TO:               HONORABLE CITY COUNCIL

ATTN:             POLICY AND SERVICES COMMITTEE

FROM:             CITY MANAGER  DEPARTMENT: CITY MANAGER’S OFFICE

DATE:             SEPTEMBER 9, 2008  CMR: 366:08

SUBJECT: RECOMMENDATION TO CITY COUNCIL FOR APPROVAL OF A PILOT PROGRAM INVOLVING “OPEN CITY HALL” ONLINE SERVICE.

RECOMMENDATION
Staff recommends that the Policy and Services Committee recommend to City Council approval of a pilot program involving “Open City Hall” online service as an additional means to further engage the residents of Palo Alto in the decision making process and adhere to one of Council’s top four priorities (Civic Engagement) for this year.

BACKGROUND
On May 19, 2008, members of the City Council discussed a Colleague’s Memo (Attachment B) requesting support for a pilot program involving “Open City Hall” online Civic Engagement Initiative. At the meeting, Council passed a motion (7-2) to bring the item to the Policy and Services Committee to identify and clarify any policy or implementation issues to include: 1) working with the City Clerk and the City Attorney’s offices to ensure adherence to the Brown Act and other legal requirements; 2) identifying who will be responsible for framing and posting the questions for public feedback; and 3) coming up with an initial budget for the pilot program and funding source. Additionally, the Council wanted to ensure that staff time and resources would be effectively used in the proposed program to address the issue of civic engagement.

On August 13, 2008, City staff met with two staff members of Peak Democracy, the parent company of “Open City Hall,” via web conference. The meeting allowed staff members, particularly those new to the project, to better understand the proposed program and to ask clarifying questions. Staff received a demonstration of an improved version of the “Open City Hall” online program and discussed with members of Peak Democracy the concerns that were raised during the City Council meeting.

DISCUSSION
Key features to the updated “Open City Hall” online service include:
1) **Neutral and Maybe’ Options** – Peak Democracy staff has created “Neutral” and “Maybe”, alongside the Yes/No options on the forum, to allow posters to voice their uncertainties regarding an issue. Posters would be allowed to submit comments along with these newly added options.

2) **Tally Tab** – The service has included a ‘Tally Tab’ that allows viewers to see an overall percentage tally of the public’s opinion on the issue.

3) **Change in Fees** – The cost of using the service has changed from a charge of $50 per issue/question posted to a monthly flat rate, which will be explained in further detail below.

*Based on concerns brought up by the City Council, staff engaged in a discussion with the members of Peak Democracy to further understand the proposed program’s procedures and implementation issues. The following are the questions and answers that came out of web conference:*

**Who will draft and post the questions to the website?**
The proposed method for drafting the questions is to insert the word “should” in front of the titles of the agenda items that are to be posted on the forum for public discussion. For example, “Should Council approve [title]?” The City Manager’s Office will be responsible for the process of coordinating the questions and emailing them to Peak Democracy to upload onto the website.

**Will there be a cut-off time to submit comments?**
Yes. Staff can determine a cut-off time for the online public commenting submissions.

**How will the comments be monitored?**
Those who wish to post a comment must sign up for an account with a legitimate email address. Posters would then need to login with their account information in order to participate in the forum. Posters can choose to reveal their identity or remain anonymous. Peak Democracy implements their own procedures to monitor the comments submitted on the forum. Once a poster submits a comment, Peak Democracy staff reviews the comment to ensure that the content is appropriate for posting. If the moderator feels the language of the comment is inappropriate, the moderator will send the poster an email requesting changes. Once the moderator receives an acceptable submission, the moderator will post the comment on the public forum. Peak Democracy staff monitors the “Open City Hall” forum around the clock and will have up to a 4 hour turn around time for all comments submitted.

**How long will the postings be kept online?**
Staff can determine the length of time postings stay on the forum.

**Is there a limit to the number of characters/words that posters are allowed to submit?**
No, there is no limit to the length of a poster’s comment. Additionally, posters are allowed to upload videos of up to 2 minutes in length to the forum. An option to submit photographs has not yet been added to the forum but is expected to be made available in the near future.
Elements of the Pilot Program:

1) Hosting – The public forum will be hosted on OpenCityHall.com, a website created by Peak Democracy staff to host city forums. The format of OpenCityHall.com is very similar to the developer’s current website, OpenTownHall.com, which is used by elected officials to poll their respective constituents on specific issues. A link will be provided through the City’s website to direct the public to OpenCityHall.com. Having the forum hosted on a website outside of the City’s official website would make a clear separation of the City’s involvement in moderating and controlling the forum. This would help to address the public’s potential concerns that the City may interfere with the opinions posted on the forum.

2) Marketing – In order for the pilot program to be an effective tool for civic engagement, Palo Alto residents must be widely aware of the program’s existence and purpose. Therefore, staff seeks input from the Policy and Services Committee regarding potential channels to market the pilot program to the public. Strategic outreach needs to be done in order to engage the public and encourage participation in the forum.

3) Questions – As part of the pilot program, staff will use agenda items that occur after the ‘Consent Calendar’ as discussion questions on the forum. Staff will revisit the effectiveness of this method during the pilot program.

4) PA Weekly – Distribution and availability of comments submitted through the Peak Democracy/Open City Hall forum must be consistent with the terms of a 2003 settlement between the City of Palo Alto and the Palo Alto Weekly related to electronic communications. The City Attorney’s office has had ongoing discussions with the Weekly on whether the Open City Hall comments must be printed and distributed in hard copy to each Council Member and the public. The outcome of those discussions will shape the distribution and availability policy for comments submitted through the OpenCityHall.com online forum.

5) Council Members – Peak Democracy recommends that Council Members refrain from posting. The City Attorney recommends that the Council adopt a policy prohibiting posting by Council Members directly on the Open City Hall site. The City Attorney raised issues of Due Process and a potential violation of the Brown Act if Council Members comment on upcoming agenda items in this format. Of course Council Members would be encouraged to view the site to see the public’s opinions.

POLICY IMPLICATIONS
The recommendations in this report are consistent with current City Council policies.

RESOURCE IMPACT
The OpenCityHall.com online service costs include the following:

- One time start up fee: $5,000
- Flat rate per month: $200 (unlimited number of posted items)

A 6 month pilot period would cost the City $6,200. Additional staff time would be required in order to implement the service.

**ATTACHMENTS**

ATTACHMENT A: Elements of Pilot Program to be Monitored
ATTACHMENT B: April 7, 2008 Colleague’s Memo
ATTACHMENT C: Peak Democracy Presentation

**PREPARED BY:**

SHERILYN TRAN
Management Fellow

**CITY MANAGER APPROVAL:**

JAMES KEENE
City Manager
ATTACHMENT A: ELEMENTS OF PILOT PROGRAM TO BE MONITORED

To assess the forum's success in achieving Civic Engagement, staff will monitor several elements of the pilot program.

1. **Questions** – Staff will look at the amount of comment traffic that comes through the website and address any concerns related to the possibilities of the high volume of public responses for each discussion question. Staff will look at the feasibility and capacity of resources to include all agenda items that occur after the ‘Consent Calendar’ versus the effectiveness of focusing on only agenda items that would greatly benefit from public discussions on the forum.

2. **‘Neutral’ and ‘Maybe’ Options** – The effectiveness of having the “Neutral” and “Maybe” options depend greatly on the comments that the public submit with their declaration of neutrality or uncertainty. Therefore, staff will evaluate to see if those options are being utilized to express feedback that gives the Council a clearer direction on how the public thinks the Council should move forward with City matters.

3. **Participation** – Staff will monitor the amount and extent of participation that the public forum draws in. The forum should be a space for individuals who are unable to attend Council meetings to share their thoughts on City matters.

4. **Resources** – One of the concerns of the Council is that not only should the public forum be a truly effective tool to address Civic Engagement, but that it should also utilize staff time and resources effectively. Therefore, staff will monitor the amount of staff time spent on preparing the questions for the forum, as well as any actions needed after the closing of the discussion item.
ATTACHMENT B: COLLEAGUE’S MEMO

CITY OF PALO ALTO
MEMORANDUM

TO: Palo Alto City Council Colleagues
FROM: Mayor Larry Klein and Council Members Pat Burt, John Barton and Yoriko Kishimoto
DATE: April 7, 2008
SUBJECT: Colleague’s Memo Requesting support for a pilot program involving “Open City Hall” on-line Civic Engagement Initiative

Background:

The City Council has adopted Civic Engagement as one of its top four priorities for 2008. We would like to initiate a pilot “Open City Hall” on-line service to create another channel to increase citizen participation in decision-making.

We face great challenges in protecting our economic base, re-investing in our infrastructure for the 21st Century, continuing to provide a diverse array of services, and addressing our generation’s environmental protection crisis. We must be more innovative in soliciting ideas and feedback from our residents and businesses.

Palo Alto residents have strong opinions and valuable ideas to share, but few can regularly attend City Council meetings. Between family obligations and work, it is challenging to attend meetings, and many find it intimidating to speak in public.

Proposal:

We propose using our city website to pilot an “on-line” channel for the community to provide their input about council agenda items supplementing the public input we already receive. This is the way it would work:

When an agenda is published for an upcoming meeting, substantive agenda items can be posted to the Open City Hall page of the City website (see attached). An announcement is emailed to interested Palo Alto subscribers who visit the page.
Participants can:
* read the agenda item and other information posted by City Officials
* read what other Palo Alto residents and businesses are saying, and
* post their own opinion

If on-line forums are not structured carefully, blog debates can quickly drive away many civil, thoughtful participants. We propose implementation of a pilot trial of the Kitchen Democracy forum. From pilot programs including over 3500 participants in the East Bay, the prototype at KitchenDemocracy.org has been promising in promoting civil discourse through several key features:

* A yes/no framework to focus comments towards the issue and away from one another. Open City Hall would summarize key yes/no questions from a given agenda item. Participants must classify their statements as “yes”, “no”, “maybe” or “neutral”. This enables the website to display the “yeas” and “nays” on separate pages, discouraging writers from attacking specific opposing viewpoints.

* One statement per issue: Participants are limited to one statement per issue. They are free to change their statement or make it as long as they wish, but not make multiple statements. This discourages individuals from dominating the forum with multiple posts.

* Anonymous comments from real people. Participants have the option to sign their statements or remain anonymous. They are required to confidentially provide their real name, home address and email address. Along with other security measures, this free, confidential registration makes it difficult for any single person to post multiple times under fictitious identities.

Request:

It is our hope that the net result is that Open City Hall can significantly increase participation.

We therefore ask our colleague’s support in directing staff to bring this item to the Policy and Service Committee to identify and clarify any policy or implementation issues such as:

* working with City Clerk and City Attorney’s office to ensure adherence to Brown Act and other legal requirements
* responsibility for framing and posting the questions for public feedback
* initial budget for pilot program and funding source, with proposed $50 per agenda item
The Problem

Even though most Palo Alto residents have strong opinions about Palo Alto issues, it's tough fitting City Hall meetings into their busy schedules.

At the same time, busy Palo Alto City Officials can't talk to every resident, and it can be hard to see trends in residents' opinions.

Our Response

Open City Hall is a dedicated on-line channel for citizen participation. This means:

- busy Palo Alto residents can participate in the public comment process on City Agenda Items, and
- busy Palo Alto City Officials can inform residents while seeing trends and good ideas from residents -

all from the convenience of everyone's own computer on their own schedule.

www.PeakDemocracy.com
How It Works

As soon as the agenda is published for an upcoming meeting, agenda items are posted on the Open City Hall page of the Palo Alto City website. An announcement is emailed to all Palo Alto subscribers, who then visit that page and

- Read the agenda item and other information posted by city officials,
- Read what other Palo Alto residents are saying, and
- Post their own opinion.

Palo Alto City Officials can read those statements and analyze trends using Open City Hall analysis tools. In a fraction of the time it takes to listen to comments at city hall meetings, City Officials gather input from 10 to 20 times as many residents – and from a much broader cross section of Palo Alto residents, too.
Full Service Solution

No Palo Alto information technology resources required

Open City Hall is available from Peak Democracy as a service. There is no need to install special software or use any internal technology, expertise or infrastructure. Start your Open City Hall service simply by pasting a couple lines of html (provided by Peak Democracy) in one of your website pages; everything else happens on Peak Democracy's servers.

No significant change to existing process

Follow your existing process for setting and documenting agenda items; our Open City Hall service inserts them into your on-line forums. The only additional task required is to name each agenda item and write a short yes/no question which starts the community discussion. Peak Democracy will handle the rest.

www.PeakDemocracy.com
Civil, Civic Engagement

The Internet in general—and blogs in particular—can be nasty and contentious. Open City Hall is not a blog. Designed to foster civil, civic engagement, Open City Hall is a safe place where personal attacks and off-topic rants happen rarely, if ever.

The 'yeas' and the 'nays' appear on separate pages, keeping comments focused on the issue, rather than attacking each other. Moreover, residents can post their statement signed or anonymously, making it easy to express an opinion without interfering with important relationships with others in the Palo Alto community.

Residents are restricted to only one statement per issue, and are required to confidentially provide their real name, home address and email address to Peak Democracy. Along with other security measures, this free, confidential registration makes it very difficult for any single resident to post multiple times about one issue and dominate the forum.

www.PeakDemocracy.com
ATTACHMENT C: PEAK DEMOCRACY PRESENTATION

Peak Democracy Mission:

To broaden participation in democracy and build public trust in government

Agenda

- Define the problem and the 'Open City Hall\textsuperscript{SM}\texttrademark' service
- Demo 'Open City Hall\textsuperscript{SM}\texttrademark'
- Lessons learned since March 2008
- Modifications to March 2008 proposal

Community Meetings
(City Hall Meetings, Neighborhood Meetings, etc.)

Benefits
City provides background information
Residents participate in public decisions
Residents hear opposing views from other residents

Drawbacks
Must be available during meeting time
Must have access to transportation
Meetings often dominated by a vocal few
Hard to speak publicly under pressure
Open City Hall
Civil civic engagement

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Residents participate in public decisions
Residents hear opposing views from other residents

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Open City Hall
Civil civic engagement

City provides background information
Residents participate in public decisions
Residents hear opposing views from other residents

...all from the convenience of their own browser on their own schedule.

Aug 13, 2008
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Open City Hall — For City Officials
Civil civic engagement

City Officials can:
- inform residents about local issues
- quickly review what many people are saying
- understand trends in residents' opinions
...all from the convenience of their own browser on their own schedule.

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Demonstrations: Using Open City Hall

- Late in the decision process
- Early in the decision process
Lessons Learned Since March 2008

- Open City Hall originally envisioned as a mirror of a city council agenda
  - Agenda finalized on (e.g.) Thursday before meeting
  - Agenda is copy/pasted into OCH & residents notified the same day
  - A yes/no question is assigned to each item
  - Feedback collected until (e.g.) Monday Noon for Monday evening council meeting

Lessons Learned Since March 2008

- We observed in our Open City Hall (OCH) projects that
  - in many cases, supporting documents were not written for the wider audience of OCH participants.
  - in other cases, complex decisions (e.g. budget) became agenda items only very late in the process and residents wanted earlier opportunities to participate.
  - not all agenda items yes/no-ifyable
Open City Hall today is more flexible

March
- One OCH issue per agenda item
- no question required
- no extra staff time required
- Price per item
- No Open Town Hall discount

Today
- OCH used for agenda items and/or other topics
- yes/no optional
- some extra staff time recommended
- Price per month + setup fee
- Open Town Hall discount

March

Now
- Price: (cities < 100,000)
  - unlimited participants
  - $50/agenda item

- unlimited issues (e.g., agenda items)
  - $200/month
  - $5000 setup fee

OpenTownHall.com
On-line forums for individual elected officials and their residents
Launched in May, 2008
Participating elected officials in Arcata, Berkeley, Emeryville, Eureka and Trinidad CA
Open Town Hall

Grátis for councilmembers in Open City Hall cities (normal subscription $20/month/elected official)

Open City Hall Benefits for Residents

- Learn about and participate in the decision process on their own schedule from their own browser.
- Present their opinions without pressure of time-limited public speaking
- Participate in non-threatening environment
- Hear all sides of the issues — not just the 'official' versions

Benefits for City Officials

- Hear from a broader cross section of residents in a fraction of the time
- Quickly see trends in opinions
- Quickly identify good ideas to shape the decision process
- Increased voter satisfaction in government performance
Benefits for Communities

- Healthier relationship between citizens and government
  - Help citizens engage – or re-engage – in the democratic process
  - Show citizens that they have a voice
  - Encourage them to use that voice
- More inclusive decisions
- Improved quality of life
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### Residents participate in public decisions

### City provides background information

### Residents hear opposing views from other residents

### Tools to analyze opinions by neighborhood and/or voter status
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Feedback From Residents
(Kitchen Democracy Issue, Oakland Councilmember Pat Kernighan)

☐ Nina Horne: Thanks, Pat, for building a constructive process for voicing our concerns or support.

☐ Mary Ellen Navas: And thank you Pat, for this method of gathering and sharing input.

☐ David Rosen: The kitchen democracy concept is GREAT! I'd love to see it expanded as a way for people to have real input into the political process.

☐ James Zahradka: Thanks for taking our input on this.

☐ Dick Hughes: I thank Patricia Kernighan for her involvement in this issue.

Feedback From City Officials

Eureka Councilmember Jeff Leonard, NPR Interview, June 2, 2008

I've posted a couple of issues on Open Town Hall, and it has really helped me reach out to constituents. But it also helps constituents see that there are good arguments on both sides of an issue.

A lot of times I think that constituents like to talk to their best friends, who all think like they do. So, they get a good understanding of their point of view, but sometimes it's hard to encounter opposing points of view.

The forum lets constituents post their opinion, but they can also take a look at what other people are saying. They get a better idea of what the community as a whole is thinking.

Feedback From City Officials

Kitchen Democracy provides an easy and safe forum for residents to participate in the decisions made by their City. Because of this, their forums attract a large number of residents who would otherwise be too busy to attend council meetings or write letters to the paper. So, instead of just hearing from a few outspoken residents, Kitchen Democracy makes the opinions of a broad cross-section of residents readily available.

Berkeley Mayor Tom Bates
Chairperson Kishimoto called the Policy and Services Committee meeting to order at 7:02 p.m. in the Council Conference Room, 250 Hamilton Avenue, Palo Alto, California.

Present: Barton, Drekmeier, Kishimoto (chair), Espinosa

Absent: None

1. Oral Communications

None.

2. Recommendation to City Council for Approval of a Pilot Program Involving "Open City Hall" Online Services

Interim Deputy City Manager Kelly Morariu introduced Peak Democracy representatives Robert Vogel and Michael Cohen and reviewed a brief history of the Peak Democracy program. She asked the Committee for outreach ideas that reached above and beyond the usual arenas. She explained staff’s recommendation was a proposed six month pilot program being hosted and monitored by Peak Democracy on their website, www.OpenCityHall.com.

Peak Democracy representative, Robert Vogel reviewed a presentation of their services available to the City. He stated the service was created to give the community an opportunity to participate in community and neighborhood meetings without fear of being interpreted as a complainer or not receiving the response they were interested in. He displayed an on-line demonstration of the website.

Council Member Barton asked whether there was a location on the website where the consumer could locate City information linked to the item being viewed.

Mr. Vogel stated yes. The pages of the site could be modified to suit the
controller’s desired result. He stated although the community participant had the opportunity to leave a comment anonymously they must be registered with the site to be able to make the comment.

Chair Kishimoto asked whether there was confirmation a check on the validity of the registrant once they register on the site.

Mr. Vogel stated yes. Although, there were no fool proof way of verifying all information it is a secure site.

Management Fellow Sherilyn Tran asked whether the community had the ability to adjust what they had written at later time.

Mr. Vogel stated yes. Although each time the comment was modified that statement remained in the original location.

City Manager James Keene asked whether the parameters were able to be redefined.

Mr. Vogel stated yes.

Chair Kishimoto asked whether the advanced search section had the ability to adjust the different ranges of the search criteria.

Mr. Vogel stated yes.

Ms. Morariu asked whether the City had the ability to control the options available on the site. Since the site was not hosted on a City site she asked how changes would be made.

Mr. Vogel stated yes, the City had the ability to enable the site abilities. However, the City needed to inform them as to what changes were desired and the company would perform said changes.

Chair Kishimoto asked if the website service posted meeting responses the next day.

Mr. Vogel stated yes.

Vice Mayor Drekmieier expressed as part of the service whether the company read all of the comments. He asked whether the company was prepared for the large numbers of participants there could be with our community.

Mr. Vogel stated the company had worked with other Cities with large
community involvement.

Vice Mayor Drekmeier asked how to prevent fraudulent participation.

Mr. Vogel stated there were systems checks on the system to prevent a large amount of fraudulent activity. There were limitations to all security systems although all addresses were checked back to an IP address, e-mail addresses were validated, and cookies were required on the browser.

Vice Mayor Drekmeier asked whether they could determine whether a library computer was used.

Mr. Vogel stated it was possible however not necessarily with a great deal of validity.

Vice Mayor Drekmeier asked whether the Council was expected to review the website prior to the meeting to review the comments.

Mr. Vogel stated the site was generated to assist the Council in knowing the community and what they were thinking regarding the issues at hand. The site had the ability to print reports for review.

Ms. Morariu stated there would be a policy in place to close the forum at noon and the City Clerk’s Office would print the communications and distribute them to Council at the Meeting.

Vice Mayor Drekmeier asked the cost to continue the service after the pilot program.

Mr. Vogel stated the breakdown was an initial five thousand dollar setup fee plus a monthly cost of 200 dollars. The pilot program included the set-up fee and the first six months. Therefore the cost would remain at 200 dollars per month at the current service level.

Council Member Espinosa stated concern for the website not being hosted by the City website.

City Manager James Keene stated the City website concerns have been reviewed and changes were being made for the future.

Council Member Barton stated having the off-site hosting had value to the community by a non-partisan view. He suggested the items being discussed on the forum be non-Consent items.
Council Member Espinosa asked how the system responded to questions asked on the website.

Mr. Vogel stated the end-user did not have the concept that there would be a response. The system was designed for the community to share their views and opinions with each other and the Council. There was a forum announcement section where a response could be placed if so desired.

Council Member Barton suggested Palo Alto On-Line as an outreach venue. He mentioned at present time a judgment of success would be premature, he suggested waiting until after the pilot program had ended to discuss success or options for change.

Mr. Vogel stated the number of items posted was up to the controller; however he suggested starting out with the most interesting items and build to all of them. He recommended all agenda items be posted in the future with a smaller number in the beginning focusing on the larger items of concern.

Mr. Keene asked whether with the span of the pilot program the City would have the opportunity to expand to the full agenda.

Mr. Vogel stated the value of the program could only be determined by the City. He stated a survey could be placed in the program for end-users to report their thoughts of whether the program was successful in their views.

Vice Mayor Drekmeier asked for an estimation of staff time that would be required to run the program.

Ms. Morariu stated the volume was unknown at the moment although the City Managers Department would be drafting the questions from the staff reports, the City Clerk’s Office would be printing and preparing the forum comments, the print shop may be impacted, and the IT Department would be involved initially.

Mr. Keen stated outside of the print time, the project does not appear to take a large amount of time.

Peak Democracy representative, Michael Cohen stated ideally the object of Peak Democracy was to be a back-end service provider where we provided the technology and the communities view was they were on the City of Palo Alto website.

Mr. Keene stated through the Alliance of Innovation there were pilot programs initiated and the City could benefit from their experiences.
Vice Mayor Drekmeyer asked the original cost for the program.

Mr. Vogel stated it was set at 50 dollars per question.

Vice Mayor Drekmeyer stated he supported the Motion.

**MOTION:** Council Member Barton moved, seconded by Chair Kishimoto, that the Policy and Services Committee recommend to the City Council approval of a six month Pilot Program with Peak Democracy involving “Open City Hall” Online Service; that staff choose the most important topics for each Council meeting and return to Policy and Services Committee for an evaluation on whether or not to continue the program. The Council Contingency Fund would fund the program.

**MOTION PASSED** 3-1 Espinosa no.

3. Recommendation to City Council Regarding Alternatives for an Area Median Income-Based Resale Price Formula for the Below Market Rate (BMR) Ownership Program.

Cathy Siegal, Advanced Planning Manager, spoke about the staff report presented to Council on July 7, 2008. On July 7 the Council referred the selection of an appreciation formula for new BMR units and resale of existing units to the Policy and Services Committee and directed Staff to develop an appreciation formula based on Area Median Income (AMI). Based on Council’s policy decision the resale prices of BMR Units as they age should be kept at the moderate income level of affordability. At the July 7, 2008 meeting it was brought up that the AMI formula would result in resale units costing approximately the same as new units. This might result in problems over time especially with owners who did capital improvements, or with units receiving major special adjustments from Home Owners Association (HOA’s). The City could end up with units that would be harder to sell and might have prices that exceed new units, and buyers would only want the newer units since they were cheaper. Staff decided that an AMI approach to appreciation using the Kaiser Marsden approach was best, as they have various protections. Staff suggestion is to reduce the AMI percent to 70 percent. The City could then get to a level of appreciation that would put older units sufficiently lower than new units. This would allow the older units to absorb the cost of capital improvements. There may still be units that the City will have to deal with on a case-by-case basis. She stated that Council also directed Staff to work towards establishing a renovation loan program for the lowest income owners who cannot afford to improve and maintain their unit. Staff should have that completed within the next year.
Chairperson Kishimoto asked about the proposed 2 thousand dollar per year credit to owners.

Ms. Siegal stated the annual credit is to reward owners who have done regular maintenance and kept their units in good shape. It was developed in response to owners under the one-third Consumer Price Index (CPI) formula. Per Council’s direction this annual credit is only applied to owners with the one-third CPI. It was not intended to apply to newer properties that would have a newer more liberal appreciation formula. Staff has implemented the annual credit with the last five house sales. The current sales have been with owners who have maintained their units and they have received the credit.

Chair Kishimoto asked if the depreciated value of capital improvements would be added to the BMR resale price calculation with 70 percent AMI formula.

Ms. Siegal replied yes.

Council Member Espinosa asked how the decision making occurred with the Palo Alto Housing Corporation (PAHC) and Staff. He stated his concern was that PAHC didn’t agree with Staff recommendations.

Ms. Siegal stated that staff has met periodically over the whole BMR study with PAHC and the BMR Committee.

Curtis Williams, Acting Director of Planning and Community Environment, stated that Council provided Staff direction to go to the AMI formula similar to what Kaiser Marsden had suggested. Council direction was to adjust the gap to make it safer and more secure, so the City doesn’t end up with units that need improvements. There haven’t been any discussion of this with PAHC since July. PAHC did not agree with AMI formula that was given by Council.

Chair Kishimoto stated there were two or three choices before the Council at that time. The city has a new ABAG mandate to provide very low housing units. The goal should be to provide the most affordable housing for the City investment. She believes the AMI Index is a reasonable index; we could discuss decreasing the level from 80 percent to 70 percent. We should keep prices low, because we have a stock of houses.

Council Member Barton discussed the various proposals and asked what the policy statement would be if we went with the 70 percent over the one third CPI plus the annual bonus credit. What does it mean to choose one over the other as far as a policy statement.
Mr. Williams stated there are two components. The first is that the City values the people who buy into the program and their opportunity to gain appreciation
on their unit when they sell. They would get more out of it with the two thousand dollar annual credit. The second policy is to develop a moderate income product that at the end would come in at the low income levels. The City would retain more opportunity to supply to low income families.

Bonnie Packer, representing the BMR Committee, stated we have always worked closely with Staff. She stated they were not directed to look at AMI and that is why they stayed with CPI. The experience we have had of the five homeowners getting the annual credit, these owners are getting a nice return on their investment. It is small investment, with a good return. We have to ensure that the policy is easily understood by all. By using the one-third CPI plus the two thousand dollars per year credit, it makes it easy to understand and a great incentive for the owner to maintain the unit.

Marcie Mitchell, BMR Housing Administrator, stated there are three current resale units that we have applied the two thousand dollar maintenance replacement credit to, and they were under the one-third CPI program. The owners are pleased with the return on their investment. She stated her concern is the price of the units, as proposed by the AMI figures, there is not enough of a safety net between the resale of older units and the new units. She suggested lowering the proposed 70% AMI or keeping where it is. She stated she would support the current CPI and credit allowance because it makes is easier to administer. There would be no deed restriction changes for the 300 units, and no formula to relearn and try to explain to current and potential homeowners.

Ms. Packer stated the BMR Committee questioned what AMI and CPI are and how these indexes relate to the involved homeowners. Average median income can go up, but the people we are serving are in the low income range and the ups and downs do not affect them. If one is interested in the appreciation then AMI gets you that, but CPI will get you purchasing power.

Chair Kishimoto stated that depending on the time period, sometimes CPI is much higher than AMI.

Council Member Barton asked about the value of having the delta between new and older units. Doesn’t the market smooth that out. Why are we concerned if a newer unit sells for more than an older unit.

Ms. Siegel stated that those people on the waiting list are very interested in new units. We also have current owners who are interested in moving up to new units.

Chair Kishimoto asked if a unit is unattractive, whether the City has to buy it
back and pay to upgrade it.

Ms. Siegal stated there have been some older units that were poorly designed that have been more difficult to resell, but Staff has had great success with most units.

Vice Mayor Drekmeier stated he is having a hard time moving forward with this issue because there are no BMR unit owners here to speak. He wants to ensure that this doesn’t end up coming back to Policy and Services because the owners weren’t here tonight.

Ms. Packer stated that she has spoken about this issue with 12-24 current BMR unit owners and their response has been mostly favorable. She stated approximately 75 percent are in favor of the one-third CPI formula. Two of the three owners in the process of selling now are pleased with the way it is now. PAHC explained the benefits of this formula to the owners and they were pleased with the program and how it benefited them.

Chair Kishimoto asked if PAHC recommends going back to the one-third CPI formula plus the annual two thousand dollar maintenance credit. She also asked if PAHC was against the minimum and maximum ceiling or cap on the amount.

Ms. Mitchell stated PAHC is in favor of the one-third CPI, but against the ceiling approach as it makes the formula to complicated.

Chair Kishimoto stated that using the cap or ceiling approach the house would never be sold for less than what the owner paid for it.

Ms. Mitchell answered yes. She stated that is the current case.

Chair Kishimoto asked who would do the calculations PAHC or staff.

Ms. Siegal stated that PAHC does the calculations to set the sale price; City Staff inspects the units, evaluates the receipts for capital improvements, and evaluates the overall condition of the unit for the annual maintenance credit. The complexity of the formula is a problem with administering the program and staff has to find a way to explain the program and calculations to potential buyers and owners.

Chair Kishimoto asked if there has to be some type of index used.

Ms. Siegal answered yes. CPI is more understandable for people, and information on it is more accessible to the general public. It changes every
two. AMI is manipulated by HUD and sent out annually. She stated that communities that have use AMI for BMR programs have experienced problems over the past six years due to its fluctuations.

Council Member Espinosa stated that part of having this come back to us was to think through AMI as an option and if this was the right way to go. He asked if staff should have waited to bring this back so that all these issues could have been resolved and a more comprehensive solution could have been brought to Policy and Services.

Chair Kishimoto asked if Staff is more comfortable going back to CPI.

Mr. Williams stated that Staff is comfortable going back to CPI. Staff has seen some recent sales where there is a significant dollar difference in favor of the owners.

**MOTION:** Council Member Barton moved, seconded by Chair Kishimoto moved to recommend to the City Council that the BMR appreciation formula return to one-third CPI with the two thousand dollar annual per year credit.

Council Member Espinosa questioned where we are now and where Staff was at beginning of meeting and whether more analysis is needed.

Council Member Barton stated that is a good concern but we asked them to research the AMI approach. Staff did what we asked them to do, and our conversation tonight has made him comfortable with the motion being made.

Chair Kishimoto stated it is not just the AMI versus CPI issue; it is the difference between the 80 percent or 90 percent of one-third. We are going back to the one-third CPI.

Chair Kishimoto stated that this recommendation lets the prices stay as low as reasonable but give owners some reasonable return. We are not sticking with the interim goal of 80 percent of AMI, and we are going back to the original proposal.

**MOTION PASSED** 4-0.

4. **Discussion for Future Meeting Schedules and Agendas**

   October 14, 2008
   November 18, 2008

**ADJOURNMENT:** Meeting adjourned at 8:45 p.m.