a couple of other questions. I also didn't see anywhere interest. What kind of interest do we earn? For instance, we have reserves. We don't just let them sit there.

Mr. Perez: We do have an interest income line. While the Staff looks for the number, I can tell you that it's about 1.7 right now, a little below. About 1.6 is our rate of return currently.

Mr. Saccio: (inaudible)

Mr. Perez: While you look for how much, I was trying to give Council Member Holman an indication of what our rate of return is. As you may recall, we're prohibited from investing in equities. We're predominantly in bonds.

Mr. Saccio: Lalo's correct about the rate of return, 1.9, which really isn't so bad given what you get on your bank account and what we're restricted to in terms of investments. Right now the interest income is sadly around \$820,000 for the General Fund. It's come down because interest rates are so low.

Council Member Holman: This may be inconsequential in the whole scheme of things. I'm just wondering going forward if we ought to take part of our TOT—part of that is sent to infrastructure and part of it is General Fund.

TRANSCRIPT

Does it make any sense at all to start thinking about putting part of that aside to help cover our unfunded our liability? I know we do that in other ways, but we should compound that in any way? It's not much of a return.

Mr. Perez: You're talking about the interest income?

Council Member Holman: Yeah.

Mr. Perez: You could certainly give us direction to do that. Obviously it would have to be the General Fund portion. The majority of our portfolio is the other funds, the assets. Those are policy decisions that are appropriate, if you wanted to do that.

Council Member Holman: It's just a thought. We do collect impact fees, and they aren't specifically called out here. I've wondered this before, and I think I asked it at Finance. Should we not be building in annual escalators into our impact fees? We only reevaluate them every so often.

Mr. Perez: We can. As long as we have not set the fee at 100 percent of the Study, we as an organization have room to do that. It's something we can definitely do. The practice has been that we have not. Part of that was because the level of the fees, how they were set in comparison to other surrounding jurisdictions. We could definitely have new direction to reset them as long as there's room. Once you reach the 100 percent, then you can't unless you do a Study and then to the nexus.

Council Member Holman: It's just that we so infrequently evaluate them, and they generally lag behind. We always readjust them when we do evaluate them.

Mr. Perez: I think for that our preference would be that you as the Council give us that direction.

Council Member Holman: I think that's it for the moment. Thank you.

Mayor Burt: Vice Mayor Scharff.

Vice Mayor Scharff: Just a few quick questions. The graphs all look—they shoot up from 2022 in a fairly upward trend. Clearly it's the base case of 12, but it's 15. What's the real driver where things turn around in 2022-26? Is that Property Taxes? What's causing that?

Mr. Saccio: Which graph? I'm sorry. Which page?

TRANSCRIPT

Vice Mayor Scharff: If you look at 15. When you do the base case and you do the two other scenarios, they're the same scenario. The graph looks exactly the same basically; it just is lower with less.

Ms. Nose: Part of it is your expenses are actually not growing at such a rapid pace. If you look at the retirement rates over the course of the 10-year Forecast, they escalate at a faster rate during the first five years, and then they start to flatten out.

Vice Mayor Scharff: Is that because we made the changes in the pension benefits? Is that what's driving that?

Mr. Perez: There's some of that. The driver and the reason we're seeing the escalation—to refresh your memories, we had a change by Public Employees Retirement System (PERS) to do the smoothing over a shorter period of time, five years instead of 20 years. What they told us is for the first five years—it just started—we're going to see a heighten in the rates, and then it should smooth out. That's the basis of why they're flattening out. If you look at the rates themselves, you'll see that they're flat. There's about one-third of our workforce Citywide, not just the General Fund, that is in the second or third tier. There's some of that as well.

Vice Mayor Scharff: It's really PERS going from a 20-year smoothing to a five year smoothing. We're feeling the effects of the five year smoothing up until 2022, and then we're at a 20 year smoothing again?

Mr. Perez: It goes up and then flattens.

Vice Mayor Scharff: We get rid of the spike. That leads me to ask you, PERS is still going to have financial issues. They're still too high with their discount rate. If that's true, does that mean that they may have to change the rules again? At that point, that surplus goes away?

Mr. Perez: Yes. That is a potential probability. They recently passed a plan that they hope that anytime the portfolio rate of return exceeds 11 1/2, that they will then lower the rate of return assumption. It's phased in. Their plan is to have it go down to 6 1/2 over 20 years. What are the chances that year over year they'll do that? If nothing happens between now and February 2018, they will revisit the rate of return assumption at that point. They will update the demographic assumptions. You may recall that part of the reason that our rates are going up is because the mortality rate changed. We're living longer and so obviously the pension payouts are for a longer period of time. There are other variables that could drive the rate.

TRANSCRIPT

Vice Mayor Scharff: The other thing I have—Eric's graph puts it in graphic detail—is that we really underestimate our expenses and our revenues every year in a huge way. In 2014, it looks like \$170 million of expenses and maybe 178 of revenues is what we anticipated. The reality was like 190 million of both.

Mr. Perez: I'm sorry. Where are you looking?

Vice Mayor Scharff: I'm looking at Eric's graph, the handout. He graphed what we thought it was going to be in 2014, what we thought the 2016 expenses were going to be. That's the orange line. You can see those two. Then you look at where the purple line is, and you see that there's really a huge increase in expenses and revenues. It's huge. That's true of the green; that's true all the way through. You see that, right?

Mr. Perez: I'm looking at it. I got this earlier, but we haven't had a chance to analyze it. I don't think this includes encumbrances. This is the actual expenditure, but you don't spend everything. You lock up a contract, for example. Let's say it's \$1 million contract, but you only spend \$50,000. You would only see the 50,000. We need to show you the 950 that was encumbered that was part of that budget. That's why there would be a gap. I would have to look at it. When you just pull out the actual expense from the financials, you have to also add the encumbrances to then compare it to the budget.

Mr. Keene: I think there's a couple of other things here. Some of the difference just here on the revenue side is the annual revenue growth in each one of these years. The interesting thing is the fact of how the expenses track the revenues in the same way each year. A lot of the reason for that isn't—in these recent years, when we've gotten to the end of the year and we've had a surplus, we expend that extra revenue and put it into the Infrastructure Fund, as an example. It's costed out as an expense. It's not like it's a straight, built-in expense that we're doing. That's how we've handled that. That's why the expenses have been tracking with this.

Vice Mayor Scharff: I think that's a really good point. I guess I was going to actually ask you about that. At some point it would be great to see the real—take Eric's graph and do the real numbers, where we don't take—I don't mean that pejoratively. I mean the real numbers in terms of where we actually had a surplus, where that's taken out so you could actually see where expenses really were. I sort of followed what you said about encumbrances, but put that in. I have this sneaking suspicion—I guess that's where I'm going with this—that we get bailed out by we build new hotels; we put in a new TOT Tax; we do something that actually bumps

TRANSCRIPT

those revenues that we don't forecast. Our expenses are actually much higher than we anticipate every year. It just seems that we're ratcheting up those expenses, and we bail out by the revenues. That's okay as long as we continue to approve new hotels or we raise a new tax or we do something like that. At some point that strategy fails. It clearly fails in a recession. It failed in the last recession in a really big way. I am just thinking that tonight we're supposed to be talking about the Long Range Forecast. I assume the purpose of that is to ask ourselves should we be doing anything differently, should we be thinking in a different way, and what actually makes the City work. I think part of that is we keep coming up with new revenue sources. Maybe that can continue forever, but you sort of wonder about that. Sales Tax, you sort of wonder can it really keep growing.

Mayor Burt: Can I just jump in there? What the City Manager spoke about is crucial, and we don't have that data. That was going to be one of my questions. What's the tracking of infrastructure expenses that are outside of Utilities? There's General Fund infrastructure expenses over the last six or seven years. What we see is that we have significantly increased our investment there. That's buried in that expense number.

Vice Mayor Scharff: He mentioned that. He said that.

Mayor Burt: I know he did. I thought you were responding as if he hadn't.

Vice Mayor Scharff: He mentioned it. I said I'd like to see the graph without it. I think that would be a really great way to break that out.

Council Member Filseth: Me too.

Mr. Perez: Maybe I can help. From my perspective, this is an important process that has been carried out as a result of Council policy. You guys know that I've been here for quite some time. I can tell you that in the '90s the budget was \$33.5 million for years for transfers from the General Fund to Capital. What we did as an organization is every time we had a surplus, we invested it in operating in increasing services. The last five years, we transferred \$32,587,000 unplanned funding to the infrastructure. That's surpluses. We can say we should have budgeted higher, but a lot of these things are one-time in nature, the majority.

Mayor Burt: That's on top of a base amount for infrastructure.

Mr. Perez: Yes. It ranged from 13 to 17 million, off the top of my head, as a base. The reason I call out the Council policy and the importance of this is that—if you recall, the Reserve for the Budget Stabilization for the General Fund is a floor of 15 and a cap of 20 with a goal of 18 1/2. The policy clearly

TRANSCRIPT

states that any time it exceeds 18 1/2, the City Manager has the discretion to recommend to you to send that money to infrastructure. That's what this did. These are huge numbers and a huge difference from what we used to do 20 years ago. It allowed us to fund some of these programs. I think you did the right thing by having such a policy.

Vice Mayor Scharff: I'm sure we did the right thing. I'm not worried about that. What you're really saying is I'm wrong. That's fine; that's good.

Mr. Perez: No, I'm saying that ...

Vice Mayor Scharff: That's fine. If you look at those infrastructure transfer out—are you basically saying that we probably met our expense Forecast in 2014 roughly?

Mr. Perez: No, we had some savings. We've had savings over the last couple of years in expenses because of vacancies. For a while there, we carried quite a few safety positions.

Council Member Schmid: Are you saying we're below it? This was the original question. We have these graphs. In 2014, you did the Long Range Financial Forecast. That predicted in 2016 our expenses would be wherever that orange line is, which looks roughly say 170 million. Are actual expenses on the purple show about 190, but you're telling me we may have put 15 or 20 million into infrastructure, which gets it back closer to what we thought that would be. That's really my question.

Mr. Keene: There's two things. In general in these recent years, we have been over-collecting revenue in relation to our estimates, and we have been under-expending expenditures but not to the same degree that we've over-collecting revenues. That's the point. With that gap, for the most part we've been taking that and expending it. When you look back at it, you actually go, "We've actually spent more because we put that one-time thing aside." I'd just like to say one thing in relation to the Vice Mayor's comment, thinking about what are the big things that this says about how to guide us. That's what I think the point of the Forecast is. We've done a really good job, as much as we can, of allocating one-time revenue blips or growth to one-time expenditures and investing in infrastructure that, say, has a long-term payoff. Secondly, we have, whether it was in the years of cuts or whatever, really tried to hold down the number of new positions that we bring on. I'll be honest with you, hardly any of the positions we bring on—almost every single one of them is directly connected to an enhanced responsiveness or service that the community is demanding, whether it's right now in the area of growth and planning and parking and those things with Staff or some capital projects. I say no to lots of other position

TRANSCRIPT

requests people have. We do a fairly good job on that. The big problem is the one that was pointed out earlier, the stuff that in a sense is beyond our control and that are the policy changes that were made years ago on these pension and healthcare costs. We've been trying to do our best there. I think we've been very disciplined, the Council has, in not ever thinking that any year that we're here we're in the money and we can make long-term commitments that get you into trouble. That's why when we have had downturns and those sorts of things we're not in the big hole that other jurisdictions are. We've been playing it closer so that it's even easier for us to do it. Not to say it's necessarily easy, but we've been able to weather that without our City falling apart, even when we had to cut \$10 million, \$20 million.

Mayor Burt: Council Member Schmid.

Council Member Schmid: I'd join in the praise. I think over the last five years, we've done a terrific job on our infrastructure and moving money into long-term things that will benefit the City for decades to come. I guess I would just like to support what Chair Filseth pointed out about unfunded liabilities. If there is a vulnerability that we should be sensitive to it's the unfunded liabilities. I noticed one critical difference between the Finance Committee's Long Range Financial Forecast in December and the one we just got in March. That's on salaries and benefits, the 10-year horizon for salaries over that 10-years we're looking out. In December, it was 2.9 percent per year. Benefits were growing 4.3 percent per year. The one we have in front of us tonight, salaries are growing 4.8 percent per year and benefits two percent per year. That is a striking difference in two or three months. I assume most of it was an adjustment made in the 2017 budget, because you explain what happened that had our benefits looking so modest.

Ms. Nose: I would say probably the biggest change between December and now is the change in the Council authority levels for our current negotiations with our various labor groups. That's probably the most significant change that's occurred between the two. We've done a number of different things as part of those sessions. Those have all been factored into here. That's one of the reasons why this has been delayed so much, to try and incorporate all of those changes.

Council Member Schmid: It shows up in 2017. It's striking in the sense that three months ago we were saying the cost of benefits would be higher than what we're paying salaries. The unions were saying, "I need take-home pay to live." All of a sudden, you have salaries well above benefits in 2026.

TRANSCRIPT

Mr. Keene: One of the things just to keep in mind is that with the pay increases we've built in, in anticipation of some of the contracts we're reaching, we also have some factors related to benefits that are part of those, whether it's increased employee contributions, differences in the rates of our healthcare plans and those sorts of thing, that at least for now do have a rippling effect as we go forward. When we think about employee and employer share on pension and those kinds of components, those things start to play out.

Council Member Schmid: I guess it's important to make the case that those numbers under salaries don't reflect take-home pay. They reflect investment in benefits. Is that a correct statement?

Mr. Perez: It would reflect the gross pay if I'm following your question. I'm not sure I understand your question.

Mr. Keene: We increased the salary estimates significantly, so that would be an increase in take-home pay.

Council Member Schmid: You're saying very clearly that the benefits, which three months ago were growing almost twice as fast as salaries, will now grow in the future at half the rate of salaries. That doesn't seem to be a realistic assumption. If we're concerned about unfunded liabilities, we should make sure we're clear.

Mr. Perez: What we did is we updated the pension rates based on the five year projection that CalPERS gave us, that we didn't have. John Bartel did the second five year projections. They were updated based on CalPERS' and Mr. Bartel's expert opinions. That's the change that you're seeing.

Council Member Schmid: I did note that you reflect that Bartel updated based upon the June 2014 data.

Mr. Perez: That's the latest data we get from CalPERS.

Council Member Schmid: He just got that. That year the CalPERS or the stock market showed a gain of 15 percent. The year before it had been 14. He took those two numbers and said, "This looks great. CalPERS is doing terrific." In the year and three-quarters since that time, the total gain in the stock market is about two percent. Are we overestimating our benefits on the basis of one good year, Fiscal Year 2014, which is long in the past.

Mr. Perez: That's a good question. They're not.

TRANSCRIPT

Council Member Schmid: Yet, we're showing five years from now we won't have any trouble at all.

Mr. Perez: It's a good question. It's something that's an issue for all of us in the finance world. We beat up CalPERS on this. With technology the way it is, why are they basically two years in arrears. It's in the report that we sent to you from CalPERS. They took the 2.4 rate of return experienced into consideration as they made their projection for our Fiscal Year '17 annual contribution. While the data set is dated, the rate of return assumption, when they do it November, they already know the June 30, 2015, in this case. They use that rate of return experience in their numbers.

Council Member Schmid: It does seem to be a quite dramatic, long-term decline in unfunded liability. Let me just make one other point. The most positive thing on the revenue side is Property Tax. I would note you made a point that there's thousands of homes that are valued at under \$600,000. If you look carefully at the annual turnover, you see there's probably about 250 homes at the upper limit that are sold and account for about 50 percent of the total gain in appreciation and Property Tax. I think that's a vulnerability. If that market changed in any way, the 250 might not be there next year that have been there in the past. We should be very sensitive around that and maybe the share of rentals that are in our market. I guess the bottom line, as Eric said, is we should track year by year what the unfunded liabilities are. We should be very sensitive around the parcel sales.

Mr. Perez: Having Mr. Bartel here tomorrow, we can certainly get into those levels of detail with him.

Mayor Burt: Council Member Berman.

Council Member Berman: Thank you. Just a quick question. I think this has been covered in bits and pieces from other questions. On Packet Page 328, the pension rates by plan. I noticed that it continues to rise—we've done something new. Lalo, forgive me if you discussed this. I'm not sure if you went into the detail. We've now asked Bartel and Associates to do an actual analysis for 10 years out, because CalPERS only provides it four or five, I think.

Mr. Perez: Five years.

Council Member Berman: I think the results of that are pretty interesting. It shows a plateau for a couple of years, and then starts to go down. This is the pension rates by plan. Would you mind just talking to that for another minute?

TRANSCRIPT

Mr. Perez: The major driver is the change in the smoothing policy that CalPERS did from the 20 to the five years. We see a steep increase in the next four years, and then they expect it to flatten out. That's under the assumption that all the other variables are going to come.

Council Member Berman: The rate of return and all that stuff.

Mr. Perez: The question is, if they don't, what's going to happen.

Council Member Berman: It flattens out, and then it seems to at least on the miscellaneous side drop three percent in that last year. Is that an outlier or is that the beginning of what might be a continuous decline or is it impossible to tell?

Ms. Nose: I think this is part of Bartel's analysis of the impacts of the de-risking of the plan. As you go further out in the out years, you reap more of that benefit, so to speak, as well as you reap additional benefit of the change in your population (inaudible).

Mr. Perez: Staff turnover is faster than I thought it would be in terms of switching to lower costing pension formulas. That's another factor in the outer years. When you look at Bartel's numbers, you see the rate going down like 20 years out.

Council Member Berman: There's more Tier Three.

Mr. Perez: And two are going to be dominant, and the rest of us will be passing on.

Council Member Berman: Thank you, Lalo.

Mayor Burt: I just have a couple of questions, and then we can get to a Motion and wrap up. We were talking about what's happened in the increased infrastructure expenses. Lalo, you mentioned the surpluses that we transfer, but we also had a base level of budgeted infrastructure that went up. Do you have numbers before you say comparing what we were spending on General Fund infrastructure in 2010 versus 2016? If you need to look a moment, I can ask my next question.

Mr. Perez: We may have to email them to you. We may not have them readily available. I can give you some key points to your comment. We increased infrastructure spending as a result of the Infrastructure Blue Ribbon Committee (IBRC) recommendations. We started adding about 2.2 million about four years ago. We've been more aggressive, as all of you know, with our street investments, since we've increased that budget. Part

TRANSCRIPT

of what was absorbed—I guess you can see that the 32 million kind of covered that. You may recall that the Council made a policy decision not to use General Obligation (GO) bonds to pay for salaries for the libraries and the community center. A lot of those expenses were also absorbed within the capital dollars. I would say that we've been aggressively growing that number, besides these, probably in the \$2 million to \$5 million range at the beginning. We've been growing that number also for the salary expenses.

Mayor Burt: When you said the \$2-\$5 million range, each year?

Mr. Perez: No. In the timeframe of the IBRC.

Mayor Burt: For instance, if we just look at streets, we increased it over \$4 million a year from 2010 to the current expenditures, just on streets alone.

Mr. Perez: We better look at the numbers, because I'm going off the top of my head.

Mayor Burt: I think that's an important thing that helps explain the expense increase tracking upward along with the revenue increase. Another thing that we do each year or virtually every year is we identified what were one-time incomes and, for that matter, often one-time expenses. We say those aren't going to happen in the subsequent years. That's half true because often that particular one-time income doesn't happen the next year, but a different one-time income happens. Over the last half dozen years, it seems that almost every year we have said that we had one-time incomes and often one-time expenses. I think that helps explain why both income and expenses are consistently above projections. It's not the totality, but it's one of these other factors. The infrastructure expenses helps explain why the expense item tracks upward with the income. I think the one-time are part of the explanation of why they both are being projected each time below their actualities. I'm not assuming that that's the totality of the explanation. I think those are missing components to an explanation. We also had a model of the CalPERS poor investment return scenario. I think Bartel in the past has given the likelihood of that occurring. Do we know what that is?

Mr. Perez: He's going to provide us an updated presentation for tomorrow. We'll make sure that that gets into the Council's Packets so all of you can see it. He gives both ends, if they exceed and if they do not meet. He has charts with that. We'll have an updated one tomorrow.

Mayor Burt: My recollection from his last presentation was that's a low likelihood in his calculations of occurring. What we have is that poor investment. That's a pretty low investment return scenario amongst the

TRANSCRIPT

whole range of what he had modeled in the past. I'll forward to hearing that. Another is that the Finance Committee—I appreciate—asked for modeling on low return and also a modeling on a higher salary. I think that they asked for also those being combined. In my mind, you're not going to have both of those at once. If you have a downturn, which drives the low return, you're not going to have those big salary increases at the same time. You get one or the other. That's reasonable. We almost never have had the two of them occurring at the same time, because there's a cause and effect. I would caution against—I think looking at those conservative scenarios are good. Relying on things that are pretty implausible are not so good. Finally, we're going to get in this coming budget proposal beginning to address the unfunded pension liability. Is that correct?

Mr. Perez: We're going to have that discussion tomorrow at the Finance Committee. To remind the Council, we recommended that—some of the things that we've done with the surpluses have been to reserve the money for the following Proposed Budget, for one-time items. We've done that the last couple of years. We'll probably recommend something similar again this year. What we also did with last year's surplus is we identified 1.3 million of that surplus to be considered to be placed in the trust, the 115 that you heard earlier, to seed fund the unfunded portion, to accelerate it. Just so we're all clear, it's roughly \$200 million for the General Fund, to Council Member Filseth's point earlier. Based on all the expectations that CalPERS has, that unfunded liability is going to go away if everything turns out based on their model. If we don't believe in that model, then our options are to then start prefunding that. That's the thinking with this discussion, that we would start that and we would ask all funds to do it, and not just the General Fund.

Mayor Burt: We last year set aside a reserve off of last year's income to begin that. This year we will probably be actually moving forward with that expenditure to pay it down.

Mr. Perez: If the Committee recommends to the Council to go forward, yes. We would come to the Council with that.

Mr. Keene: Just so we're clear. I think we're talking about FY '16 and how we would make that allocation. It's too early; there's still moving parts.

Mayor Burt: FY '16 or '17?

Mr. Keene: FY '16, because I think there are too many moving parts in the FY '17 Budget yet to say ...

TRANSCRIPT

Ms. Nose: As part of the yearend Memorandum that went forward, there's 1.3 million sitting in the Budget Stabilization Reserve for the General Fund. It's just there pending further direction from the Council.

Mr. Keene: This is what I wanted to be clear. At this point, I haven't reached a conclusion that we are going to proactively advance an additional contribution to the 115 Fund as part of the original FY '17 Budget. That's what I sort of heard from your question.

Mr. Burt: I hear you. I'm looking forward to continuing to make those payments as painful as that may be. Let's see if we have a Motion to accept the Forecast.

Council Member Kniss: So moved.

Council Member Berman: So moved.

MOTION: Council Member Kniss moved, seconded by Council Member Berman to accept the Fiscal Year 2017 to 2026 General Fund Long Range Financial Forecast.

Mayor Burt: Council Member Kniss, did you wish to speak to your Motion?

Council Member Kniss: No (inaudible).

Mayor Burt: Council Member Berman, did you want to speak to your second?

Council Member Berman: No, I'm good.

Mayor Burt: Anyone else want to speak to the Motion? Council Member DuBois.

Council Member DuBois: If Chair Filseth wanted to add—he proposed a couple of things that I'd be willing to support. I didn't know if he was going to make a Motion.

Council Member Filseth: I'm not sure they belong in this Motion. I'm not sure they belong in this Motion. I think one of them had to do with the 2017 Operating Budget which is coming in a month. The other really had to do with the Long Range Forecast for next year.

Mayor Burt: please vote on the board. That passes unanimously.

MOTION PASSED: 9-0

TRANSCRIPT

Mayor Burt: Thank you, Staff.

Mr. Perez: Mr. Mayor?

Mayor Burt: Yes.

Mr. Perez: I just wanted to acknowledge Kiely Nose's great work. I've been saved by her since we lost a lot of Staff. Kiely's stepped in and done a great job, she and her team and also Joe Saccio and (inaudible) who did the major work here.

Mayor Burt: Thank you very much.

Inter-Governmental Legislative Affairs

Mayor Burt: Our next item is Intergovernmental Legislative Affairs.

Council Member Berman: Not for that one.

Council Member Questions, Comments and Announcements

Mayor Burt: Council Member Questions, Comments and Announcements.
Council Member Berman.

Council Member Berman: I just wanted to give a shout out to our Human Relations Commission (HRC). Both Council Member Wolbach and I had an opportunity to attend and give the opening and closing remarks at an event they did last Wednesday. I'm just trying to find the name. It was Being Different Together, Experiencing Palo Alto Perception and Reality. It was an event put on in particular by Valerie Stinger, who's one of our HRC Commissioners. The entire Human Relations Commission has been doing a series of community events of the past year. This was one talking about subconscious bias and micro aggression, I believe was the term. Had a great keynote speaker, a professor doctor from Stanford. Then a great panel of folks talking about subconscious bias and how it can manifest itself and ways that we can react to both the aggressor and the person who's being aggrieved. It was just a really fantastic event. Great turnout. One of the most diverse crowds I've ever seen at a Palo Alto event. The Human Relations Commission, I just thing is doing a great job of hosting these forums and organizing these forums for increased community dialog.

Mayor Burt: Council Member Schmid.

Council Member Schmid: I would like to propose an Agenda Item as soon as possible, to approve jobs and resident projections for the Fifth Scenario. The Four Scenarios presented all contain jobs to employed resident ratios of

TRANSCRIPT

3:1. All four also contain commercial growth four to five times our current annual limit. It's impossible to make reasonable judgments on Sustainability and Climate Action Plan (S/CAP) or mitigations or to assess recommendations from public comments or Citizen Advisory Committee (CAC) recommendations without an alternate Scenario.

Council Member DuBois: I would second that

Mayor Burt: Can I ask for a clarification on how that differs from what the Council had endorsed in our recent agenda meeting on this subject?

Council Member Schmid: Asking for specific projections on jobs and residents.

Council Member DuBois: Just to add some clarification. I know I've had some conversations with Staff. They do not have clarity on what that Fifth Scenario is. I think it's planned to come back in May. I think there's some concern that that's too long in terms of our Environmental Impact Report (EIR) process. They were looking for some clear direction on what we want to see in that Fifth Scenario.

Mayor Burt: This is April.

James Keene, City Manager: A couple of comments. I think that clear direction is helpful, but we also are in a process of working through these things to bring this back. Understand the sense of wanting to get it sooner, but I think there's some conflict there. I'm sort of looking to my compadre here. It's a little unusual what's happening right now as far as I just want to make sure we're in the ...

Molly Stump, City Attorney: Very, very occasionally, the Council has used this part of the Agenda on a relatively straightforward matter to do sort of the oral equivalent of a Colleagues Memo. I believe a Colleagues Memo was submitted in the last few days addressing the same topic. I suspect this is an oral version of that. Our Planning Director is out of the country and did provide some initial preliminary response in terms of the timing and the various pieces. Frankly, you don't have the right folks in front of you to give you a technical answer in terms of how what is being requested might in some sense differ and how it fits in with the timing of the various work pieces. I think we really do need to assess as a Staff those issues and really are not in a position to respond tonight.

Mr. Keene: I may be in a position to, but I have not been able to look at in detail what Hillary has left me and see how we can reconcile that about reporting on an accurate schedule.

TRANSCRIPT

Ms. Stump: I think one thing we can say with confidence is that the Fifth Scenario is of the highest priority in the Planning group. Everyone is working on it and working on bringing it forward in a way that sensibly puts the issues before the Council for you to deal with.

Mayor Burt: I don't want to get into any substantive discussions. From a process standpoint, I'm also concerned that Council Member DuBois made a comment that this was driven to a good degree based upon conversations that presumably he and Council Member Schmid have had with Staff that the rest of the Council, I think, is not privy to.

Ms. Stump: Was that this brief exchange over what was submitted as Colleagues Memo?

Council Member DuBois: Say that again.

Ms. Stump: Was that the brief exchange that occurred in the last few days?

Council Member DuBois: It was the cause of the Memo. There seemed to be a lack of clarity in terms of details on the Fifth Scenario. It was being pushed out in terms of actually defining it. I think we were asking for a very time-limited Agenda Item to make sure Council had a chance to say what about this Scenario is ...

Mr. Keene: Could I suggest that—we are going to have a meeting next week also. In the meantime, we'll have a meeting with the Mayor and the Vice Mayor on the Agenda. We can look at where the current projected timeline is on Comprehensive Plan (Comp. Plan) EIR Item coming back to the Council and where the Staff timeline on the Fifth Scenario fits in and where they are in the sequence of timing. This request, of course, is expressing a concern that maybe the better sequence is having the Fifth Scenario before the EIR piece comes back, is one thing I'm hearing. In any case, not to take too long before we come back with the Fifth Scenario Report. I'm just not intelligent enough with the materials I have from the Staff and also with the Agenda itself to be able to speak to that well tonight. We'll certainly be sitting down with the Mayor and Vice Mayor on the Agenda.

Mayor Burt: Very briefly, Council Member Schmid.

Council Member Schmid: The concern is that the public comments on the Draft Environmental Impact Report (DEIR) will be coming in, in early May. The CAC will complete their discussions of the Land Use Element without any notion that there might be a Fifth Scenario.

TRANSCRIPT

Mayor Burt: That gives a little more clarity than what was stated before.
Council Member Kniss.

Council Member Kniss: As I mentioned briefly before during our water discussion, I was at a conference in Arizona last week called Water Now, which is an alliance that has been pulled together by two women who live in the Bay Area. There were several of this there; there were about ten of us there from with a five mile range. It was informative, productive and so forth. That group of us is going to attempt to pull a summit together over the next few months in the Bay Area. I think water is the issue right now. I think it is going to be an incredibly scarce commodity in the future and one that we certainly discussed at length in Arizona. Thanks.

Mayor Burt: I would just like to share that last Thursday afternoon there was a meeting of what the Silicon Valley Leadership Group has been sponsoring a series of meetings for North and West County cities and North and West County major corporation transportation representatives. At this last meeting we heard from the Silicon Valley Leadership Group that they will be taking to their membership this week, I believe, a proposal to adjust upward their proposed allocations toward Caltrain and the North and West Valley corridor. That was generally well received by the representatives in the room. We'll hope to hear specifics on that shortly. That would still have to go to the Valley Transportation Authority (VTA) Board. They're the ultimate decisions makers, not the North and West County cities nor the Silicon Valley Leadership Group as to what will go on the ballot.

Council Member Kniss: Pat, thanks for your leadership in this. Three of us have been going to the meetings, but you've really taken a leading role. You were there on Thursday. I think finally the north end of the County is getting some real credit and is going to be hopefully the recipient of funds that will come from this tax, should we vote for it in November.

Mayor Burt: Council Member Holman.

Council Member Holman: On the topic that you brought up, could you differentiate for us the difference between Silicon Valley Leadership initiated meetings with North and West County versus the City initiated North and West County meetings?

Mayor Burt: Both of those sets of meetings have been occurring. Several days before this meeting, there was a meeting of just the North and West County city leadership, principally Mayors of those cities and the City Managers or their representatives. Both of those are occurring. Out of that last meeting was an affirmation of that group wanting to see movement in the very direction that was suggested to us by the Leadership Group. In

TRANSCRIPT

some ways, the Leadership Group was responding to the request of the North and West County cities. The Leadership Group has to take it to their Board and get their endorsement before the position of their organization is official.

Council Member Kniss: Our policy group is meeting tomorrow (inaudible). VTA policy group.

Adjournment: The meeting was adjourned at 11:58 P.M.

Mayor Burt: On that note, the meeting is adjourned. Thank you.