

Regular Meeting
February 15, 2005

1. Oral Communications2
2. Recommendation to Declare as Surplus Property a Parcel on High Street Near Oregon Expressway2
3. 2004-05 Adjusted Budget – Second Quarter (Q2) Financial Results, Midyear Amendments and Capital Improvement Program Status 5
4. Auditor’s Office Quarterly Report 16
5. Discussion for Future Meeting Schedules and Agendas 17

Adjournment: The meeting adjourned at 9:00 p.m. 18

Chairperson Ojakian called the meeting to order at 7:02 p.m. in the Council Conference Room, 250 Hamilton Avenue, Palo Alto, California.

Present: Morton (arrived at 7:04 p.m.), Mossar, Ojakian, Kishimoto

Absent: None

1. Oral Communications

None.

2. Recommendation to Declare as Surplus Property a Parcel on High Street Near Oregon Expressway

Real Estate Manager Bill Fellman said the property was a remnant from the construction of the onramp onto Oregon Expressway off Alma Street. The property was 5,413 square feet, and staff wanted it declared surplus in order to sell the property. The funds would be used for the development of the Alma Substation site.

Council Member Mossar asked for the location of the County land.

Mr. Fellman pointed out the County land on a map.

Council Member Mossar said the property was not usable. The staff report (CMR:149:05) indicated the County was not interested in selling its property, and asked whether the property was of use.

Mr. Fellman said the property added to the square footage of the City's parcel, which allowed for something larger to be developed. The County was not interested in selling the back portion of the lot because it wanted to hold onto the property so the onramp to Oregon Expressway could be widened in the future.

Council Member Mossar said the Council adopted a policy about widening. The Santa Clara County Roads Department did a study of County highways and wanted to do widening in Palo Alto. Her recollection was the Council adopted a policy that Palo Alto did not allow widening. Staff was asked whom the Council talked to in the County about selling the property.

Mr. Fellman said Michael Murtder was the head of the County Airports and Roads Division.

Council Member Mossar said if the land had value in terms of enhancing the salability of the property, the head of County Roads and Airports was the wrong person to ask. Supervisor Liz Kniss was an important person to talk to because she had a great interest in production of housing in the County. Road widening was a concern.

Council Member Kishimoto said the City was to receive approximately \$100,000 for a feasibility study. People said they wanted to improve the underpass because of the curvature of the turns.

Council Member Mossar said if the County widened the underpass and the City sold the property and built housing next to the underpass, the location was not good for housing.

Council Member Morton asked what would happen to the property after it was declared surplus. Housing next to the Oregon Expressway/Alma Street was not attractive.

Mr. Fellman said with the County piece of property, the only thing that could be developed was a duplex. Money from the sale of the property went further for a larger development.

Council Member Morton said many of the units that faced Alma Street were old.

Mr. Fellman said the development south of the City owned parcel was a multiple family development and not in good shape.

Council Member Morton clarified if the property were declared surplus, it would not have to be sold immediately.

Mr. Fellman said that was correct. The rezoning project took nine months. Neighbors on High Street were notified, and staff received one response from a tenant of one of the units who was interested in buying the property.

Chairperson Ojakian said the Council's action was to declare the property surplus, to start a process to change the zoning from Public Facility (PF) to Two Unit Multiple Family District (RMD), and for staff to return to Council for approval of the Request for Bid Proposal (RFBP) to dispose of the property using an open bid procedure. The colleagues talked about things that were literally on the peripheries of the property, which led to the question as to how that played into any decision the Council made.

Council Member Mossar said she understood the property could be declared surplus and then other things could be done. A better understanding from a housing perspective was needed as to what the larger area could yield.

Council Member Kishimoto clarified Council Member Mossar talked about combining the property.

Council Member Mossar said that was correct. There were two other parcels with apartments on them. The City looked for long-range opportunities. The site was close to the train station. There were a number of reasons to look at the issue more deeply from a housing perspective. Staff needed to look more openly at possibilities.

Council Member Morton asked what the cash value was.

Mr. Fellman said the cash value was estimated at \$.5 million.

Council Member Morton said the issue was \$500,000 towards a project that might cost as much as \$5 million to \$6 million.

Director of Administrative Services Carl Yeats said the Alma Substation Project had a separate path. Staff attempted to move the item along in order to bring, at some point in time, a project that solved some of the housing needs in the community.

Mr. Fellman said the total cost of the Alma project was unknown at the current time.

Council Member Morton said the Alma Corridor, from El Dorado to Oregon Expressway, had a number of mature units. Effort needed to be expended to look at the development of the three-block area, which had a significant amount of relatively modest housing.

MOTION: Council Member Mossar moved, seconded by Morton, to direct staff to have discussions with the Santa Clara County (SCC) Housing Authority to explore or determine if there is any merit in pursuing something larger than the current proposal, and to return to the Finance Committee with the results of the discussions.

Council Member Morton suggested including the Housing Authority as an interested party.

Council Member Mossar said staff should choose who should be included in the discussion.

Council Member Morton said staff could return with a request to declare the property surplus.

Council Member Kishimoto queried whether staff had considered a property exchange.

Mr. Fellman said he was unsure whether anyone was interested in a swap for the subject property.

MOTION PASSED 4-0.

3. 2004-05 Adjusted Budget – Second Quarter (Q2) Financial Results, Midyear Amendments and Capital Improvement Program Status

Budget Manager David Ramberg said when the 2004-05 Budget was created, there were significant reductions that went into effect July 2004. At the midyear point, staff made additional reductions to cover a shortfall in the budget between revenues and expenses. The 2004-05 Budget had a \$770,000 contribution to reserves. The midyear Budget showed an adjusted budget figure of a \$460,000 contribution to reserves. The reduction was due to Budget Amendment Ordinance (BAO) adjustments since July 2004 and up to the December 31, 2004 point. As a result of the midyear changes, staff showed a \$240,000 deficit that was the result of reductions in the midyear change. On the revenue side, the midyear report showed \$41.6 million in revenues, which was 41 percent of budget as of December 31, 2004. The lag in revenues was not unusual and was a result of lags in State sales tax payments. The City anticipated the revenues would catch up by year-end. The sales tax revenue remained flat in 2004-05, which was equal to or approximately the same amount that sales tax revenues were in the 2003-04 Budget. The property taxes increased \$2.4 million, which was primarily due to \$1.7 million of the Vehicle License Fees (VLF) coming back to the City in the form of property taxes. A remaining portion of the property tax increase was due to an increase in the property tax roll. The Transient Occupancy Tax (TOT) was up slightly. Staff was cautious about the slight increase remaining through the rest of the year. The remaining TOT was increased by approximately \$.2 million to reflect the cautious increase staff expected. The VLF was reduced \$3.3 million as a revenue in the midyear Budget, due to a portion of the VLF coming back through in the form of property taxes. There was an overall reduction in the VLF payment from the State back to cities. Permit fee revenue was down \$.3 million due to slower Development Center activity at the midyear point. Staff would do a cost recovery analysis as part of the 2005-06 Budget. At the high level, expenditures were \$48.9 million, representing 54 percent of budget. That

relationship, where revenues were lower and expenses were higher at the midyear point, was not unusual. There were encumbrances and reappropriations that carried forward from the prior year, which reflected the 54 percent in budget. Staff anticipated year-end expenditures to be lower than revenues. The major expense increase was due to the overtime expense. The overtime budget was 79 percent of budget as of December 31, 2004, which was primarily due to disability leave and staff vacancies in the Police and Fire Departments. New hire ramp up in the Police Department created some of the usage in overtime. The expenses were offset with savings in regular salaries and benefits. The savings were spread throughout all the General Fund departments, and the vast majority of the shortfall was made up. A \$240,000 deficit remained in the midyear budget. Staff expected to make up for the deficit with further salary savings or other cost savings by year-end. The Enterprise Fund had an expense in the Electric and Gas Funds associated with ongoing litigation, primarily around Enron and PG&E. The Capital Improvement Project (CIP) Fund included three new projects: The Main Library space reconfiguration, the CIS Study in Utilities, and the mail processing system. The Budget Stabilization Reserve (BSR) in the General Fund was healthy at \$21.2 million. That represented approximately 17.5 percent of the General Fund expense. The range for the BSR was 15-20 percent of General Fund expense. The adopted 2004-05 Budget had a BSR that was closer to 18.5 percent. Staff expected the BSR to be back up, closer to 18.5 percent by year-end. The Infrastructure Reserve had a midyear balance of \$30.1 million.

CJ Schmidt, 244 Forest Avenue, said there was a level of unease about the CIP associated with reconfiguring space in the Downtown Library. During the prior two years, Library supporters worked hard to get service hours restored to the Downtown Library. Residents were faced with another proposal, which would reduce the public space in the Downtown Library. The Council approved a number of projects that increased residency in the geographic area near the Downtown Library. The proposal in the staff report (CMR:150:05) needed questioning and investigations about options, alternatives, and other ways of accomplishing the need that the Library department tried to accommodate.

Jeff Lewinsky, 1682 Hamilton Avenue, said the title of the Main Library Space Reconfiguration presented a problem. The public space that would be reduced was the area where the magazines and newspapers were. The issue should be reviewed and made more prominent to the public; for example, to have the proposed drawings posted in the libraries. The Children's, Downtown, and Main Libraries were affected and represented approximately .5 million visits per year. The change at the Downtown Library might be reconfigured in order to preserve the public window spaces. The question

was raised as to whether the changes were permanent or temporary. The Library Advisory Commission (LAC) needed to be included in the review process.

Director of Libraries Paula Simpson said the reduction in public space in the Downtown Library was less than 25 percent. The Library hoped to take over the space occupied by the GIS staff. Precise measurements had not been done. The gain in public space at the Main Library and the changes that would be made in terms of introducing express checkout technology at the Main Library would alleviate some of the staffing issues. The moves at the Children's Library were temporary. There was a distinct possibility that all the materials from the Children's Library that went to the Main Library would not go back to the Children's Library when it reopened because of ADA requirements: requiring wider aisles and the goals not to have shelves higher than kids could reach.

Council Member Kishimoto asked how many feet were left for public space at the Downtown Library.

Ms. Simpson estimated 7,100 square feet of current public space would change to 5,500 square feet. The Library tried to focus on meeting people's needs. Internet stations would not be reduced. More emphasis would be put on popular materials such as DVDs. The Library needed to monitor how the population changed.

Council Member Kishimoto asked whether there were a way to better use the outside space.

Ms. Simpson said she talked to the neighbors about their desire to try a children's story time. The Library looked for a volunteer. Story time outside during good weather was possible.

Council Member Mossar clarified the Downtown Library was currently occupied by administrative staff and was not available to the public.

Ms. Simpson said Library administrative staff occupied the Library.

Council Member Mossar said there was a time when the Planning Department remodeled, and the Planning Department was temporarily relocated to the Downtown Library.

Ms. Simpson said GIS staff then replaced the Planning Department staff.

Council Member Mossar said the community was promised the whole Library back. The Council was told "soon" when the question was raised. Over time, staff did not give the Library staff back. Policy was set, decisions were made, and there was no way to track. A promise made to the community was not kept. The current proposal decreased the availability of the Library to the public.

Council Member Morton said the Finance Committee needed to acknowledge there were impacts that were unfortunate. More space at the Downtown Library would be great. Ms. Simpson would communicate fully and extensively with the LAC that the Council would make every effort to get a blessing in terms of a redesigned Children's Library in the future.

Council Member Morton requested the new Library Space Reconfiguration be added to the CIP for the midyear adjustments.

Chairman Ojakian clarified the Technical Services was moving.

Ms. Simpson said the Technical Services staff did the ordering, cataloging, processing, mending, and maintaining the database and would move into the former reference room.

Council Member Kishimoto recalled the Downtown Library was much larger than the College Terrace Library. The College Terrace Library was extremely successful. The secret was involving the neighborhood in planning the space.

Chairman Ojakian said he supported what the Library staff recommended to do because there was a benefit that would happen in the Main Library, which was providing teen services.

Council Member Kishimoto referred to page 3 of the staff report (CMR:150:05) and expressed concern about the eight Fire personnel on disability leave and the long duration.

Fire Chief Nick Marinaro said the overtime budget was in excess due to a number of disabilities. Normally, two disabilities were budgeted for each year. There was a large spike in the current year in the number of disability cases. The Fire Department averaged six to eight disabilities for the prior eight months. Some disabilities were longer term than anticipated. A proposal would be made in the upcoming year to increase the need for disability slot coverage. The Fire Department was understaffed and was in the process of hiring six firefighters.

Council Member Kishimoto asked what accounted for the increase in disabilities.

Mr. Marinaro said for the prior five to six years, the Fire Department averaged four people on disability. The numbers were not predictable.

Council Member Kishimoto asked how Palo Alto compared with other Fire Departments.

Mr. Marinaro said he had not looked at other Departments, but noted that comparative cities carried a large overtime budget for the same reasons.

Council Member Morton noted there was more in overtime but a reduction in the normal salaries. The midyear adjustment reflected the offset.

Director of Administrative Services Carl Yeats said when the Long Range Finance Plan was brought to the prior Finance Committee in December 2004, staff discussed the fact that there was approximately a \$1.5 million gap at midyear. Vacancies were held in the General Fund to fund the gap. As Department salaries were reduced, less was reduced in the Fire Department to make up for the backfill for the overtime expenditure.

Mr. Marinaro said staff anticipated there would be an offset in salary savings. The first part of the year was when seasonal stations were staffed with overtime.

Council Member Mossar referred to page 4 of the staff report (CMR:150:05) and said she was interested in the increase in overtime salaries due to an event in Mountain View. There were additional expenses due to programmatic things.

Police Chief Lynne Johnson said with the OTS grant, overtime monies were reimbursed. The overtime for the OTS Sobriety checkpoint was \$11,245, which was reimbursed for the most part from the grant.

Chairman Ojakian asked about the net, noting the Council did not see the offsetting revenue.

Mr. Ramberg said the net was shown on General Fund Details on page 4.

Assistant Director of Administrative Services Lalo Perez said the net was not shown by the line items.

Council Member Mossar asked whether the City often provided police services for communities such as Mountain View.

Ms. Johnson said the Mountain View was not an official mutual aid, but rather an incident where a number of departments were asked to assist.

Council Member Mossar noted there were salary and benefit savings, but said she learned from the SEA report released by the Auditor, that the City had fewer officers on traffic patrol than in prior years. Some time prior, the Council increased the budget for the Police Department specifically to add officers for traffic patrol.

Ms. Johnson said the Police Department lost a motorcycle officer during the prior year, and that position was not replaced because of the current vacancies and the number of people out on disability and in training. In order to keep the overtime costs down, the Police Department used more of traffic officers' time to backfill to meet minimum staffing requirements. In year's prior, the Police Department had a traffic officer assigned to "hazardous materials enforcement," and that position had been out of the traffic team for approximately five years. The intention was to put those traffic officers back when the Police Department was fully staffed.

Council Member Mossar said when the Council approved an increase to the budget for a specific use for traffic patrol, the specific allocation got lost over time. The budget for the Police Department was constrained recently, and the Chief of Police needed to make things work. The Council, however, did not approve the extra traffic patrol funding to make things work, but rather approved the funding for one of its highest priorities, which was for traffic safety. The Council lost track of commitments to the public for specific needs.

Ms. Johnson said there was no issue if the Police Department continued to be fully staffed. In year's prior, the Council authorized two positions in order to help East Palo Alto and the Red Team. The Police Department was not fully staffed enough currently to add the positions.

Council Member Mossar said when the Council made approvals for increases to the budget, the Council understood it and told the public the increases to the budget were for a particular, very good purpose.

Chairperson Ojakian recalled the Council had added four motorcycle officers in 1997-98 and three additional motorcycle officers in 1998-99. Traffic was a major issue.

Council Member Mossar said there was no reporting mechanism.

Mr. Yeats said the Police Department had a number of vacancies, and the City had a contractual arrangement with the Police Officers Association that said, due to minimum staffing, they would put a specific number of officers in patrol for any given shift.

Chairman Ojakian said he was more concerned about the efficiency than the dollars.

Council Member Morton said there was a need to make the budget process clearer. Each year, the Council looked at line items and could request staff track a set of activities. The Council had to give the staff the right to constrict their operations within the dollars that the Council approved.

Council Member Mossar said the Council set policy.

Council Member Morton said part of the policy was that the line item got tracked. Staff had to have flexibility as to where the budget could be shifted.

Council Member Kishimoto referred to page 4 of the staff report (CMR:150:05), which indicated \$85,000 was from Stanford University football games and other activities. During the prior year or two, the City negotiated 50 percent payment from Stanford University. Palo Alto should negotiate for 100 percent cost recovery from Stanford football games.

Ms. Johnson said the last agreement with Stanford University was due to expire within the next year or two.

Council Member Morton said the City's responsibility was to keep the peace, which was not something that could be billed in parts.

Chairperson Ojakian referred to page 2 of the staff report (CMR:150:05), which noted the State of California's "triple flip" agreement with cities delayed some of the revenue that the City received. The question was asked whether there was an impact on the interest income.

Mr. Yeats said the loss would be based on what the City knew about the "triple flip," and \$60,000 was lost to interest earnings.

Deputy Director of Administrative Services Joe Saccio said the City received payments for 25 percent of the sales tax twice a year. The \$60,000 was an estimate for the entire year.

Chairperson Ojakian clarified the City lost approximately \$60,000 in interest for an entire year.

Mr. Saccio said that was correct.

Chairperson Ojakian referred to page 3 of the staff report (CMR:150:05), and said the Charges for Services section talked about the dramatic slowdown in development-related activities.

Mr. Yeats said staff monitored how dramatic the slowdown was and looked at resources on hand that provided for the building inspection function. Some of the resources were provided by contract. Staff would review the entire cost structure, as retiree costs and health benefit costs increased.

Chairperson Ojakian referred to page 5 of the staff report (CMR:150:05), which indicated the JC Decaux toilet was moved from Lytton Plaza to the Caltrain Transit Center and asked why Infrastructure Reserve funds were used.

Mr. Yeats said the need was to relocate the toilet to the Depot because of a health issue that went on at the Depot.

Chairman Ojakian said the City paid a fair amount in rental payment per year for the toilets but had a long-term contract. The bulk of the Municipal Fee Schedule was focused around the paramedic service and Fire Department. The increases were significant. Exhibit C of the staff report (CMR:150:05) noted an increase in ALS Base Rate of \$775 to \$975 and an increase in the BLS Base Rate from \$550 to \$850.

Mr. Marinaro said two years prior, the Fire Department engaged in a contract service with a private contractor who did the billing. The Fire Department was able to recover a higher return. The figures were derived from what the current industry standard was for the private providers. There was a need to increase to offset the loss in paramedic revenue because of the facility transport program that brought less revenues and changes in the Medicare reimbursement regulations. The Fire Department did not collect 100 percent of what was billed.

Chairperson Ojakian clarified the increase was what the market rate was.

Mr. Marinaro said that was correct.

Council Member Mossar questioned "Fruit ripening process" fees on page 4 of Exhibit C to the staff report (CMR:150:05) and suggested some of the fees might be historic. The fees needed to be reviewed.

Mr. Marinaro said staff would look at the fees.

Council Member Ojakian referred to Exhibit A of the staff report (CMR:150:05), *2004-05 Midyear Financial Report, General Fund* and noted under the Revenue section, the increases in "from Other Agencies" increased dramatically.

Mr. Yeats said the increase might have to do with grants, but he needed to look at the detail of the revenue report.

Mr. Perez said there were several grants in the Police Department.

Council Member Mossar referred to page 5 of Exhibit C of the staff report (CMR:150:05), *Library Department*, and questioned "Sale of Library Lists."

Ms. Simpson said in the past, the Library created lists of items such as DVDs but no longer created the list.

Council Member Mossar said that was another item that could be looked at and removed. The CIP project, Photovoltaic Design and Installation, was questioned.

Ms. Johnson believed the Photovoltaic Design and Installation was planned when the design was originally conceived but found the project would not work, due to the site or design.

Council Member Kishimoto asked about an alternate location.

Ms. Johnson said she was unsure.

Council Member Mossar asked whether there was a mechanism to evaluate how a completed CIP project worked. Seal Park in Palo Alto was redone two years prior, and the residents in the area had concerns about the way the renovation was done.

Mr. Yeats said he would check with the Director of Public Works. The question was valid. Staff would look at the issue when enhancing the CIP process. Staff recently began the process of breaking down the CIP process into phases. An after action report was a good idea.

Council Member Mossar said staff needed to know how much a CIP project cost, find funding, and do the work within the budget. The budget did a reasonable job of tracking.

Mr. Morton said the Parks and Recreation Commissioners adopted a series of parks. Each Commissioner volunteered to bring a report back to the Park and Recreation Commission (PARC) on the park each year. The Commissioners could indicate in their reports whether the upgrades were being evaluated and maintained.

Chairperson Ojakian said he was comfortable with what was in the staff report (CMR:150:05). Work needed to be done on the Libraries, and the CIP was supported.

Mr. Ramberg said the prior question about the \$319,000 from other agencies was made up of grant funding going back to the Police Department.

Council Member Kishimoto referred to page 7 of the CIP projects, *Downtown Urban Design Improvements* and suggested that the City eventually develop a similar CIP for California Avenue where the streetscape needed attention. Clarification was asked whether the San Antonio Medians project was going to the Council.

Mr. Yeats said he would get back to the Finance Committee.

Council Member Kishimoto asked about the El Camino Median Landscape Improvements, noting the trees for El Camino Real were on a slow track. The Palo Alto Unified School District (PAUSD) system's biggest fundraiser was direct appeal, and the City might consider a direct appeal for donations for tree projects.

MOTION: Council Member Kishimoto moved, seconded by Mossar, that the City Council adopt the Budget Amendment Ordinance which includes:

- a. Proposed midyear adjustments to the 2004-05 Budget for the General Fund, Enterprise Funds, Special Revenue Funds, Internal Service Funds, Debt Service Fund, and Capital Improvement Fund.
- b. New or amended 2004-05 Capital Improvement Program Project Descriptions
- c. Amendments to the 2004-05 Adopted Municipal Fee Schedule
- d. Amendments to the 2004-05 Table of Organization

The 2004-05 midyear Capital Improvement Program Projects Status Report was an informational item (attachment 2). A list of continuous projects followed the summary (attachment 3). No action was required on the two items.

Staff also recommended the Finance Committee review and comment on the preliminary financial condition of the City as of December 31, 2004.

Council Member Mossar said for a number of years, the Council listened to the critics about City finances, which made the Council uncomfortable because the Council knew how hard staff and the Council worked. Hearing continued complaining was difficult. The Council was asked to approve a service, such as a BAO, or a request from the City Manager's Office to create a position to provide a service. The Council made a decision about service, which included a budget and money. Over time, during hard financial times, staff reduced the services to cover increased costs. The net result was that over time the budget increased with no significant change in service level.

Mr. Yeats said staff tried to eliminate the impact measures and have performance measures. The performance measures were tied to the SEA report. The SEA report addressed what happened in the past. The budget addressed what happened in the future. Staff would get the Auditor's Report to measure exactly what it said it would do.

Council Member Mossar said it was possible when staff came to the Council for a request for an increase in the budget for a particular service, a recommended mechanism for referring back through the SEA or the budget would be included.

Mr. Yeats said staff discussed the Library automation and automating checkout. One of the items addressed was that automation would not do much in the smaller libraries but, on the grand scheme of things, productivity might be improved system-wide.

Council Member Morton said the City had been in more flush condition in the past, but given the struggle of many of the jurisdictions within California, staff was commended for the fact that adjustments were line item by line item to bring back a balanced budget. To have done so three years in a row was a major accomplishment, considering neighboring jurisdictions went into their reserves. A level of service was provided that was appreciated by the bulk of the residents.

Council Member Kishimoto said over the years the percentage of library funding, as a percentage of the General Fund, had decreased from approximately 6 percent to 5 percent, which represented over \$1 million and made the difference in terms of the quality of the library service. Health care benefits increased at least 12 percent. The City paid more for health benefits, which translated to reduction of services.

MOTION PASSED 4-0.

4. Auditor's Office Quarterly Report

City Auditor Sharon Erickson said the Auditor's office issued an informational report on Palo Alto sales tax, the Maze & Associates Audit of the City of Palo Alto's Financial Statements, and Service Efforts and Accomplishments Report (SEA). The revenue audits continued to yield benefits to the General Fund. The City received \$130,709 year-to-date as a result of in-house and contracted audits, and the goal was \$235,000. The breakdown was approximately \$74,000 in sales tax misallocations that were identified; \$3,200 was in property tax and documentary tracks on misallocations; and approximately \$53,000 more in the Utility Users Tax (UUT) audit work. A number of projects were in process, including an audit of contract contingencies in March, an audit of Worker's Compensation in April, the ongoing audit of cable franchise fees, and ongoing projects regarding SAP system controls. The Auditor's Office tentatively scheduled a peer review by seasoned professional auditors for October 2005. The City had an intern program, and it was unknown how long it would be in existence because of the budget. The last summer intern was hired by the City of Sunnyvale. The Audit Plan included reviews in the Community Service Department (CSD) that were requested by the Council and approved as part of the Work Plan. The reviews included an analysis of cost effectiveness of parks maintenance contracting versus staffing and an audit of CSD class program revenue and cost recovery.

Council Member Mossar suggested the review might be a place to look at the effectiveness of the CIP project that CSD worked on in the parks.

Ms Erickson said a Request for Proposal (RFP) was put out for financial audit services. The internal team, made up of Trudy Eikenberry, Lalo Perez, and herself, would do a preliminary review. Selections would be brought to the Finance Committee, and the contract would be prepared in the interim, prior to the item going to the Council. The Finance Committee, acting as the Audit Committee, had input into the process. The City did not have a current mandatory audit rotation policy. Staff reviewed what the General Accounting Office came up with, who concluded that mandatory auditor rotation was not

necessarily the most efficient way to strengthen auditor independence and approve audit quality, particularly when the additional financial costs were considered. The Government Finance Officers Association (GFOA) advised governments not to institute mandatory auditor rotation because it could force a government to select a less qualified audit firm. The rotation could decrease the pool of applicants. The RFP was open to all bidders, which encouraged competition from all qualified vendors, including the current auditor.

MOTION: Council Member Morton moved, seconded by Mossar, that the City Council acceptance the Auditor's Office Quarterly Report.

Council Member Morton said the Audit supported the fact there was a balanced budget. The SEA report indicated the City managed to maintain the confidence and respect of the community, and there was still time to look at individual departments and the revenue sources to make a reasonable allocation of time to get recovery and/or eliminate problems.

Council Member Mossar said she appreciated the additional information to the discussion as to where the City was going and how it could remain a great City. The Auditor showed the public cared deeply about recycling in the community. That finding alone would ultimately impact decisions that had not been made by the Council.

Council Member Kishimoto said there was a side discussion about automobile sales tax, and she asked whether it mattered where automobiles were purchased if the person lived in Palo Alto.

Ms. Erickson said the layperson's answer was a portion of the sales tax was specific to the jurisdiction where the automobile was purchased. Another portion was paid no matter where the item was purchased. The money went to the County in a pool. A portion of the pool was given to the City.

MOTION PASSED 4-0.

Council Member Ojakian said the item should return on the Consent Calendar.

5. Discussion for Future Meeting Schedules and Agendas

Council Member Ojakian said he met with Administrative Services Director Carl Yeats to review the meeting agendas for the first half of 2005. Where possible, meetings were consolidated. The plan was to hold approximately five to nine meetings.

Administrative Services Director Carl Yeats said there was only one item for the March 1, 2005, meeting, so that item would be moved to the March 15, 2005, meeting.

Adjournment: The meeting adjourned at 9:00 p.m.

NOTE: Sense minutes (synopsis) are prepared in accordance with Palo Alto Municipal Code Sections 2.04.180(a) and (b). The City Council and Standing Committee meeting tapes are made solely for the purpose of facilitating the preparation of the minutes of the meetings. City Council and Standing Committee meeting tapes are recycled 90 days from the date of the meeting. The tapes are available for members of the public to listen to during regular office hours.