



CITY OF PALO ALTO CITY COUNCIL TRANSCRIPT

Special Meeting
June 27, 2017

The City Council of the City of Palo Alto met on this date in the Council Chambers at 5:12 P.M.

Present: DuBois, Filseth, Fine, Holman, Kniss, Kou, Scharff, Tanaka, Wolbach

Absent:

Agenda Changes, Additions and Deletions

Mayor Scharff: We don't have any Agenda Changes, Additions, or Deletions, so now we'll move on to City Manager Comments.

City Manager Comments

James Keene, City Manager: Thank you, Mr. Mayor, members of Council. One last announcement on the open house that the City will be holding down at the Municipal Services Center, sponsored by Utilities and Public Works and some of the other Staff who labor down there, right off East Bayshore near the Baylands. This Monday, July 3rd, from 10:00 A.M. to 2:00 P.M., the City is hosting an open house to show off some of the behind-the-scenes work we do. We'll have Staff teams from the Administrative Services Department, Community Services, Public Safety, Public Works, and Utilities. There will be all kinds of project displays, demonstrations, and entertainment. You'll get to see lots of the interesting, cool equipment that we have down there, that serves our community. There will be some really helpful demonstrations, informative messages on the dangers of high voltage, how transformers work, see bucket trucks and other heavy operations equipment. We really invite City Staff families and friends to join us for what we hope will become an annual tradition. There's more information on our website. The very next day, the 4th of July, the 36th Annual Chili Cook-Off and Summer Festival will be held from noon to 5:00 P.M. at Mitchell Park as always, with a great day of cooking, decorating, and fun. Judges will be awarding more than \$2,000 in cash and prizes to the best chili division and best overall chili winners. There's also the coveted best booth and best spirit awards up for grabs. The public is encouraged to attend this fun event, vote for their favorite chili as part of the people's choice award. Cityofpaloalto.org/chili if

TRANSCRIPT

you want more information. Our Palo Alto 311 app, which is our mobile app for engaging with the City on a range of issues, often graffiti, potholes, other issues and difficulties, we've actually added a feature now that takes users to the Palo Alto School District news, connecting to School District issues. In addition to the other things that we typically report on, press releases, community services, the City calendar, and our Library catalog, the School District news feature increases our capabilities as a one-stop shop. It's the first collaboration between our Information Technology (IT) Department of the City and Palo Alto Unified School District. We encourage folks to look at that. Believe it or not, that is all I have to report.

Mayor Scharff: Thank you. Now, we'll move to Oral Communications.

Oral Communications

Mayor Scharff: We have a number of speakers. Our first speaker is Mary [sic] Jo Fremont, to be followed by Roberta Alquist. Three minutes.

Marie-Jo Fremont: Good evening. What I want to do is share with you some pictures of what's happening in our skies to maybe show how disproportionately affected Palo Alto is by airplane noise. All the data that I'm going to show are coming from the web tracker at the San Jose Airport; you have the Universal Resource Locator (URL) right here. Here at 1:34 A.M. on June 12th, you have two flights in the Bay Area, one at 36,000 feet on the east side. The other one is going to fly over Palo Alto below 5,000 feet. At 2:46 A.M., there is one flight that's landing in Oakland, and there's another one flying over Palo Alto below 5,000 feet, crossing at Highway 101 (101) at 4,000. At 4:17 A.M. the same day, there's no other flight but one again flying over Palo Alto, coming from Hawaii. Twenty-four minutes later, you have two flights, one from the east side and one again from Hawaii crossing over Palo Alto. Eighteen minutes later, one new flight just on the west side, crossing over Palo Alto. At 6:31 A.M., here's a snapshot, one flight from the east side, two flights on the west side coming over Palo Alto from the north. The little flight at the bottom of the screen is one that's going to land at Palo Alto Airport. Six minutes later, you have one new flight on the right side, but you have two new flights on the left side over Palo Alto. Six minutes again, nothing new on the east side except the (inaudible) east which flies over the Bay, which is great for everyone. Again, on the left side over Palo Alto, you have a nearby—you have two new flights. Six minutes later, one new flight on the east, three new flights on the west side. Guess what? They go over Palo Alto. Six minutes later again, one new flight on the east, two new flights on the west. What I want to point out is the green planes are the San Jose departures. They do not conflict with the east side arrivals because of the altitude gaps. There's plenty of space in that

TRANSCRIPT

sky over there. Six minutes later, you get another one at 7:03 A.M. There's nothing on the east side. Of course, we get the Surf Air flight. You get the gist. This is not balance. Let me add now a snapshot of what it looks like, the concentration over Palo Alto while there is plenty of airspace on the east side. I want to bring your attention to the reverse flow of San Jose when the weather changes. They not only effect, of course, Sunnyvale and Mountain View but guess where they turn. Over Palo Alto. We get a double whammy. We continue to have the San Francisco arrivals, and now we get also the San Jose arrivals. At this snapshot, where there is no flight on the east, we have four San Jose arrivals over Palo Alto and two San Francisco arrivals. This is the same thing a few minutes later. These are data. You make the conclusions. Thank you.

Mayor Scharff: Thank you. Roberta Alquist to be followed by Judy Adams.

Roberta Alquist: How many of you are renters? One person on the Council, two people. How many of you know renters who either work for the City or live here in Palo Alto? Three. How many of you have had a meal at La Comida? Four. How many of you, if you lost your home in a fire and didn't have fire insurance, would be able to take care of yourself for, say, a year?

Mayor Scharff: I'm going to remind Council Members that we're actually not supposed to give feedback. We're not supposed to verbally give feedback.

Ms. Alquist: These are rhetorical questions.

Mayor Scharff: Council Members are responding.

Ms. Alquist: You are grossly out of touch with a part of the community that lives here, that works here for the most part. What is the problem with having RVs on El Camino between Embarcadero and College Terrace? How many of you speak another language besides English? There's English and there's Chinese up there. Where are the other languages that represent this City? We're all immigrants. We need to be more humane in responding to people who aren't of the same social class or ethnicity as the majority of people on the Council. We need to be empathetic. Sometimes I feel that some of the Council actions are like the actions of the Trump Administration. These people are our responsibility. Low-income, homeless people are our responsibility. We are part of a State, of a City. I feel that this Council has been unresponsive. We have no rent control. Mountain View has rent control, Redwood City, East Palo Alto, Emeryville, Oakland, San Jose, San Francisco. Why are you doing nothing about this? We have demolitions possible of low-income, moderate housing. In fact, low-income housing is almost nonexistent here except for the few low-income housing units that are part of the Housing Corp. We have done very little to provide for a

TRANSCRIPT

diverse racially and social class community. I urge you to start taking action to make change.

Mayor Scharff: Thank you. Judy Adams to be followed by Herb Borock.

Judy Adams: Thank you for giving us time to speak. I drive up El Camino just about every day, and I see the motor homes there. They look neat. I don't see trash. I'm wondering who's living there, why are they living there, are they low-income workers in our community, are they high-tech workers in our community, are they teachers. Do we know who's living there? I'm hoping that, before the City takes action on some sort of ban on motor homes parking there, the City looks into alternative places where people might park and have sanitary facilities. As Roberta said, we need to have a place in our heart and in our City for those who are homeless whether by choice or accident or necessity. We also need to look for issues of affordable housing and spaces in the City where we might host in a safe place people who are parking on the streets because they have no other choice and to get social services to those people, if they're not working poor. Everyone needs a helping hand. I also want to add I know you're going to talk about a music school and parking, traffic situations in a local church. I would be happy to live near a church that had many activities that brought people to my neighborhood. I'm certain that neighbors can work out an arrangement so that there's free traffic flow as schools do, have an area for a pick-up zone, drop-off zone, schedules. These are situations that aren't world shaking, but they do shake the foundations of our community. Where do people live who can't afford, as I was able to, a house? When I came to Palo Alto, before I had a rental, I stayed in a bedroom in a friend's house and helped take care of her kids while I was working at Stanford. I had a camper and, if I didn't have that alternative, even in the '70s I could have been one of those folks parking on the street, trying to be invisible. You can't be invisible in a motor home, but you certainly have facilities in a motor home. I encourage you to look at other solutions, more permanent solutions, affordable housing, places for people to park and live with sanitary facilities, and more equity in the community. Thank you.

Mayor Scharff: Thank you. Herb Borock to be followed by Sea Reddy.

Herb Borock: Mayor Scharff and Council Members, the City has issued an invitation for bids for work on three parking lots, including the Midtown parking lot at the Midtown Shopping Center. The plans for that parking lot are available. That lot is accessed from Midtown Court off of Colorado Avenue, has 74 spaces. The entrance is signed for 2-hour parking, and there are numerous signs within the parking lot for 2-hour parking restriction. Originally, as I recall, the parking lot was created from an

TRANSCRIPT

assessment district in the 1950s when the retail businesses were motivated to form the district by the City removing the parking on Middlefield Road at that time. According to the plans, the entrance sign for 2-hour parking is being removed. Numerous signs within the parking lot for 2-hour parking are being removed. Instead, signs by the entrance and along Midtown Court are going up, which say that no vehicle may park here for more than 72 consecutive hours. To be viable, Midtown Shopping Center needs that City parking lot and for turnover in that parking lot rather than for somebody using it for all-day parking or all-weekend parking. There are other competing uses who would love to have the parking lot. There are apartments on the other side of Midtown Court. There are office buildings. Perhaps some property owners would like the retail to move out and replace it with office buildings. Companies like Google would like to have a Park and Ride Lot for their employees to show up and have a bus come and pick them up to take them to work. I'm surprised to have seen the plans. As I understand it, that 2-hour parking is being removed. Thank you.

Mayor Scharff: Thank you. Sea Reddy to be followed by Terry Holzemer.

Sea Reddy: Good evening, Mayor and City Council and citizens of Palo Alto. I think you've all heard about Maslow's hierarchy of needs. It starts with the physiological needs, which means that they need to be healthy and mentally well. In order for all that healthcare activities that we're hearing, the one thing that's missing—they're not telling you—is that we need more doctors, more nurses, more PAs, more assistants, more computer systems that enable people to know what they need to do. I think Palo Alto has a lot of influence, and (inaudible) have a lot of influence. Please call your Senators and ask for expanding the education rather than studying about this and that and history that we already know a little bit about. I think what's needed is this science of physiology and physical activity and mental activity. We need more doctors, more assistants, more access. That's going to reduce the healthcare costs. The second thing is I want to thank City Hall and the people that planned the 2100 College Terrace Building. It's a fabulous building. I think it deserves many of your going there and looking at it and to see what's going on. It's a nice little market, and I think your input will be very valuable to the people that are running it. We want to support small business if we want to be able to walk from our home to a little place and have a little chat and have eggs and milk and things like that, not ripped off 20 percent more somewhere by the train station or by somewhere in Downtown. Please give your consideration because we need to promote our businesses. Thank you for doing it. Give them feedback if you think things are not going well. We want them to be there forever. Also, I do not like the parking of big RVs. There's already one Recreational Vehicle (RV) sitting right in front of College Terrace, the 2100. It's been

TRANSCRIPT

there for 5 days. Please be nice enough to move it somewhere else. There's nothing wrong with being there, but I think you need to rotate it so it's not an eyesore to the new community that's in there. Thank you.

Mayor Scharff: Thank you. Terry Holzemer to be followed by Patti Regehr.

Terry Holzemer: Thank you, Council Members, for letting me come and speak tonight. I came tonight to speak about a matter in my neighborhood regarding my next door neighbor, which is 2555 Park. I'm sure you must be aware that this is a project that involves a three-story office building on the corner of Park Boulevard and Grant Avenue. However, what you may not be aware of is what has occurred recently, over the past 2 weeks, which was only resolved this past Monday. For more than 2 weeks, a very large diesel-powered generator was running 24 hours a day, 7 days a week, to dewater this site for a new underwater garage. This generator ran continuously, day and night, disturbing the sleep of every resident in the entire neighborhood. After only one night, attempts were made to contact the commercial owner and the contractor, who stated to us several times that they needed to run this generator 24 hours a day to dewater this site to make the garage. However, residents were very concerned about this noise and continued to call the police. We continued to call the police day and night over this 2 week period. Several times officers came out to the site. Several times they said they couldn't do anything about it. They were very apologetic but said they could do nothing. Even though the officers, like I said, came out on a regular basis, in one or two cases they said it violated the City's noise Ordinance. Again, they said they could do nothing; they could only issue citations. One of the officers even suggested I contact the Code Enforcement people. They in turn sent me an email that said I should contact the police. It was only after constant calling day and night, contacting several of our Council Members—I'd like to thank Lydia Kou and Karen Holman and Tom DuBois—that a push was made and finally some connections were made and some decisions were made. What I really want to comment on, if I can very quickly, is the Herculean effort that it took to stop this noise and to give the neighbors in this neighborhood some peace. Questions need to be seriously asked. Why can't the police enforce the City's own noise Ordinance? Why does it take so long for them to do so, even when they know it's a violation? If I was a neighbor and I'm playing my stereo late at night, wouldn't the police be obligated to tell me to turn it off? I just hope it doesn't take another huge, Herculean effort to get the City to enforce its own rules. Developers and their needs shouldn't violate the rules of the residents who live in this City. Thank you.

Mayor Scharff: Thank you. Patti Regehr to be followed by Joan Marx.

TRANSCRIPT

Patti Regehr: Hi. I'm Patti Regehr, and I'm a resident of Palo Alto. It was always a dream of mine to be here. I grew up in Sunnyvale, and I always looked for Palo Alto as leaders. I want to thank you all for doing your work. As I'm hearing everything, I'm hearing that people are really asking you to think about being leaders in our community. I'm here to ask for you to think about morally and fiscally being responsible for divesting our City's money in fossil fuels. You're going to hear more information about that. I know we've been talking about it every meeting almost. It's imperative that you look into your hearts and your mind and your pocketbook and see how we invest. We are investing in fossil fuels. As a fiscally responsible thing, fossil fuels are not something that you want to put our money into because it's not prudent. I just hope that all of you will take some action and will start thinking about how we divest our money and invest our money. I want to thank you all because I know that you're hard workers and you're going to think about being leaders. You have a lot on your plate tonight, I know, with the Budget, but part of the Budget is a moral obligation and a fiscal obligation to making our community be great fiscally and morally. I want to thank you all.

Mayor Scharff: Thank you. Joan Marx to be followed by Mary Vanwicek.

Joan Marx: Honorable Council Members, City Staff, and fellow Palo Alto residents, I've come before you before in a different guise, as an advocate for alternative transportation. You've seen me work for the City shuttle to come to Gunn, for safety improvements to the intersection of El Camino at Arastradero and Charleston. I am mentioning this because I'm hoping that you will give me the same trust and credibility when I come to you on quite a different matter. I know that you're about to go on summer break, but I hope that you will, when you come back, examine the relationship between the Department of Planning and Community Environment and the developers of the City. I know that some of you are Residentialists. Some of you consider yourselves for smart growth. All of you, I am sure, are working for a green and fair-minded community. I wrote you at the beginning of the month about serious damage to a 300-year-old valley oak at 829 La Para, damage which was caused by the developers, James Whitt [phonetic] and Steve Simpson [phonetic], and which was abetted by the cover up which was provided to them by the Department of Planning and Community Environment. Now, 22 homeowners from the 800 block alone of La Para signed a petition early on to optimize the conditions during construction for this oak. We worked for months on the conditions of approval, which were signed by the developers. I'm sending you in the next 2 days, even though you're going on summer break, a detailed letter with more specifics, with photographs, so that you can see—also some technical details from a general contractor so that you can actually understand the violation itself,

TRANSCRIPT

also more details of the cover up by Planning, which the department has continued this cover up in a letter to me. This is only one small instance of corruption in the City, but we pride ourselves, all of us, on the transparent process in the City, on our broad-mindedness. To take an example close to home, we consider trees not only private property but a community resource. I'm asking you, when you come back, to seriously look into this unhealthy relationship between the Department of Planning and Community Environment and the developers. Thank you.

Mayor Scharff: Mary Vanwicek to be followed by Zia MacWilliams.

Mary Vanwicek: Thank you very much for this opportunity, City Council Members. I'm here for La Comida. Let us all give gratitude to La Comida seniors for being outstanding role models for 45 years, giving dignity and respect with experience and wisdom, the very logistics of economics, living history, alive and thriving, some with invisible challenges, discipline to give and share, inner happiness and restore health, building neurons, engaging in positive action. This environment energizes our core cognitive values, trust, integrity, and responsibility. We are a family. Healing, let us continue our place in peace and tranquil order until after the new year. Let us have Thanksgiving at home. This is a photo of volunteers. This is a photo of three ladies. This lady is 96 years old; she walks from the Menlo Park border down to Bryant. After lunch, she walks to Whole Foods. She like Mary Ruth's baked potatoes one day, so I met her in Whole Foods. I said, "Rose, what are you buying three big potatoes for?" She said, "Mary Ruth's were so great that I just have to take some home for this weekend." This lady is Betty, and she writes real history on Africa, and she's won awards. This is Jimmy; he's deaf and without speech. He has the broadest smile and the bluest eyes ever. People came to him and gave him a hug after lunch. This is Sung [phonetic] who is entertaining him with a straw wrapper, which you crunch together and put it there and dribble some water over the top. It squirms like a worm. These are the engaging actions that are healing the neurons of our very soul. This is Audrey, who plays the piano. We have live music every day. She plays twice a week. She's dancing with David. This is a full band that Mary Ruth provides. This is Charlie; he comes from Milpitas. This is Audrey at the piano with the American flag. We are all united; we are all a family. We deserve to stay in our home. This is the food that was served on our 45th anniversary. This is the first time that most of the people in that room—that served 183 people that day—heard that they were going to be evicted. Shocking; it's traumatic. This is Luba [phonetic] Keller. She's a Holocaust survivor, and she serves. She's in her early 90s. Thank you.

TRANSCRIPT

Mayor Scharff: Thank you. Zia MacWilliams to be followed by Davina Brown.

Zia MacWilliams: Good evening. My name is Zia MacWilliams; I'm the project manager for Downtown Streets Team. I wanted to thank you all for your continued support through the Community Development Block Grant (CDBG) and Human Services Resource Allocation Process (HSRAP) grants. Without your support, we couldn't help our low-income and homeless population transition back into employment and housing. Thank you for your support.

Mayor Scharff: Davina Brown followed by Jeralyn Moran.

Davina Brown: Good evening. I'm the Vice President of La Comida. I just thought I'd come and update you. I have nothing positive to say. We've had some very, very good meetings. Thank you, City Council, thank you, City Manager and your Staff, for bringing us together. It looks a lot more promising. I wish I had something absolute to tell you. I just want to say thank you, and we're working really, really hard so that our seniors can continue to be fed. That's our mission. We appreciate all the help you can give. Don't stop; we need it. Thank you.

Mayor Scharff: Thank you. Jeralyn Moran to be followed by Melanie Liu.

Jeralyn Moran: Good evening, Council. My name's Jeralyn Moran, and I am a Palo Alto resident. Thank you so much for providing this Oral Communications time so that I can convey to you my thoughts regarding a topic that isn't on the agenda tonight. This topic is the importance of our City's divestment away from fossil fuel holdings. This is similar to what Patti was speaking on. Why am I standing here? Simply put, I feel like it's crunch time at this point, both time wise for the trajectory of our natural environment's health and morally as a City. We're looked to for leadership in so many ways. Add to this the fact that the fossil fuel industry is dying, no longer a wise economic choice for Palo Alto. I don't have to remind you that climate disruption is already happening. Bill McKibben indicated in his *Do the Math* paper 80 percent of all fossil fuels remaining now must stay in the ground if we are to have any hope of stemming catastrophic climate disruption. You probably already know that. Morally, can you stand behind any decision or non-decision you make right now that perpetuates this poisoning? Think about it. Mark Twain wrote long ago, "it's not the things we don't know that hurt us the most; it's the things we know that just ain't true." Are we a City that knows it's okay to stay with the status quo on fossil fuel investments? Please make the right choice. Thanks.

Mayor Scharff: Thank you. Melanie Liu to be followed by Chuck Jagoda.

TRANSCRIPT

Melanie Liu: I am here for an update on Dakota Access Pipeline (DAPL) and divestment. On June 8th, the Wallace Global Fund presented the inaugural Henry A. Wallace award to the Standing Rock Sioux Tribe for its brave resistance in defending sacred land and water against the Dakota Access Pipeline. In addition to the \$250,000 award, they will also receive \$1 million in investment for renewable energy projects like wind and solar. Chairman Archambault said that their dream is to have all their communities powered off of renewables. The second slide that I had was about the Wallace Global Fund that gave this award. They are leading the divestment investment challenge in this Country. They are challenging us to imagine a world that is fossil free. Nobel Peace Prize winner Archbishop Desmond Tutu, a key figure in the anti-apartheid movement in South Africa and a leading spokesman for Divest-Invest, said climate change has become the human rights challenge of our time. On another note, on June 15th Sweden's largest National Pension Fund, AP 7, sold its investments in six companies that it says violate the Paris climate agreement including Exxon Mobil and TransCanada. Perhaps my slides will come to you later. [Foreign language] Talks, which is Lakota for money talks, has a really great graphic that shows the four pipelines that are being proposed, TransCanada, Kinder Morgan's Trans Mountain Pipeline, Enbridge's Line 3, and Energy Transfer's Dakota Access Pipeline. We are doing business with seven of the banks that are funding these four pipelines, including Union Bank, Chase, Wells Fargo, HSBC, United States (U.S.) Bank, and Goldman Sachs. Finally, I want to say that where we bank matters. For those in the audience that are considering divestment and those on the City Council who are interested in personal divestment, banklocal.info is a great resource. Thank you.

Mayor Scharff: Thank you. Chuck Jagoda, our final speaker.

Chuck Jagoda: Good evening. It's a pleasure to address you all again. I would like to give you some more summer homework. My Colleague, Joan Marx, suggested some summer reading, and I have some too, not really reading, ideas. You all are fine people, well-intentioned people. You didn't necessarily transact all the business in the history of the Palo Alto City Council, but you are the Council, and you do carry the banner and are the responsible ones now. Certain things cry out for rectification. When you all had a private meeting with John Arrillaga about him acquiring some property next to his own property that had been deeded to the City on the condition that it only be for public use—my grandchildren go to school here. If there were newspapers nowadays, they would read about that. I'm sure they hear about that. What it really means, what it really teaches them—you are teachers of all of us—is that might makes right. Money talks. The reason all these people are talking to you tonight about energy and oil is they have tremendous power. They're the most powerful, wealthy complex in the

TRANSCRIPT

Country. They haven't been that good to California, the refineries, the oil spills. They worry about getting the oil out of the ground; they don't worry so much about what happens when it spills. Again, I'm sure this wasn't intentional, but there is a history of policy and treatment of homeless people that's not that great. Again, perhaps not intentional but nevertheless factual, a de facto situation. There was a (inaudible) of San Francisquito Creek. It was the fact that, when I first moved here about 2009, there were many parks that didn't have bathrooms in there. It wasn't that great to take your grandchildren to the park, and first one kid has to pee. You have to traipse all the home for that kid, and then come back and then the other kid. You don't really get to go to the park. It's changed. You've done a good job on that. There are now bathrooms in parks that didn't used to have bathrooms. Maybe it was just a coincidence that there were homeless people who might use them, but whatever. There was the sit/lie Ordinance. There was in 2011 and 2013—I'm sure you remember—a big controversy over people sleeping in cars and again now. Just think of the fact that there's a great imbalance in our Country, transfer of wealth. Which side are you on? Thank you.

Mayor Scharff: Thank you.

Minutes Approval

1. Approval of Action Minutes for the June 12, 2017 Council Meeting.

Mayor Scharff: Now, we'll turn to Minutes Approval. I need a Motion to approve the Minutes.

Vice Mayor Kniss: So moved.

Council Member Wolbach: Second.

MOTION: Vice Mayor Kniss moved, seconded by Council Member Wolbach to approve the Action Minutes for the June 12, 2017 Council Meeting.

Mayor Scharff: If we could vote on the board. That passes unanimously.

MOTION PASSED: 9-0

Consent Calendar

Mayor Scharff: Now, we get to the Consent Calendar. The first thing I'd like to say is that Item Number—on the music school—17 has been removed from the Consent Calendar. I'll let the City Manager address what happened.

TRANSCRIPT

Agenda Item Number 17 - QUASI-JUDICIAL: 305 N. California Avenue [17PLN-00015] ... removed from the Agenda due to the withdrawal of the Conditional Use Permit Application.

James Keene, City Manager: Very quickly, Mr. Mayor, Council Members. As you know, this item was an appeal from the school related to a decision by the Director on denial of a Conditional Use Permit. First of all, it would have been extremely difficult for the Council to have been able to find in favor via that route. Our Staff reached out to the music school folks. They have voluntarily withdrawn their appeal, so it will not be coming before the Council. We are working closely with them right now as it relates to the Code Enforcement issues and on a schedule that they have identified for us to make improvements there. We'll keep the Council posted, but I think this is a good result that this has been removed from the agenda by the appellant.

Mayor Scharff: When you vote on the Consent Calendar, unless anyone pulls anything, we'll be voting on it without Item Number 17.

Vice Mayor Kniss: Move the Consent Calendar.

Mayor Scharff: Before you move the Consent Calendar, do we have any public speakers on the Consent Calendar? No. Council Member Holman, you have your light on?

Council Member Holman: Yes. I didn't hear anything about agenda changes. I had asked a question, and I followed up with the City Manager about Item Number 6, which says that it's an approval of a Budget Amendment for the 2018 Capital Improvement Fund (CIP), which we have not yet approved because it's what we're doing tonight. It just seems out of sequence to be amending something that's not yet approved. I still am concerned and a bit confused about that procedurally.

Kiely Nose, Office of Management and Budget Director: Sure, Council Member. We're actually just dealing with a timing issue. As they were going through the procurement process for this vendor, it was actually in parallel with the budget process. Knowing what the full contract value would be was not known in time to be included in the Budget. That's why we brought forward a separate item. I didn't want to hold up the process of that contract by delaying it until August, after Council came back from break.

Mayor Scharff: Thank you. With that, you moved the Consent Calendar. Do I have a second?

TRANSCRIPT

Council Member Wolbach: Second.

MOTION: Vice Mayor Kniss moved, seconded by Council Member Wolbach to approve Agenda Item Numbers 2-16, 18.

2. Approval of Seven On-call Consulting Services Contracts Totaling \$1.9 Million Over a Three-year Term (Approximately \$630,000 per Year) to Provide Continued Support for Application Processing, Environmental Review, Historic Evaluations, and Long Range Planning Projects in the Department of Planning & Community Environment.
3. Approval of a Contract With Graham Contractors, Inc. in the Amount of \$1,386,065 for the FY 2018 Preventive Street Maintenance CIP Project PE-86070, Thermoplastic Lane Marking and Striping CIP Project PO-11001, and University Avenue Parking Improvements CIP Project PF-14003, and Authorization for the City Manager to Negotiate and Execute Related Change Orders Not-to-Exceed \$138,606 in Total Value.
4. Approval of a Purchase Order With Folsom Lake Ford in the Amount of \$304,651 for the Purchase of Eight 2017 Ford Explorer Police Patrol Vehicles.
5. Approval of a Contract With JJR Construction, Inc. in the Amount of \$655,651 for the FY 2017 University Circle Concrete Repair, Capital Improvements Program Project PE-86070, and Authorization for the City Manager to Negotiate and Execute Related Change Orders Not-to-Exceed \$65,565 in Total Value.
6. Approval of Contract Number C17161815 With Granite Construction Company in the Amount of \$8,649,191 for the Construction of Neighborhood Traffic Safety and Bicycle Boulevard Improvements Along; Amarillo Avenue, Bryant Street, East Meadow Drive, Montrose Avenue, Moreno Avenue, Louis Road, Palo Alto Avenue, and Ross Road, Consistent With Approved Concept Plans and the City's Adopted Bicycle + Pedestrian Transportation Plan and Approval of an Appropriation Budget Amendment in the Fiscal Year 2018 Capital Improvement Fund.
7. Approval of Contract Number C18167839 With Anderson Pacific Engineering Construction, Inc. in the Total Amount of \$1,129,700 to Construct the Secondary Clarifiers No. 3 and No. 5 Mechanisms Replacement Project at the Regional Water Quality Control Plant - Capital Improvement Program Project WA-80021, and Authorization

TRANSCRIPT

- for the City Manager to Negotiate and Execute Change Orders Not-to-Exceed \$102,700 in Total Value.
8. Approval of a Contract With SimplexGrinnell, Inc. in an Amount Not-to-Exceed \$250,185 for the Repair of the City Hall Fire Sprinkler System, and Authorization for the City Manager to Negotiate and Execute Change Orders in an Amount Not-to-Exceed \$17,235 in Total Value.
 9. Authorize the City Manager to Execute an Agreement Between the City of Palo Alto and Intermedia, for Ambulance Service Billing, for a One-year Period Through September 30, 2018, With the Option to Renew for Four Additional One-year Periods Through September 30, 2022 for the Amount of \$160,000 per Year, Not-to-Exceed \$800,000.
 10. Approval of Contract Number C17168057 With Carbon Activated Corporation in the Total Amount of \$105,809 for the Installation and Supply of Anthracite and Sand for the Dual Media Filter Project at the Regional Water Quality Control Plant, and Authorization for the City Manager to Negotiate and Execute Related Change Orders Not-to-Exceed \$9,619 in Total Value.
 11. Approval of Agreement No. C17168334 Between the City of Palo Alto and the MI peninsula Community Media Center, Inc. for Cablecasting and Web Streaming Services From July 1, 2017 Through June 30, 2018, in the Amount of \$135,000, With two One-year Options to Extend (for a Potential Three-year Total Not-to-Exceed Amount of \$405,000).
 12. Approval of a Purchase Order With Owen Equipment in the Amount of \$477,330 for the Purchase of a 2017 Freightliner Combination Single Engine Sewer Cleaner and Approval of Budget Amendments in the Storm Drain Fund and Vehicle Replacement and Maintenance Fund.
 13. Resolution 9690 Entitled, "Resolution of the Council of the City of Palo Alto Summarily Vacating Public Utility Easement at 144 Kellogg Avenue."
 14. Resolution 9691 Entitled, "Resolution of the Council of the City of Palo Alto Determining the Proposed Calculation of the Appropriations Limit for Fiscal Year 2018."
 15. Adoption of Fiscal Year 2018 Investment Policy.
 16. Ordinance 5415 Entitled, "Ordinance of the Council of the City of Palo Alto Requiring Expedited Permitting Procedures for Electric Vehicle

TRANSCRIPT

Charging Stations (AB 1236) (FIRST READING: June 12, 2017 PASSED 9-0)."

17. ~~QUASI-JUDICIAL: 305 N. California Avenue [17PLN-00015]: Request for a Hearing on the Director's Tentative Denial of a Conditional Use Permit for Operation of the new Mozart School of Music at an Existing Church Facility. Environmental Assessment: in Accordance With the California Environmental Quality Act (CEQA) Guidelines Section 15270 CEQA Does not Apply to Projects Which a Public Agency Disapproves. Zoning District: R-1 (10,000).~~
18. Approval of a Contract With Canopy for \$395,130 for a Three-year Term to Support Palo Alto's Urban Forestry Programs, Assist With Implementation of Programs Within the Urban Forest Master Plan, Improve the Canopy in South Palo Alto, and Educate the Public About Trees.

Mayor Scharff: Can we vote on the Consent Calendar?

Council Member Holman: I'd like to register a no on Number 6.

Mayor Scharff: You'll register a no on Number 6.

Mayor Scharff: That passes with Council Member Holman registering a no on Number 6. It passes unanimously.

MOTION FOR AGENDA ITEM NUMBERS 2-5, 7-16, 18 PASSED: 9-0

MOTION FOR AGENDA ITEM NUMBER 6 PASSED: 8-1 Holman no

Council Member Holman: Do I get to speak to that?

Mayor Scharff: You do.

Council Member Holman: It really is the question—I understand it wasn't ready when we were doing the Budget and these were going in parallel. It still seems like—to me it's just nonsensical to, again, amend something that hasn't even been approved yet. I understand the purpose but don't really understand the sequence. That's why I'm voting no.

Action Items

19. PUBLIC HEARING: Adoption of Budget Ordinance 5414 Entitled, "Ordinance of the Council of the City of Palo Alto for Fiscal Year (FY) 2018, Including Adoption of Operating and Capital Budgets and Municipal Fee Schedule;" 7 Resolutions: 1) Resolution 9692 Entitled,

TRANSCRIPT

"Resolution of the Council of the City of Palo Alto Approving the FY 2018 Electric Financial Plan;" 2) Resolution 9693 Entitled, "Resolution of the Council of the City of Palo Alto Adopting an Electric Rate Increase and Amending Electric Rate Schedules E-1, E-2, E-2-G, E-4, E-4-G, E-4 TOU, E-7, E-7-G, E-7 TOU, and E-14;" 3) Resolution 9694 Entitled, "Resolution of the Council of the City of Palo Alto Approving the FY 2018 Gas Utility Financial Plan;" 4) Resolution 9695 Entitled, "Resolution of the Council of the City of Palo Alto Approving the FY 2018 Wastewater Collection Utility Financial Plan;" 5) Resolution 9696 Entitled, "Resolution of the Council of the City of Palo Alto Adopting a Dark Fiber Rate Increase and Amending Dark Fiber Rate Schedules EDF-1 and EDF-2;" 6) Resolution 9697 Entitled, "Resolution of the Council of the City of Palo Alto Approving the FY 2018 Water Utility Financial Plan;" and 7) Resolution 9698 Entitled, "Resolution of the Council of the City of Palo Alto Amending Resolution 9671 to Modify Permit Fees for the Downtown Residential Preferential Parking (RPP) Program and Finding the Action Exempt From the California Environmental Quality Act; and Amending Salary Schedules for the Management and Professional Group, the Services Employees International Union, and the Limited Hourly Group."

Mayor Scharff: Now, we come to Item Number 19, which is our Action Item tonight where we will consider adoption of an Ordinance adopting the Budget for Fiscal Year (FY) 2018. The item includes the following specific actions, which is adoption of the Fiscal Year 2018 Operating and Capital Budgets, including the 2018 City Table of Organization, and the updates of the Municipal Fee Schedule, and the seven Resolutions listed in the agenda, and also finally adoption of an amended salary schedule for the Management and Professional group, the Service Employees International group, and the Service Employees International Union (SEIU) limited hourly group. With that, I will turn it over to Staff. City Manager.

James Keene, City Manager: Thank you, Mr. Mayor, members of Council. This is my ninth Budget that I've presented to the Council. It's the 38th Budget I've been part of. Man, hopefully we can get through this in a reasonable amount of time tonight. I would just point out that Staff has a presentation—I don't know—20 minutes or so. We're going to get a report from the Finance Committee (FC/Finance) Chair. I know the Finance Committee spent at least 25 hours already working on this Budget. I'll turn it over to them and back then to you. Thanks.

Lalo Perez, Director of Administrative Services and Chief Financial Officer: Good evening, Mr. Mayor and Council Members. My name is Lalo Perez; I'm the Chief Financial Officer. I did not tally up my Budget, so I can't tell you

TRANSCRIPT

how many I've been part of at the moment. What I did want to tell you is, since the last time we adopted the previous Budget, we've re-staffed the Office of Management and Budget (OMB). I'm very glad that we have almost a complete team, led very wonderfully by Kiely Nose, our Office of OMB Director. In the back at the table, we have Paul, Steve, Jessie, Chris, and Alex. Chaitali is not here with us tonight. I also want to acknowledge a couple of other people that helped us, Julia, Danille and Tarun, of course, the department heads and their Staff that are sitting behind us. With that, let me turn it over to Kiely who's going to walk you through the presentation.

Kiely Nose, Office of Management and Budget Director: Thanks, Lalo. Good evening, Council Members. Tonight we're going to go over, at a very high level, your guys' 2018 Proposed Budget as amended by your Finance Committee. We'll walk through the Operating Budget, then the Capital Budget, and then a summary as City Manager Keene alluded to from—I'm sorry, City Manager Keene—Council Member Filseth. Overall, before you tonight, you guys have a \$672 million Budget. On the source side, revenues comprise about \$590 million. That's about 8 percent above last year. The gap that you're seeing there is the difference that we're using reserves from various Enterprise Funds or transfers of fund balance. On the expense side, you guys can see that the lion's share of our expenses continue to be utility purchases, our Capital Improvement Program (CIP) investments as well as salaries and benefits. Expenses are up about 4.7 percent from FY '17; that's about \$30 million. Citywide, we have a pretty flat head count. Overall, there would be a net addition of 4.85 full-time positions. That's less than 1 percent in your staffing increase. The General Fund is actually going down, as you can see. That's because some of those positions are shifting to other funding sources. You're primarily seeing position changes in non-General Fund funds, Airport, Storm Drain as a result of the new Storm Drain Ballot Measure. Where we did do General Fund additions and in general, when we looked at positions this year, we were really mindful of the ongoing liabilities that the City would be accruing as we do add more full-time Staff. We really challenged departments to try and reallocate existing resources. Throughout the Budget, you'll see add/deletes or reclassifications of existing positions to better align with the staffing needs and resources and more efficiently and, frankly, effectively use and prioritize those resources. One of the things that, I think, we'll spend a lot of time tonight on are compensation, salary and benefits and, obviously, with that comes pension. This chart right here is isolating the different categories of expenses within salaries and benefits. The first, left side is about the General Fund, and the right side is about all funds. These are your net changes between your '17 adopted and this '18 Budget. Overall, in both all funds and General Fund you can see we're increasing by about 8 percent. Some of those drivers are

TRANSCRIPT

salaries are going up about 5 percent across the organization. Our pension costs are going up more than 10 percent across the organization. That kind of anomaly that you see there under "other benefits," the 127-28 percent, is a one-time, year-over-year change because last year we did some one-time proposals where we reduced fund balance for things like our general healthcare costs. We had accrued some fund balance, so we're basically draining those fund balances. That's an anomaly. Overall, you guys can kind of see those main drivers. What happened between the Proposed Budget that was released by the City Manager in April and today. You guys can see with the Finance Committee, as City Manager Keene alluded to, we met for over 25 hours during the month of May. We have changes to the parking permit fees. Staff had proposed a certain level of increase. After reviewing with the Finance Committee, we've increased it further with those additional revenues going towards the Transportation Management Association (TMA), so that they have an Annual Funding Allocation of \$480,000. We ensured that the matching funding for the Youth Community Services (YCS) grant—that's a match with the County, which the County Board has already approved. We switched back to a 7-year cycle for tree trimming. What that means actually for you guys is status quo year over year. We also amended for the Storm Drain Ballot Measure that was passed back in April and wasn't included yet in the Proposed Budget that April. There are two other items before you guys that the Finance Committee hasn't reviewed. Now that we have Resolution on the Buena Vista matter, this is just a ministerial action where we're appropriating the funds to complete that transaction. The last one is we received updated information from the County of Santa Clara with slightly better Property Tax growth. Staff is proposing a \$200,000 increase to align with that most-recent revenue growth estimate. We'll go straight into the General Fund. Overall in the General Fund, you have a \$210.4 million Budget. Of those sources, revenues are actually \$207 million. That gap is a draw on the Budget Stabilization Reserve (BSR). The \$207 million revenue increase reflects a 6 percent growth from year 2017. About \$10 million of this is due to an increase in your taxes, so 80 percent of that change we're seeing between FY '17 and FY '18 is due to growth in your taxes. That's Property Tax, Sales Tax, Transient Occupancy Tax (TOT), Documentary Tax, Utility User Tax (UUT), and the like. On the expense side, that \$210 is being allocated about 60 percent to salaries and benefits. This \$210.4 million actually reflects year-over-year growth of 8 percent. In addition to growth in your salaries and benefits, the other largest increase year over year is actually your transfers, and that's because we're increasing our transfers to infrastructure. We'll get into the details of the growth rates in a few slides. Back in December 2016, we met with Finance Committee and started the year with a gap. Actually even before that, last year in the 2017 Budget proceedings we had forecasted that we would be facing this issue during the 2018 Budget

TRANSCRIPT

development. The primary drivers of that gap are the Project Safety Net contract for the monitors at the tracks. With that contract increase, that was about \$1.7 million in additional costs every year. We had shifted the City street lights and traffic signal costs for electricity from the Electric Fund to the General Fund. Also, we continue to have negotiations with Stanford over fire services. Our current contract with them—we're in our fourth Amendment, I believe—shows a hit to the General Fund or a reduction in the contract value by \$2 million. When you add up those three, those are the primary drivers that resulted in that gap. As we go through the General Fund, we had talked about our growth of 6 percent. It's about \$12 million. Property Taxes are up about \$3 million. You can see Sales Tax has healthy growth of 8 percent or \$2.3 million. Transient Occupancy Tax continues to just exceed estimates. We're at 8.7 percent. Do keep in mind some of that Transient Occupancy Tax money goes towards infrastructure. On the expense side, you can see that the expenses are outpacing revenues with an 8 percent growth, about \$16 million year over year with the significant changes listed out here. Police has a year-over-year Budget increase of 11 percent; Fire is a year-over-year increase of about 10 percent; Community Services is about 8. Again, that increase in infrastructure, so those are dollars that we're sending over to the general CIP Fund for the Infrastructure Plan. A lot of that is driven by the continued increase in costs as well as that growth in TOT. We wanted to give another lens of our General Fund major expenses. We have been looking at it by department; we also looked at it by category. Let's pull it up a level further. This chart here is looking at our investments in infrastructure, our salary and benefit costs, everything else, all of our non-salary expenses as well as something that we'll continue to talk about, which is our Unfunded Liability associated with pensions. What this 6 percent represents right here is the funded portion of the Unfunded Liability, which sounds really weird. What that means is every year when we make a payment to California Public Employees Retirement System (CalPERS), our payment is comprised of two components. One is the normal cost of the pensions as well as I will call it a catch-up for us to pay down the Unfunded Liability. In theory, if we paid this amount over the next 30 years and absolutely no other variables changed, we would pay down the Unfunded Liability. You'd be ...

Mr. Keene: May I just add real quickly to that?

Ms. Nose: Yeah.

Mr. Keene: Those are figures that we get from CalPERS directly. We don't make that number up. That's the bill they get us that we're essentially required to pay.

TRANSCRIPT

Ms. Nose: Correct. All funds, that annual cost right now for FY '18 is about \$22.9 million. General Fund is approximately \$14.5 million. That's a 15 percent increase year over year. You can see, as we go through the expense growth of 8 percent, a big driver of that is that continued increase in costs. This Budget does seek to balance FY '18 and actually proactively position the organization for FY '19. This chart is a really high-level look at where we were and where we are. It starts back in December 2016, where we have that gap in FY '18. If I can draw your eye all the way down to the bottom right, if everything is approved in this Budget as recommended today, we would be forecasting a slight surplus in FY '19 in the General Fund of \$3.4 million. That's intended to help us address some of these growing costs associated with pension and infrastructure over the coming years. One other note that's on this slide is in the Staff Report. Staff didn't necessarily recommend it, but we did provide an option to generate additional capacity in the General Fund, if Council so wishes. We could shift maintenance costs from the Cubberley Community Center from the General Fund to the Cubberley Infrastructure Fund. If Council chose to do this, that would provide extra capacity of \$348,000 in the General Fund. Let's go through Special Revenue Funds quickly. The Federal and State Revenue Funds, last week Council took action on the Community Development Block Grant (CDBG) Funding, CDBG. It's about \$900,000. We do continue to have funding risks with that at the federal level, and we'll monitor that. Street Improvement Funds. The new legislation was passed for Senate Bill (SB) 1. This Budget doesn't include any assumptions associated with this. This is something for Staff to evaluate over the upcoming year. We may get up to \$600,000 in FY '18 and maybe up to \$1.2 million in the out years. This can be used for things like transportation initiatives, pavement maintenance, etc. In addition to that fund, the Stanford University Medical Center (SUMC) Fund, the SUMC Fund, we do have an estimated \$11.7 million coming in from that fund in the 2017 calendar year, the latter half of this year. What's important to note when you guys see that money come in is all of it has already been programmed out in the 5 year CIP.

Mr. Keene: If I just might add real quickly, particularly for Council Members who weren't here when we went through all the difficulties of negotiating this development agreement. We really had the largest proportion of the funding provided to the City at the stage of when the project was approved. We always anticipated when we got to this point, 2017, when they really start pulling occupancy permits or whatever, then this additional funding would come in. That's the reason. It's sort of the tail-end of the development agreement. As Kiely said, when the Council previously adopted the Infrastructure Funding Plan, we took existing funding that we'd already received from the Stanford development agreements from earlier years and this anticipated amount of money. They all go into basically funding

TRANSCRIPT

whatever it is, \$140, \$150 million Infrastructure Plan that we have funded. Thanks.

Ms. Nose: Thank you. The largest—we created a whole separate slide for it. Special revenue transactions that are going on this year are pertaining to parking. As you can see on this slide, the first half is not a holistic look but a good snapshot of the major changes in the parking fees that are recommended by the Finance Committee this year. You can see for the Downtown areas the permit would be increasing from \$466 a year to \$730 a year, which is about \$2.80 a day assuming a 5 day work week. Across all of the parking programs, what you will see in these fee changes is an overall standardization of rates so as not to incentivize parking in neighborhoods versus in the Downtown area or California Avenue (Cal. Ave./Avenue) districts. The increases are to help provide additional funding for Transportation Management Authority. That \$480,000 annual allocation for TMA is the direct correlation associated with that additional financial capacity. The additional revenues are also going to go towards additional capital investments, resurfacing some of the lots in Cal. Avenue as well as upcoming parking initiatives, so building capacity in these funds for things like investing in paid parking, investing in a consolidated parking permit system, investing in parking guidance systems. All these funds will provide additional financial capacity to deal with this growing area. The one thing to note is also the low-income permits in the Residential Parking Permit (RPP) districts are recommended to remain flat. Enterprise Funds. The Council has actually already heard a number of these rates last week. Overall, you can see rates in total are going up about 2.5 percent across all of the various utilities. Of these utilities, the Water, Refuse, and Storm Drain were all previously approved by Council. These are up here for display only. What you guys are actually taking action on today is the Electric, the Gas, the Wastewater, and the User Tax, about a \$6, \$8 increase per month. Moving on to our Capital Budget. As we go through these capital slides and perhaps if you guys have gone through the book, the thing to keep in mind is the action you're taking tonight is to appropriate the FY '18 Capital Budget. The remaining 4 years of that 5 year CIP is a Plan, and so you guys are not necessarily adopting that. Staff continues to review that every year as every year goes on based on the status of projects, updated cost estimates, etc. Overall, before Council is a \$173 million FY '18 CIP Plan with the lion's share of those costs in your General CIP Fund. This is your Infrastructure Reserve; it's where your Infrastructure Plan is. This \$173 million program is actually smaller than your FY '17 Adopted Budget by about \$13 million or 7 percent. Important to note that this does include \$60 million of carryover. What that means is there's about \$60 million across all funds that was appropriated in FY '17 that the projects are not going to be completed by the end of '17, so Staff's recommending to move that money over to FY '18 to

TRANSCRIPT

continue those projects. A good portion of this is the continuation of existing projects that may just have had delays for a number of reasons. As we talked about, of the \$173 million the lion's share is your General CIP Fund, which was 45 percent of your total budget. This slide goes over what's in that General CIP Fund. This fund houses your Infrastructure Plan, which we'll go over in a second. Your buildings and facilities is your biggest investment along with streets and sidewalks and traffic and transportation. This fund is actually reflecting an increase year over year of about 13 percent. Again, about 30 percent of this Budget is associated with reappropriations. It's the continuation of projects that are already in flight, that just are bridging that Fiscal Year gap. Included in that fund is your multiyear Infrastructure Plan. Over the course of—it's now more than 5 years—your Infrastructure Plan is estimated to rise to about \$196 million. This is your Public Safety Building. These are your replacement of two fire stations, your parking garages, Cal. Ave. and Downtown. You have the Bike/Pedestrian Plan, which you guys just took action on a significant contract associated with that project as well as your Highway 101 (101) and your Charleston-Arastradero Corridor projects. These costs have been updated for all the actions that Council recently took on the garages back in April. This really does reflect the growing costs and, frankly, the emerging gap that's occurring in this fund and in this plan. Over the next year, in FY '18, Staff plans to develop a plan to address this gap by looking at closing out projects, deferring and delaying projects that Staff may not have the capacity to deal with, alternative funding such as maybe tapping some of the In-lieu Funds if there are any that we haven't yet accounted for, as well as looking at those additional revenue sources, that SB 1 legislation that I just referenced. We've also talked about Measure B, and Council just took action to approve a new hotel. That should increase TOT receipts. Looking at all of those variables over the next year, Staff anticipates coming back to Council with a plan on how to fund this gap.

Mr. Keene: Just so we're clear, a reminder we've shared with the Council before, but you may not have it before you. You can write it on your piece of paper. The funded amount is \$170.6 million. The gap is whatever that is, 26 million.

Ms. Nose: Again, these numbers that we're giving you, the \$196 and the \$178 million, are the total year, so it's multi years. What is before you is just FY '18 for adoption. The rest of it is a plan, a forecast, and a work in progress.

Mr. Keene: Just to restate that, there is not a gap for the current Budget year that you have to act on.

TRANSCRIPT

Ms. Nose: In summary, let's go over some of the things that are not included in this. Some of the parking initiatives like we talked about, the consolidated parking permit system, continued to arise. Paid parking is not assumed in this. These are all initiatives that will go through with the Council, Finance Committee, and Policy and Services over the next year. Future labor agreements are going to come up. I think the first round sunset June of 2018, so the end of next year. Over the next year, we'll be working on new labor agreements with a few of our groups. We discussed the new revenues, SB 1, Measure B, and TOT. Grade separation is on the longer-term horizon. Master Plans are on the longer-term horizon with Cubberley and Parks as well as pension. One other thing I forgot to mention. On the nearer-term horizon are just escalating contract costs. We've talked about this on the Capital Improvement side, but we've also started to see that on the Operating side. As we bid new contracts for standards services, we saw it last year with the street tree trimming contract and the significant increases there. We are out to bid right now on janitorial services. That's another one where we may see increases in the contract costs just as a result of doing business. Looking forward, we will have to be looking at balancing expectations of everyone, the Council, the community, and Staff as we look at the escalating costs associated with our own staffing as well as just the general cost to do business. We do plan to work on addressing pension and retiree healthcare over the upcoming year and what our strategy is and organization will be. We continue to look at service delivery evaluations. We will begin labor negotiations. We'll really start to think strategically about how we're going to fund our Capital Improvements in this organization, both the Infrastructure Plan as well as the larger things like grade separation. Before you, just to recap—this is ad nauseam—is the Staff and Finance Committee recommendation ultimately to approve the Budget Appropriation Ordinance for FY '18. That includes the Budgets, the Table of Organization, which are all your positions, the municipal fee changes. As the Mayor said, there are seven different Resolutions before you for various utility rates as well as an RPP Resolution and three salary schedules. That's for the Management and Professional group, Service Employee International, SEIU, and limited hourly group. One thing I would like to add is, as we were preparing for this, we noticed an issue in Attachment A, Exhibit 2, which has all the Budget transactions in it. I'd like to correct that if possible. On Packet Page 547, there's a \$137,000 appropriation for the below market rate housing contract that Council approved earlier this month. That was erroneously reported in the Below Market Rate (BMR) Fund when it should have been in the Housing In-Lieu Residential Fund. When Council makes their Motion to approve this, if they can approve it with that edit, I would appreciate it.

Mayor Scharff: Would you restate the edit?

TRANSCRIPT

Ms. Nose: It's to move on Packet Page 547, at the top of the page. There's a \$137,000 appropriation for the Below Market Rate Housing Contract. It's reported to be done in the Below Market Rate Emergency Fund, Fund 230. That actually should have been adjusted in the Housing In-Lieu Residential Fund, Fund 233, which is actually on the following pages.

Mr. Keene: Without you having to track that too much, we would just ask that whatever Motion you end up adopting include that appropriation in the funds as stated by Kiely.

Ms. Nose: We'll work with the Clerk's Office to make sure the record reflects that. One last piece. During the Finance Committee meetings, during wrap-up, the Finance Committee spent some time crafting a referral to bring to the full Council. Before you, you guys have that. The referral is basically that Staff return to the Finance Committee beginning in August of this year to review Citywide implications of structural revenue and expense growth to ensure that expense growth remains at or below that of revenues as well as to look at addressing the Unfunded Pension Liability. They identified specific areas for us to address first. With that, actually I will turn it over to Council Member Filseth to make some comments about the Finance Committee process.

Council Member Filseth: Thank you very much. First, I want to thank Staff and the Finance Committee for all the hours and days and nights spent on this. Tonight is the culmination of a huge effort, but it's really important to do a proper job of it because it affects everything we do in the City. A big thanks obviously to Lalo and Kiely and the lean and mean finance team who put this together for us. Also, all the other people in all the other departments in the City, who had to be involved to get this done. Thank you all very, very much. I really see this as a transitional Budget. I want to explain what I mean by that. First, I'd like to make a few specific remarks on some of the specific changes that the Finance Committee recommended relative to the initial Staff proposal, and then I'll come back to the Budget overall. Could we possibly have Slide 7 up?

Ms. Nose: Yeah, of course.

Council Member Filseth: Just briefly on the first issue, the parking permits. We had some feedback on that. I think the right way to look at this is there's really two issues involved in this and the employee parking permit. One is what is the right price, what is a reasonable price for employee parking permits in Downtown Palo Alto and California Avenue? The other is related but not exactly the same, which is how are we funding TMA. On the price itself, I think it's important to remember that the old price is lower

TRANSCRIPT

than most cities in the region. In some cases, it's quite a bit lower. The new price, as the Budget Director pointed out, is still under \$3 a day, and it's generally in the middle of the range of other cities at this point, and in some cases still much lower particularly if you compare this with Downtown office areas like downtown San Francisco, for example. Also, the recommended Budget retains the low-income worker price, so that doesn't change. In our view, it's hard to make a case that the increase to a little under \$3 a day is an unreasonable thing. The second issue is TMA. Everybody knows that employee growth in the Downtown core has brought significant increases in traffic and parking pressure. The City has a vowed solution to deal with it, and TMA is a big part of that. We have to fund TMA; it won't happen if we don't fund it. Because essentially what we're talking about is employees coming to jobs, commuting to jobs in Palo Alto from outside Palo Alto or from within Palo Alto is fundamentally a business issue. It's unreasonable that residents should pay for TMA. It should be done by businesses. Since all-day parking permits in the garages Downtown are basically 100 percent business and since prices have been low and are still comparable even with this to other cities, we felt this was a reasonable and appropriate way to fund TMA. Let's see. As part of Youth Community Services Funding, the County has already approved matching funds for this, so our money's leveraged. We thought this was a savvy investment. The tree trimming. Here in Palo Alto, we care a lot about our tree canopy. We were reluctant to cut this back as it were. Finally, on the Storm Drain Measure. As mentioned, this was adopted. There was an issue and discussion between a 3 percent or a 4 percent increase. Since all this money goes to essentially the same Capital Improvements, the issue is really one of timing. If we do less this year, we'll just do more in the years following. We felt we should simply move forward with the 4 percent. With that, let me go back to the overall budget. Despite the fact that—I'm going to talk mostly about the General Fund here. Despite the fact that expenses exceed revenues and we're drawing down reserves to cover the gap, I believe this is an appropriate Budget for where we are today. What's interesting to me is what this Budget portends not just for today but for the years ahead. We're looking at some long-term changes in our fiscal landscape going forward, both on the Operating side and the Capital side. In this Budget, we are actually starting to see the shape of some of those changes materializing. What I mean by that is, if you look at where we were in the 2000's, I would say we're sort of in normal City mode; although, we did have some nagging issues with things like aging storm drains and road quality and so forth. Then, we had a huge recession where we cut 15 percent of the Budget at a time. We had to cut and postpone a lot of things. After that, we've had several years of economic recovery where we've been able to catch back up on a lot of those things. Our roads were overhauled, and we built new libraries. Our aging wastewater treatment, we've got in place a process to

TRANSCRIPT

retire the incinerator, and a lot of other things. Yet, while we were doing that—that's the right thing to do—there were a couple of other long-term trends incubating that we knew we would eventually face. One of those is the fact that Bay Area construction costs on the Capital side have been rising considerably faster than inflation. We knew that would eventually start limiting how fast we can build Capital Infrastructure. We're seeing that as one of the components. As we've just seen in the Budget, there's a gap over the new few years in capital. We need to figure out how to do that because we don't have that completely worked out today for the next 5 years. Second, public pension and health liabilities, which are so-called Unfunded Actuarial Liabilities or UAL, have grown much faster than City revenues. We've known for some time that eventually those liabilities would start to impact our regular operations, competing for dollars with Aquatics, Safety, Youth Services, Tree Trimming, and all the other things we spend money on. That time has arrived. The key expense to watch here—could we have Slide 13 back please? The key expense to watch is that blue tranche at the bottom, that blue pie slice at the bottom. As Kiely explained a little while ago, that is the CalPERS minimum payment required towards the outstanding, Unfunded Liability, in this case just the pension, not the retiree medical, which is also a component. It's analogous to the minimum payment if you have a large credit card balance. You don't pay it all off; you just make the minimum payment. That's what that is. Just like with a credit card, as our overall liability grows, the minimum payment on it also grows. This year, the pension component of that payment, which falls into the General Fund, so not the Utilities and not including retiree health, is \$14.5 million or about 6 percent of the General Fund Budget. Now, this is relatively small. Yet, this is a time, as you've heard, as we've done over the last months and you'll hear more of tonight, where we are sweating the details of trying to find \$300,000 here for this and a million there for that, never mind a \$3 million drawdown on reserves. \$14 million is actually quite a bit of money. More important, this payment is growing and has been growing for several years at around 15 percent a year. That's over twice as fast as City revenues are growing. It's actually faster than all other significant City expenses. Next year, it'll be \$17 million. Remember, that's just the number for pensions; it doesn't include the liability for retiree medical, which is also increasing quickly. Because of this difference in growth rates, that slice, which is part of the cost of servicing the City's Unfunded Liabilities, not even paying them down because it's not enough to pay down the liabilities, is going to represent over time a larger and larger share of our Operating Budget, especially as CalPERS continues to reduce their investment expectations. That payment has been there in the past. It's not new. What's new is it hasn't been that big. It's been insignificant for a number of years but growing fast. We didn't have to deal with it before because the absolute numbers were small. As you see, it has now grown to

TRANSCRIPT

a relevant share of our Budget, and it will continue to grow as a share of future Budgets. The implication is that going forward we will be increasingly unable to afford the level of services to which we have become accustomed as we currently structure our City operations. That's the math. Now, Budgets have two legs, revenues and expenses. With this Budget, I think we're seeing a third leg, which is the emerging impact of particularly our Unfunded Liabilities. Construction costs, if there's a recession, we actually might get some relief on at some point or other. That won't be the case with the liabilities. I think the lesson of this Budget and this year is that it's somewhat transitional between the years of recovery and rebuilding we've been through since the recession and the beginning of a number of years of gradually increasingly tight fiscal constraints with an increasing share of our Operating Budget taken up by structural expenses that we don't have control over and which don't really add new value to the City and how we respond, operate, and deliver government services to Palo Altans under those constraints. Revenues \$207 million, expenses \$210 million, the UL payment 6 percent of the General Fund and growing fast. Again, thanks very much to Staff and the Committee for all this work.

Mayor Scharff: Thank you. With that, we'll return to—we'll open the public hearing, and then we'll hear from the public. Our first speaker is Ryan Stoddard, to be followed by Neva Yarkin. You'll each have 3 minutes.

Public Hearing opened at 6:38 P.M.

Ryan Stoddard, Battalion Chief: Mr. Mayor, Council Members, good evening. My name is Ryan Stoddard, and I'm the President of the Palo Alto Firefighters' Union, Local 1319. I've worked for the City for 12 years and currently hold the rank of Battalion Chief. I would first like to acknowledge the challenges that you face and the critical decisions you must make to ensure the health and prosperity of this great City. I have watched through the years how this and past Councils have tirelessly examined the details and given great thought to each decision, understanding its lasting effect on the community. Additionally, I understand that each community is charged with the task of setting its own risk tolerance, deciding the balance between Budget and services. In tonight's Budget, you are set to approve a \$1.3 million reduction to the Fire Department. However, there is no documentation of how that reduction would be accomplished. As Union President, I understand that the ongoing meet and confer process has yet to be finalized. However, there is no policy and there has been no agreement that says we cannot share the details during the process. As the voice of 90-plus Palo Alto firefighters, I say confidently that the current proposal to accomplish the reduction, which proposes cutting 11 full-time employees, more than 10 percent of our workforce, decreases services, depletes

TRANSCRIPT

resources, browns out units, assumes a higher risk tolerance on behalf of the community. Common sense will tell you that services cannot remain the same if you cut 10 percent of your workforce. Something has to give. Ultimately, if the Council and the community are comfortable with these changes, it is your right, and the firefighters will continue to faithfully execute our duties with pride and dedication as we always have. However, I do not feel that, given the full disclosure, those who stand to be most affected by these changes will be as comfortable with them. I'm here to ask that, before any deployments be implemented, it be brought to Council and the public for open and candid discussion. Thank you for your time and your service.

Mayor Scharff: Thank you. Our next speaker is Neva Yarkin.

Neva Yarkin: Good evening, Mayor and City Council. I would like to see no reduction in the fire stations, emergency personnel, or any other medical services to the residents of Palo Alto. I have never had to use these services, fire trucks, or ambulances, but it would be comforting to know if I had the need, it would be available to me. We should never consider closing a fire station because, when we are hit by a major disaster, earthquake, fire, flooding or whatever, we should have enough equipment, personnel for all the residents of Palo Alto, which I think is a dream. Thank you for your time, and have a great vacation.

Mayor Scharff: Jeremy Bulow to be followed by Fred Balin.

Jeremy Bulow: Hi. I'm Jeremy Bulow. I'm an economist over at Stanford, and I'm here to discuss Palo Alto's pensions, which just came up. If you could actually read that slide over there, you'd be able to see that as of June 30th, 2015, which is the latest data that CalPERS has provided, the City had a net pension debt, liabilities minus assets, of over \$1 billion. That is, if Palo Alto wanted to pay off all its past pension promises and switch employees immediately to a defined Contribution Plan, like a 401(k), CalPERS would have required it to write a check to CalPERS for over \$1 billion to make up the shortfall. It's even worse now that we're 2 years later. CalPERS has a different, funky way of calculating what it calls an actuarial liability, which assumes we are only in the hole some \$400 million. Under that calculation, we are stuck paying 7 1/2 percent interest for decades to come with no option to pay off early. As the City Manager said, CalPERS' calculations of City contributions are effectively a complicated equivalent to a credit card company calculating a minimum payment due. Unfortunately, almost all politicians and administrators around the State and around the Country have operated on the assumption that, if they just made CalPERS contributions or the equivalent in their own State, everything will

TRANSCRIPT

be fine. Just as in the credit card example, we've been getting deeper and deeper into debt. The minimum payments are already scheduled to double for many plans over the next few years, and CalPERS' date is always 1 or 2 years out of date. I hope that we can get the Finance Committee to turn its attention to addressing this very important issue. Thank you.

Mayor Scharff: Thank you. Fred Balin to be followed by Adina Levin.

Fred Balin: Good evening. Thank you to all residents who expressed their concerns about proposed cuts to fire services and to those who wrote in support of transparency in the budget process. Thank you to the City Manager and Fire Chief for responding last night. There's a reasonable path under the circumstances, i.e., the Budget makes no changes to current staffing models and, when the final proposal is ready, it will go to the City Council for full public discussion and decision. To make sure all remain on the same page, I request that words to that effect be included in tonight's Motion. To avoid a situation like this in the future, I request in future Budgets, when there are proposed changes in services in Public Safety and no proposal is ready, the Budget clearly state that the items come to the Council for discussion and final decision. It will save a lot of misplaced energy and is the right thing to do. In preparation for the forthcoming hearing, I request the department include a full discussion of fire service in the Foothills where onsite station coverage was virtually eliminated last summer. With a well-written and complete Staff Report released 10 days prior to the meeting, an informative and clear presentation at the meeting, and Council clarification questions before the public speaks, we can have a meaningful meeting that wisely assesses the tradeoffs between any reduction in fire services and budgetary needs. Thank you.

Mayor Scharff: Thank you. Adina to be followed by Neilson Buchanan.

Adina Levin: Good evening, Council Members and Staff. Adina Levin with Friends of Caltrain here to support the provisions in the Budget regarding changing parking pricing and funding the Transportation Management Association. Friends of Caltrain has participated in local education around Transportation Demand Management and TMAs for a number of years leading up to some of the original policy choices. We strongly support this direction for the City including the measures to adjust the parking prices and use that to fund the TMA. This is beneficial for sustainability in terms of being able to fund options to reduce driving and also to reduce the imbalances that favor driving. By adjusting the prices of the parking to being more in line with neighboring cities, it's also reducing the disparity between the amount it costs. It's still much more expensive, \$1,600-\$2,000 per year, to take a Dumbarton bus or take Caltrain than to park, but at least

TRANSCRIPT

parking is not quite as much deeply subsidized compared to the alternative. This is progress on fairness. There's the special price for the low-income workers, which remains in effect. Plus, thanks to the strong research and data from the TMA, we know that high-income workers at larger corporations drive already at a rate under 30 percent. Whereas, lower-income service workers are more likely to drive at an 80 percent rate. Therefore, the TMA is crafting programs to help these lower-income workers that don't have the benefits that the higher-income workers do to give them those alternatives. As Council Member Filseth had mentioned, this is allowing the funding for the full-price worker permits from businesses to pay for those business benefits. This also gets to the benefit of the Transportation Management Association in reducing the traffic, reducing demand, and improving quality of life for residents while improving environmental sustainability and providing lower stress and better employee retention for businesses. I would recommend going ahead with this set of measures and extending the TMA to Cal. Ave. as soon as possible to address the needs there. Finally on a different topic, please continue to fund the excellent bicycle programs. Thank you very much.

Mayor Scharff: Thank you. Neilson Buchanan to be followed by Stephanie Munoz.

Neilson Buchanan: Several months ago, I decided if I was going to be active in pushing the Council for transportation, parking, traffic issues. I really did do some homework, and I decided I would sit through as much of the Finance Committee scrum as possible this last year. I didn't make it 25 hours, Jim, but at least I get one gold star. Without just being platitudes, I really did have an education on how strong the Budget process is and how strong the Staff is participating at the lowest levels. What trickles up to the Council, I would give my "atta boy" to Jim and the team that's producing a very solid foundation for the operational side of the Council and the City business. Everyone should rest more assured that the main things are getting done. I don't think I could add anything to what has already been a refined process. The reason I wanted to go through that is to be able to speak more intelligently as we go forward for the type of things that Eric Filseth just outlined. There's so many more big things that are going to have to be addressed. I give my blessing, whatever that's worth, of the Budget that's being presented to you as such. It's a solid foundation for the parking and transportation thing that I care a lot about. It's going to help us get across town maybe in the long run. I urge you to stay the course on the TMA, stay the course on the parking fee improvements and reforms. It's not popular for anyone. We residents in the Downtown area have always been loyal to the low-pay workers; we continue to do that. We think that they should have first preference if permits get scarce. We'd like to put one new

TRANSCRIPT

thing on the table. As we take a look at the Downtown garages and surface lots, we think the low-wage workers ought to equally compete with their rates to park in the commercial core. More in the future about that. Thank you again very much, and stay the course. Thank you.

Mayor Scharff: Thank you. Stephanie Munoz. Stephanie.

Stephanie Munoz: Good evening, Mayor Scharff and Liz and Council Members. I was very impressed with Council Member Filseth's summing up of the Staff's many, many hours of work. I'd like to add a little bit to it. It seems to me there are a couple of strings to this bow that you haven't really paid attention to. First of all, there was the remark—the caution really—that the medical aspect of the pension has not really been thought about. I would like to urge you as hard as I could to see if you can't support single payer in California. The point of single payer is that all the money that ostensibly goes to health goes to health. I won't say that most people will be paying less, and most people certainly won't be paying more. People who are not insured will be insured, and the people who are being thrown under the bus with medical bankruptcies won't have those medical bankruptcies because we can recoup the money that's going to entirely superfluous private insurance companies. Single payer would really save us a lot. The other thing is the Council has some money-making assets that aren't ever talked about except in a (inaudible) sense. We talk about you're selling zoning. What if you really did sell zoning? What if you said to some developer, "We will give you two extra stories. We'll let you put a seven-story building up. It'll have to have a daylight plane, and it'll have to have landscaping. We'll let you do that if you will make the whole building affordable. That way you can make just as much money as you could make with market rate rents"? I wish you would think about that. Just think about the possibilities. The other thing is there are expenses that the cities have, that could be very well taken over by someone else. For instance, our veterans, we owe them a lot. So does the federal government. If the federal government were to make available housing for our veterans—God knows they deserve it—we wouldn't have the 1,000 veterans homeless in Santa Clara County. Give some thought to that please. Thank you.

Public Hearing closed at 6:54 P.M.

Mayor Scharff: Thank you. Now, we will return to Council. This is what I was thinking a little bit. We have huge numbers of our City Staff in the audience. I really appreciate you all being here. What I'd like to do is be able to get you out of here quickly. What I was really thinking we would do is we would come back to Council for a round of questions. What I'd like each Council Member to state is if they'd like any particular departments to

TRANSCRIPT

stay. If they don't particularly need that department to stay, I think we should let these people go. As they say, let my people go. As we go through this process, if you could think about it. It's been my experience over the last eight Budgets we've done that we have everyone here, and that we rarely ask questions of the specific Staff members that are here. Kiely and Lalo and Jim can actually answer 90 percent of the questions that are here. There may be particular ones you have of a department. If so, ask those questions now. If you really want a department head to stay longer through the process, that's your right. Suggest it if that's what you want. On the whole, I think it's unnecessary. I'm going to actually start with people if they put their lights on.

Vice Mayor Kniss: Do you only want us to ask department heads and not these in the well?

Mayor Scharff: My goal is that we—I don't mind what you ask as we go through this process. I just want to hear from anyone—if they do have a question of a particular Staff member, now's the time to really ask that question. If you want someone to stay, now's the time to state it. Otherwise, at the end of this we're going to basically let everyone go, and you won't have the opportunity to ask that person that Budget question.

Mr. Keene: Mayor, I really do appreciate that. I would just say, just in the General Fund, 60 percent of the Budget goes to basically our salary and benefits and our people. How we use our resources is important including not just in money but in time. I do think that 90 percent of what you would be asking budgetarily to be able to make a decision on this Budget, the Finance Staff and I can handle. To the extent that you do need to hear—again, I'm just repeating what the Mayor said—directly, please surface that now. It may be that you're not going to make decisions until quite some time from now, but we could at least get those questions answered. I think you'd probably have to be a little interactive with us and just do it. It makes a big difference for somebody to sit here for hours and, as the Mayor was saying, not be called upon. It's not cool actually. Thanks.

Mayor Scharff: I have a couple of lights already. Council Member Tanaka.

Council Member Tanaka: Mayor, can I ask one of the members of the public a question?

Mayor Scharff: Yes.

Council Member Tanaka: I'd like to ask Professor Bulow to come back up. Maybe as you walk up I'll state my question. One of the analogies you like to use is that in some way the pensions are like an insurance policy, where

TRANSCRIPT

you get some sort of guaranteed annuity. I guess my question to you would be, using that analogy, where the pensions are a defined benefit that we're paying, we're obligated to pay, if Palo Alto was an insurance company, what would regulators do with the level of funding that we've done? How would they view it relative to if they were to look at a real insurance company?

Mr. Bulow: That billion dollar deficit figure is exactly what the number would be for an insurance company. If we thought of Palo Alto's Pension Fund as being an insurance company that is providing the pension benefits or the deferred annuities to the workers and offsetting that has cash, they have about \$736 million in cash as of June 30, 2015, and a liability that would be calculated as \$1.791 billion. They would be bankrupt to the tune of over a billion dollars. The reason it's not bankrupt is because the taxpayers of Palo Alto are behind it, and the regulation for Pension Funds is much more lenient than for an actual insurance company.

Council Member Tanaka: You're saying that if we were an Insurance Fund, we'd be shut down?

Mr. Bulow: You couldn't have a private insurance company that promised a billion dollars more in benefits than they had in assets.

Council Member Tanaka: I wanted to clarify that. The second thing is the analogy both Council Member Filseth used and you used as well, which is what we were seeing on Kiely's slide, that little thin, blue pie is like the minimum credit card payment. My question really revolves around using that analogy where we have this between \$500 million and a \$1 billion dollars' worth of debt and we have this relatively small minimum payment. What happens if you continue to kick the can down the road? If we say, "Let's not deal with it this year. We'll deal with it next year or the year after." I know for my credit card if I did that, if I just paid the minimum payment, the interest would snowball, and I'd owe even more next year. Does that analogy still hold or can we safely just pretend it ends okay and just let it float?

Mr. Bulow: Yes, that analogy still holds. There are projections that the contribution rates for many plans will double over the next 5 years. The school's rate for example, which was 13.9 percent this year, is already scheduled to go to 26 percent-plus within the next 3, 4 years. To give an example of another CalPERS Plan that we all pay into through the State, Highway Patrol, the rate is already over 50 percent and going higher and so forth, much higher.

Council Member Tanaka: It sounds like, from what you're saying, that dealing with it sooner than later is probably a good idea.

TRANSCRIPT

Mr. Bulow: Yeah. I think the next step is for the Finance Committee to try to meet with people—we've got a lot of people in this area who have thought a lot about this topic—and just do some fact finding and try to figure out as best they can what the real facts are and get a good grip on it. Going forward, people on the Council will be able to make the most informed decisions possible about what things cost and what kind of payments the City will likely have to make in the future to cover various liabilities.

Council Member Tanaka: Thank you.

Mayor Scharff: Vice Mayor Kniss.

Vice Mayor Kniss: Heading in on the same topic. It occurs to me that there are some other aspects that we're not quite as aware of. We now have a few over 1,000 full-time employees. Each of those at some point will get a pension, and they'll also get Other Post Employee Benefit (OPEB). If we look at the number of retirees that we have right now, who have spouses who also are dependent on OPEB, how many roughly is that, Lalo?

Mr. Perez: We have about 904 retirees, and about 52 percent of those have dependent coverage, so 400 ...

Vice Mayor Kniss: Fifty-two percent have ...

Mr. Perez: Dependent coverage, meaning the retiree plus one (crosstalk).

Vice Mayor Kniss: All of that 900-plus are getting a pension benefit, correct?

Mr. Perez: Yes, they should be.

Vice Mayor Kniss: Do we have some idea of what—we know what we're spending this year. We can look at our Unfunded Liability on this nice chart that somebody thoughtfully put together. What amount roughly, if we were looking at it, is that group getting paid? How much money actually goes into that group every year? It's not the ...

Mr. Keene: Are you talking about the ...

Vice Mayor Kniss: It's not the amount listed here. That's just what we're putting into CalPERS. I want to know what CalPERS ends up paying out for that group.

Mr. Perez: The total medical costs you mean?

Vice Mayor Kniss: No. The pension plus medical.

TRANSCRIPT

Mr. Perez: Pension plus medical.

Vice Mayor Kniss: Everyone who retires from here gets a pension and they get healthcare. Usually it is involving their spouse or whomever as well.

Mr. Perez: The pension number is \$38 million that we're paying for all active and retirees.

Vice Mayor Kniss: If we were paying for it, it would be \$38 million?

Mr. Perez: Our annual required contribution, our minimum credit card payment as they're calling it, right now we're paying \$38 million for active and retirees, for both the active of about 1,000 people ...

Vice Mayor Kniss: We're paying that to CalPERS?

Mr. Perez: That's right.

Vice Mayor Kniss: What is the number ...

Mr. Keene: I don't think we could—the question I'm hearing is, if we were to say for all of the existing retirees we have right now, let's say this 904, on an annual basis what is the cumulative amount of pension payments that are made and retiree healthcare. That's a different thing for us to try to get our hands on. I don't think you guys have it right now. We'd have to ...

Vice Mayor Kniss: You probably don't. We've talked about this tonight. We've talked about the fact that the realistic number would be one that included more for our Unfunded Liability. I'm not sure we're aware of what that Unfunded Liability is actually costing every year. It comes not from us; we don't pay any of the retiree checks that go out. That comes from CalPERS. That's why we sometimes lose sight. We put this amount of money, and then later we say, "That's interesting. We covered our Unfunded Liability." We haven't covered it at all.

Mr. Keene: Let me just add something to this. In one sense it is being accounted for in the bill that we get each year from CalPERS. The commentary we had in this piece in the exchange was focused on one huge component of what determines that payment, and that is the return on investment that CalPERS gets. The other factor generally that is put in there are the actuarial projections that CalPERS makes, taking our existing retiree base and our current employee base and basically running actuarial projections on how long people roughly would live and what the cost would be over their lifetime. Now, obviously if people live a lot longer than they're calculating, our Unfunded Liability grows. If the number of employees we

TRANSCRIPT

have changes or increases, if the pay adjustments that we give to employees over time grow faster than their tables, then the Unfunded Liability is also there. You have these assumption factors that, obviously, like any assumption are subject to being, certainly over a 30-year period which is the amortization period they use, extremely volatile. I think that's what a lot of your conversation is about.

Vice Mayor Kniss: I think what we're talking about tonight is the fact that we don't even know right now what CalPERS is getting in as far as what they're earning. We hope it's 7 1/2 percent; we're pretty sure it's not. We think it might even be 6 3/4 percent. For some reason, it's always rather mysterious information. The more retirees we have, which happens on a regular basis, and the less CalPERS earns on a regular basis every year, the greater our liability. Would you agree? That's what we're talking about. That's why listed on what we're talking about tonight, that's going to go to Finance in August or September, is a different look at our pension liability and our Unfunded Liability. Because all of us in elected office are very tempted to just say, as somebody mentioned before, "Let the next people take care of that. We'll take care of what we can now, but certainly those that follow us will take care of it. They'll make sure that's delivered." Long term, it's why I think so many of us in office take a look at that Unfunded Liability and say, "You can't pay that bill long term." That's what I find alarming, and I don't think we have an answer to it yet. We're going to give that to the Finance Committee in the fall. I think they'll probably have a great answer for it by about October. That's all. Thank you, guys, very much.

Mayor Scharff: Council Member Wolbach.

Council Member Wolbach: Changing gears slightly or significantly to talk a little bit more about the parking. I appreciated Council Member Filseth's summary of the thinking from the Finance Committee about parking fees, etc. While we still have Staff here from Planning and Community Environment (PCE) and the Chief Transportation Official present, I just want to ask when is our Parking Study coming back. Any guess on that? Also, in conjunction with that, which I think we're going to be seeing again sometime in the not too distant future, would we have any opportunity to revisit any of this discussion beyond the decisions that we make tonight? I'm basically looking for when would we be able to take another stab at this and have a deeper discussion on that particular topic in case we change our minds in our future. Of course, it's not like Palo Alto ever does that.

Mr. Keene: I think for the most part the decisions we're making today have a certain amount of funding that we know we—on the expenditure side. The

TRANSCRIPT

Committee's recommendations on fees help us fund things that we know about. The big variable you're talking about in the future are what are the other impending expenditures we want to make and how are we going to pay for those. Some of those are admittedly—I'll let Hillary speak to that.

Hillary Gitelman, Planning and Community Environment Director: Thank you, Council Member Wolbach. Mayor Scharff and Council Members, Hillary Gitelman, the Planning Director. I think the question was about paid parking on-street.

Council Member Wolbach: More generally. There's the discussion that we've been having, trying to have, for a while now about whether and how much and where to charge for parking on the street by either pay stations or by individual meters. In conjunction with that and part of the presentation we had tonight, for instance—if we could put up Slide 17 where we're looking at the various fees that we would be setting for—updating our fees for permits, both the RPP, the Residential Permit Parking, and garages both Downtown and the Cal. Ave. area. When is our next opportunity to amend whether we want to decrease, increase, change in any way or add new ones or tiers? Like with all of our parking initiatives, Palo Alto is trying things. We are trying to solve problems, and that means we iterate over time. I'm just trying to think about how long this iteration would lock us in and when we'd be able to revisit these.

Ms. Gitelman: Thank you for the clarification. Let me just be clear about what's not included in the Budget. We have not included in the Budget anything related to pursuing paid parking on-street. Meters and pay stations are not in here. The only exception is \$100,000 that's in there for an additional study or consultant. There's no commitment in this Budget to pursue that initiative. We are, as you know, pursuing multiple initiatives related to RPP, Residential Preferential Parking, around our commercial districts and then enhancements within the commercial districts such as parking wayfinding, parking guidance systems, and the like. All of those things are affected by this Budget, and the increase in permit fees that we're suggesting would help support those initiatives. I think the Council understands that all of these programs come to you on a regular basis. RPP is a good example. The Downtown RPP Program will be back to the Council for review and further direction early in 2018. You would have an opportunity at that point to understand and potentially revise our thoughts about how that program interacts with the Downtown lots and garages. Similarly, you'll have an opportunity when the pilot program is up in Evergreen/Mayfield RPP District to talk again about how that program interacts with the lots and garages in the California Avenue area. I hope that answered your question.

TRANSCRIPT

Council Member Wolbach: I think it does. I just want to be clear. Looking at this on Slide 17, at the very top right corner, we're looking at a proposed \$730 per year for a garage permit in the Downtown area. Will garages Downtown have the lower tier for low-income employees like RPP or are those fixed at a single rate?

Ms. Gitelman: We currently do not have a low-income tier in the lots and garages, but only in the RPP Districts surrounding Downtown.

Council Member Wolbach: If that's something we wanted to explore in the future, when would be our next opportunity to do that?

Ms. Gitelman: We generally make changes to the Fee Schedule at this time every year in conjunction with the Budget, but there's no reason the Council couldn't request something like that to come to you outside the Budget cycle as well.

Council Member Wolbach: Just doing the quick math, I think we're looking at about \$60 a month there for the \$730. Right? Rhetorical question.

Mr. Keene: It's \$730 a year, how much that is a month. Yeah, \$60 bucks a month.

Council Member Wolbach: Sorry for the rhetorical question.

Mr. Keene: \$2.81 a day. Let me just say something. I don't want us to lose sight of this. The funds that the Finance Committee recommended—fee increase—will easily be spent in this Fiscal Year with the array and list of things we need to do. As Hillary said, we will be coming back to you periodically with different items, everything from shuttles to whatever at times. Almost in every case, we will be identifying a funding gap, so the pacing on our ability to implement those things is going to be affected by funding. Obviously, that's one of the reasons why the Downtown Parking Study relating to on-street parking is important as it relates to the pace of implementing changes.

Council Member Wolbach: Thank you.

Mayor Scharff: Council Member DuBois.

Council Member DuBois: I think it's pretty—thank you to the Finance Committee. I think it's pretty traditional that they spend a lot of time on this and that Council has two meetings to review the Budget. My question was are there items tonight that, if we run out of time, we need to pass tonight versus could come back in a second meeting if necessary.

TRANSCRIPT

Mr. Keene: Not really. We have the requirement to adopt the Budget for the year by June 30th.

Council Member DuBois: So we're going to be here late maybe.

Mr. Keene: You don't have to be.

Council Member DuBois: Using 12.2 percent of our reserves in 1 year, how does that compare to past Budgets? Have we ever done that?

Mr. Perez: We've occasionally done it. What we've done is carried excess revenues from one year to the next year, and then drawn from there. What we have not done is gone below the 18 1/2 percent target that you have. That's the difference for us as we recommend this Budget to you. We are sticking to the Council's target of reserves of 18 1/2 percent. That's why we feel comfortable. Second, we are projecting a surplus in '19. I recognize that that surplus is going to be eaten away quite quickly because of all the other needs that we have, that we've been talking about. It gives us a chance to then adjust for that year.

Council Member DuBois: We're going right down to the target.

Mr. Perez: Correct. I'm also mindful that we're going to issue some significant debt here, and the draws on reserves needs to be explained. I think those have explanations for the credit rating agencies, that we're not deviating from a target that the Council set.

Council Member DuBois: Can you show the new head count clearly by department? Where those 4.85 heads are going.

Ms. Nose: I don't have a chart that has it, but I can articulate it. Let me see if I can group these really quickly by department. In the Police Department, it's actually net zero. It's the addition of a Police Information Officer and the elimination of a Community Service Officer. In Community Services, we are adding a Junior Museum and Zoo Educator, but we're also eliminating 0.75 percent of a Producer Art Science Program. We're basically doing a bunch of net things in Community Services Department (CSD) that results in net zero actually. One of the positions is in Information Technology (IT); it's a Senior Technologist. Finance and Council actually previously approved this funding, but there is an open conversation as to whether it would be contract or in-house. A Gartner Study was done and determined that it should be in-house, and this is truing up for that one position. There's one in Utilities; it's a Customer Service Representative. There are actually 2.5 percent in Public Works. One point five are Facility Technicians in the airport doing Airport Maintenance Services. There's one

TRANSCRIPT

Associate Engineer in Storm Drain to deal with the Storm Drain Ballot Measure.

Council Member DuBois: The 0.35 percent, is that just ...

Ms. Nose: Do you mean the 0.85 percent?

Council Member DuBois: I think you told me 4.5 new heads.

Ms. Nose: 4.85.

Council Member DuBois: Where does the 0.35 come from?

Ms. Nose: It's the net within the Community Services Department.

Council Member DuBois: Thank you. That helps. A question about the increase in the Electric Rates. We've been impacted by the drought the last couple of years. What are the expectations for hydro rates this year with all the rain and was that factored into the increase request?

Ed Shikada, Assistant City Manager: Good evening, Council Members, Council Member DuBois. Ed Shikada, wearing my Utilities General Manager hat. In terms of hydro, we are seeing increased production. At the same time, much of the reality of what's happening this spring is that there is so much spillage of the melting snowpack that not all of the electricity is being fully utilized in terms of the value in California Power Agency (CPA) as our producing agent is generating. That said, going back to your question on the Electric Rates, we have seen an improvement in the financial outlook in terms of the role that hydro plays. However, in terms of the rate increase, it's largely driven by the need for additional Capital Investments in the system and to maintain adequate reserves in our fund.

Council Member DuBois: Thank you. Sorry to jump around. I just had a question about the parking permit sales in Cal. Ave. Are those funds being used for the Downtown TMA?

Ms. Nose: No. Only the Downtown parking permit revenues are being used for the Downtown TMA. In the Cal. Ave. Fund, there's actually some significant repaving going on. This actually offsets those capital costs. Previously before this increase, we were actually going to have to transfer money from the General Fund and loan money to keep the fund financially solvent.

Mr. Perez: Council Member, we segregate the parking into basically three areas. University Avenue has its own special Fund, California Avenue. We keep revenues and expenditures separate, and then the RPP Programs.

TRANSCRIPT

Council Member DuBois: The parking permit revenues technically are going to the General Fund and then transferred into a special Fund?

Mr. Perez: No. They go into these special Funds that we created. They could reimburse the General Fund position. For example, if somebody's working from Planning or from Administrative Services Department (ASD), they could be working on the administration, for example, of the program or planning for the program. They could be charged to those special revenues. Those revenues are not going to the General Fund for general use.

Council Member DuBois: In future years, could that revenue be used in the General Fund?

Mr. Perez: Absolutely. There's no restriction on that. The Council has the authority to use them as they wish.

Council Member DuBois: Two more questions. In your presentation, you said there were some parking initiatives not included in Year 1. What were those again?

Ms. Nose: The presentation itself actually doesn't have a comprehensive list. Let me pull up the list. Some of the things that are not included are the consolidated parking permit system. It's a software system basically to consolidate all the permit administration for all of the programs. It's a one-stop shop for everybody including things, I think, even potentially such as citations. The parking guidance is actually in the CIP in the out years. It's anticipated to be funded by parking revenues. The parking revenues haven't been generated yet, and these increases would help generate that revenue stream to fund that Capital Improvement. Other initiatives that are not included—there's actually a list in your guys' Operating books—sorry, in the Special Revenue Fund section, on Page 102. Other things that are not included are some Capital Improvements like Light Emitting Diodes (LED) lights for safety in the garages potentially as we do upgrades; centralized parking operations. One of the things you guys saw on the Downtown Management Study is potentially how we're going to organize as a jurisdiction, so to speak, around parking, whether it centralizes an office, whether it's a department, whether it's under Planning and what staffing is going to be allocated and necessary to run whatever program you guys choose. That's a huge undertaking that we don't really have the landscape yet. This Budget doesn't anticipate any of that until you guys have a chance to design the program and the investments that are necessary for that program. Paid parking is a huge one. We keep going, but ...

Council Member DuBois: It sounds like some of those investments are potentially saved costs. We're kind of hurting ourselves by differing them.

TRANSCRIPT

Mr. Perez: The centralized parking system, we have a very manual process right now, and we want to automate that.

Council Member DuBois: The last question was how much does the Downtown TMA need to be fully funded. I thought they had requested quite a bit more in their Budget.

Mr. Keene: I think the recommendation that we have allocates \$480,000. We had what, \$130,000 already in the Budget? I think the amount meets what they really felt was ... In subsequent years, it may be different. For Fiscal Year '18, this is on target for the request.

Council Member DuBois: Aren't they looking for like \$1.2 million total?

Mr. Keene: I can guarantee you there's—I can't see anyway they would spend \$1.2 million in this next year. We're still in startup mode in a lot of ways. I really think \$480,000—that's almost \$650,000 for Fiscal Year '18. Correct?

Council Member DuBois: Hillary, do you have any comments? I thought they gave us a Business Plan that was significantly higher.

Ms. Gitelman: The funding that they requested for this coming Fiscal Year would achieve basically scaling up the programs that they've been piloting, would achieve a 14 percent shift from Single Occupancy Vehicle (SOV) to other modes. Their ultimate goal is 30 percent, but they can't get there overnight, so this would get them to the 14 percent that they've estimated. Then, they have a proposal to us in the next year to go slightly higher and try and get to 18-20 percent, and ultimately scale up to meet the full 30 percent goal. I should say that we have—to get them this money would require a funding agreement. We've invited them to come to Council in September for a discussion of their program goals, how the pilot programs have been doing, and then to ask the Council for a consideration of this funding agreement. You can have a discussion with them at that time about their ultimate plans for the future.

Council Member DuBois: Is basically the City fully funding them this year or is there matching funds?

Ms. Gitelman: They have a little bit of money coming in from other sources, but we're the primary funder of the organization at this point.

Council Member DuBois: Thank you.

Mayor Scharff: Council Member Holman.

TRANSCRIPT

Council Member Holman: Appreciate that you let the non-Finance Committee members go first. Appreciate that. Under the scenario that was put forth, if we don't have questions for the City Attorney, she can leave.

Mr. Keene: Yeah, but your behavior may need her to stay here. Just kidding.

Council Member Holman: I'm trying to get you out, Molly, early. I have a couple or three questions for City Manager. One is last week—these are not surprises. We've talked about these. Last week, you had mentioned something about \$110,000-plus Unallocated Funds when the topic of Human Services Resource Allocation Process (HSRAP) came up. Can you identify that?

Mr. Keene: Yes. I don't know if that's in a particular page also in the Budget. It's not. We have the 2018 HSRAP allocations. There is also \$111,000 in the fund that has not been allocated. My understanding is that the plan is we would be going out with another Request for Proposals to the different agencies and go through the process in FY '18. I don't know what the timing is, if we have any estimate as to when we would have that back. We would be planning to go to Human Relations Commission (HRC), get their recommendations, and come to the Council. I don't think this is something that spills over until next year. That's the thinking right now, but there's \$111,000 unallocated.

Council Member Holman: You raise the question about not spilling over 'til next year because we're on a 2-year funding cycle. I see Rob de Geus coming forward; maybe that's going to be helpful. We're on a 2-year funding cycle. It'll be the '18 and '19 Fiscal Years. How would such a—its kind of a mystery where the \$111,000 comes from that it's unallocated. Where is that from? How would it work that it would be applicable to the 2018 Fiscal Year?

Rob de Geus, Community Services Director: I appreciate the question, Council Member Holman. Rob de Geus, Director of Community Services. What happened with that particular fund, we went through the regular process with the Human Relations Commission to vet the different Request for Proposal (RFP) proposals. They went through and allocated the funds, and approximately \$120,000 was allocated to Adolescent Counseling Services (ACS). After that occurred, Adolescent Counseling Services decided not to participate in the RFP with the School District to provide the counseling services on campus. That's what the \$110 of the \$120,000 was for. That freed up the \$110,000 or \$111,000. We discussed that with the Human Relations Commission and amongst Staff, and we felt that the best

TRANSCRIPT

way to deal with this situation was to release a second RFP that would allow the new service provider, which is not ACS but a new counseling service provider, that did bid and won the bid with the School District to be able to apply for this \$110,000. We felt that it was important to open it up not just to that particular provider but to all the providers or new folks that want to try and access those funds. The process would be the same as the regular HSRAP process, and we would try and do it in the first quarter of the new Fiscal Year.

Council Member Holman: That's good. A question about Project Sentinel. It in 2010, if my memory's correct, got moved from HSRAP to CDBG, to use as many acronyms as I can. When they were with HSRAP, they were getting 60-something. I'm just using round numbers. They were getting about \$60,000, but now that they're with CDBG they're only getting \$30,000.

Mr. de Geus: I believe they get \$65,000 from the General Fund and \$35,000 from CDBG.

Mr. Keene: It's \$32,500 that they're getting out of CDBG, which is the full amount that they requested. As Rob said, that apples-to-apples comparison is actually the fact that they're still getting \$65,000 out of the General Fund.

Council Member Holman: But not through CDBG. Excuse me, not through HSRAP, though, through some other avenue.

Ms. Nose: It's through the Community Services Human Services Division. It's part of the base non-salary expenses in the Community Services Department.

Council Member Holman: That level of support is in the \$60,000 range?

Ms. Nose: \$65,000 for FY '18.

Council Member Holman: That's only about \$2,000—if memory serves, I think it was \$63,000 in 2010.

Mr. Keene: In any case, the comparison \$32.5 plus \$65,000. We're almost at \$100,000. The comparison ...

Council Member Holman: Plus the \$65,000. That's helpful. We'll need to make that part of a Motion that we make later to go back out for the HSRAP solicitations?

Mr. Keene: You don't have to do that. We have that in the works.

Mr. de Geus: It's the Staff recommendation.

TRANSCRIPT

Mr. Keene: The funding is in the Budget, already included. When you adopt the Appropriation Ordinance, it's included in there, that \$111,000.

Council Member Holman: Rob, while you're there, thank you. Another thing came up at Finance Committee, and it didn't get answered particularly, having to do with events. One thing that hadn't been contemplated is Palo Alto is celebrating its 125th anniversary in 2019. Funding for Staff or consultant, event planner or whatever hadn't been anticipated to plan for that. We can't wait 'til next year to plan for a 2019—it's in May even. Where will you come up with funds for that or do we need to make some kind of allocation tonight and how much?

Mr. de Geus: That's to be determined. We haven't started planning that event yet, but we'll certainly have an event for that occasion. Every year we have events that pop up or that are new. That one is a big one. We'll work with the existing Staff and volunteers and the Palo Alto Recreation Foundation to do what we can to fund that. We have Contingency Funds with the City Manager or maybe the Council Contingency Funds that could be applied to that. That's my initial thinking of how we might fund that gap.

Council Member Holman: I would hope a 125th anniversary isn't something insignificant. City Manager, it came up at Finance Committee, and you and I had a subsequent conversation about economic development position and also about a Fry's Coordinated Area Plan. Were you going to make comments, I think, about those?

Mr. Keene: Two fold, so let me speak about the Fry's Coordinated Area Plan. That is anticipated in the work plan for Fiscal Year '18. The Staff won't be able to turn its attention to that until you've adopted the Comprehensive Plan (Comp Plan), so they can turn some of that Staff effort over. That's on target to happen in the first half of this Fiscal Year. We'd be in a position to launch that plan. The Staff is also out pursuing an One Bay Area Grant (OBAG) grant in this round in the cycle for funding of that plan. We think between that and the potential with the property owner to contribute, if we so desire, we would be able to have sufficient funding to be able to support that process. That being said, there's no appropriation yet because we don't have the revenues. I would say this is one of these things that we anticipate the Council will be taking subsequent action on later in this year if we are successful with the grant funds. We have every reason to think we would be. I think in the last round we actually got funding and had a series of decisions to not accept it. I would argue that we should accept it this time if we get it.

TRANSCRIPT

Council Member Holman: When you say this year, you mean this calendar year, right? After the Comp Plan.

Mr. Keene: This Fiscal Year, Fiscal Year '18. Hillary may have the better sense on what the timing is on the grant. Is that the first quarter, first ...by September or October we'll know the grant.

Council Member Holman: Communications has started with the property owner per chance?

Mr. Keene: Yes.

Council Member Holman: Economic development.

Mr. Keene: Those of you who weren't in the Committee meetings, there was some effort by the Council to convince me to add a position or focus on economic development. I was a bit resistant thinking that we had some good capacity coming in on the Staff to support what would be possible. That being said, there are a range of different opinions and perspectives about what an economic development or whatever it is, economic vitality, Staff function would be. My recommendation is really if that is something the Council wants to pursue, we ought to get a better definition and clarity about what that would be. I would suggest we put some funding aside. If that's where you end up, I'd be willing take \$50,000 that's in the Contingency Fund out of the City Manager's Office to fund an assessment that would let us work through what the options are and ultimately for the Council to make a decision where you want to go with that. Again, I don't think that would need an Amendment as it relates to an appropriation. We would just take it out of some existing Contingency Funds that we have. That being said, I would want specific Council direction as to whether you're interested in doing that.

Council Member Holman: The other thing that—the public will be very relieved to hear that there is thought and planning going on for the Fry's site. I think that's going to be a big relief to them. We've gotten a lot of emails about that. One other thing that was talked about but not really at Finance is something that I know the Planning Director has commented on about looking at—City Manager as well—an Employee Transportation Tax in parallel with paid parking. We've gotten a number of emails about responsibility. I'm just wondering, if we wanted to look at both of those in parallel, what it would take to do that.

Mr. Keene: I'm not sure—by the Employee Transportation Tax, are you talking about this subject of revisiting in some form whether or not we would put a tax on businesses related to transportation?

TRANSCRIPT

Council Member Holman: Correct. There's concern expressed by the community—it's fair share and all of that—of how we'd go about doing that and how we would fund it, how we would Staff it.

Mr. Keene: My suggestion in that case—again, not to deflect it to Finance. It potentially has some interface with some other strategic issues or objectives the Council might have. There may be other funding initiatives that the Council is going to want to consider, that you've got to go to the public on. Some of them very significant, whether it's what we're going to do on grade separations, how are we ultimately going to fund the Cubberley Master Plan. We even have some issues as it relates to the equity transfer issue with Utilities. I just think we want to have a thoughtful conversation about if we're going to go out and raise some new revenues to have the Council be able to prioritize what those would be.

Council Member Holman: I would welcome that discussion too because timing is going to be an issue with that. With Public Works, the \$50,000 for YCS, that match. I appreciate Finance Committee and Colleagues on the memo support for that and certainly Joe Simitian. That was taken out of the Vehicle Replacement and Maintenance Fund. I was just wondering if there was any other room in that because it's such a large Budget. Maybe that's—I don't see Mike.

Mr. Keene: Is this a new fundraising scheme, cars for dollars?

Council Member Holman: No. If there are any of those that could be deferred. One of the responses at Finance was as cars get older it's harder to get parts, but we have a good number of Staff members that manage the fleet. I think car parts are supposed to be available for 15 years.

Mr. Keene: I guess if this is a—I think this is a more involved discussion. We have a fleet. We have a whole lifecycle costing analysis for every vehicle and standards. The thinking is that the schedule we have is designed to actually be the most cost effective over time. If it's really a question of are there different ways to pursue this or is there a significant change in the fleet that we would have itself, I think we need to spend some time looking at that. I think it would be a mistake to say whatever, get rid of two pickup trucks and an off-haul loader and two backhoes.

Council Member Holman: I think just one more—I guess we're not in comments yet, but I will just make this one little comment. It wasn't mentioned anywhere that I read that the—or that at least was highlighted—Auditor's Budget was increased by \$20,000 to be able to do some polling. That's it for me right now.

TRANSCRIPT

Mr. Keene: That's included.

Ms. Nose: That is included.

Council Member Holman: I was just pointing it out for the ...

Mayor Scharff: Council Member Kou.

Council Member Kou: Actually Council Member DuBois and Holman have asked most of my questions. I do have one. If I remember correctly, Junior Museum and Zoo (JMZ) had taken money out of Rinconada Park in order to—for some reason. What is the impact on Rinconada Park for its improvements? Is there ...

Mr. Keene: We'll have Rob speak to that for you.

Mr. de Geus: Thanks, Council Member Kou, for that question. We have a Long Range Plan we've been working on for some time for the Rinconada Park. It's still actually awaiting some of the California Environmental Quality Act (CEQA) work. It's related to the Junior Museum and Zoo rebuild. It's a Long Range Plan for the entire park. We had \$3.6 million or something for that Plan, which has yet to be approved. What we have done is, because the Junior Museum and Zoo has moved along well and we're at a point now where we think we can hopefully break ground this next year, create a separate CIP to allow for the work of the Long Range Plan that relates to the Junior Museum and Zoo or gets touched by it because it's in the park, to do that work first. It includes things like the parking lot and the relocation of some of the playground structures that are close to the Junior Museum and Zoo. To get to your specific point, is there enough money in the Rinconada CIP Improvement Plan to do everything? The answer is no, there isn't, not to do everything we would like to do in there and with the Junior Museum and Zoo coming onboard. There are additional costs that we'll have to undertake, like the remodeling of the parking lot and the entrance to the park.

Council Member Kou: The swimming pool isn't part of the Rinconada Park, is it?

Mr. de Geus: It is.

Mayor Scharff: I actually just had a question for the Auditor. I actually thought it was a little unusual, so I asked the Chair of Finance if the extra \$20,000 was driven by the Finance Committee or by the Auditor. The Chair indicated to me that you asked for it. I just thought it was a little unusual

TRANSCRIPT

that it wasn't in the City Manager's Budget then. I guess I wanted to understand how this came about.

Harriet Richardson, City Auditor: Good evening, Mr. Mayor, members of the Council. Harriet Richardson, City Auditor. It actually wasn't in the Budget because I didn't request it. It was brought up at the Finance Committee. I believe it was Council Member Holman who brought it up, about us doing some extra polling related to Code Enforcement and some more custom questions related to the built environment.

Mayor Scharff: What questions are you going to ask? Do you know? Why is it \$20,000?

Ms. Richardson: That's the estimate that we were given. We were given an estimate of about \$13,000 to do a custom survey that would be about 2 pages or so for Code Enforcement. The extra was to add some other more custom questions related to the built environment.

Mayor Scharff: Do you know what those questions would be on the built environment?

Ms. Richardson: They were related more to understanding why on the National Citizen Survey that we do each year both Code Enforcement and the built environment rate low. They're more generic questions, like the built environment question is "what do you rate the quality of the built environment." We don't really know what—built environment encompasses a lot of things. It's not clear what exactly residents think is not good about the built environment. Getting more specific about is it the design, is it where things are built, is it too much development, those types of things. Code Enforcement, those questions would more tie into the audit we're doing on understanding why people rate the quality of Code Enforcement activity low. Both of those were intended to tie into this extra funding.

Mayor Scharff: It would be a one-time thing that we would add to the Citizen Survey?

Ms. Richardson: We would actually do it as a separate survey because it would make the Citizen Survey too long and would then likely drive the response rate down on that.

Mayor Scharff: This is basically a separate survey on these two issues.

Ms. Richardson: Yes.

TRANSCRIPT

Mayor Scharff: Was there anything else that you considered doing the polling on?

Ms. Richardson: Not at this time, but we haven't started it yet because we're waiting for this. If there are other things that we wanted to consider, we still have time to add that to it.

Mayor Scharff: With that, I guess I wanted to check in with the City Manager. I didn't hear any other Council Members ask that anybody stay. I am going to leave it up to the City Manager, but as far as I'm concerned everyone except Lalo and Kiely and yourself—I don't know if people want the Fire Chief to stay at all, but I didn't hear anybody ask anyone to stay.

Mr. Keene: Are we good? Human Resources (HR), CSD.

Mayor Scharff: I think we're good. I don't hear any Council Members.

Council Member Holman: Mr. Mayor? We were doing a round of questions. I think there might be comments that the Sustainability Office might want to be here for.

Mayor Scharff: You'd like Sustainability to stay. Gil. Other than that, I think everyone can leave. Fire Chief and Gil. We're going to have a sustainable Fire Department. Coming back to the Council now, Lalo, you had something you wanted to (crosstalk)?

Mr. Perez: Mr. Mayor, would you be okay if I made a few comments on the pension?

Mayor Scharff: Sure, go ahead.

Mr. Perez: This is an item that's been discussed at the Finance Committee and previously with last year's Council. We agree with the speaker and some of the sentiments of the current Council Members as well that the pension issue is a significant issue for us. I've been using the same analogy of the credit card, so I'm glad to hear others refer to that because I think it's better understood. One of the things that we're planning to do is in September come to the Finance Committee. We have identified about a dozen options for funding already that we're working on. We're working on different tools that will allow us to do "what if" scenarios in a faster manner without necessarily having to utilize an actuary. It's a system built by actuary folks. The goal is to try to have that discussion in the fall, come back to the Council for discussion, and get some direction so that we can incorporate it in our Long Range Financial Forecast, and then embed it into our Fiscal Year '19 Budget. Just to remind you, you gave us the authority to

TRANSCRIPT

set up what we call an IRS Section 115 trust. This basically is putting away 10 percent of our annual required contribution. In other words, we're making a payment above our minimum credit card payment of 10 percent as a start for all funds. We started that with the General Fund this current year. The Budget in front of you has a 10 percent Budget Allocation for the other funds. We wholeheartedly agree that this is an important subject. I believe that we're starting to make the appropriate steps. It may be a baby step, but it's a start of where we're going forward. In terms of the number of the \$1 billion, that's a discussion that we're going to have because that number is based on a 3 1/4 rate of return assumption. I don't agree with 7 percent with CalPERS, but I don't know if I necessarily agree with 3 1/4 either. There's some number in there that we would have to discuss. The CalPERS staff is talking about 6.2 over the next 10 years. Right now, their latest projection for the current year is about 5.8 percent. It's getting a little closer to that number.

Vice Mayor Kniss: About what, Lalo?

Mr. Perez: 5.8 percent.

Vice Mayor Kniss: From CalPERS?

Mr. Perez: Yes. For the current Fiscal Year, that's ...

Mr. Keene: The actual performance.

Mr. Perez: Actual performance for the pension program. It's obviously not 7, but it's something that we're monitoring very closely. We will definitely bring you those options, and some of them will be more realistic than others. We recognize that, but we definitely believe that there are going to be options that we can go forward with. I just wanted to add those comments.

Mayor Scharff: Thank you. Any other comments from Staff? No. With that, I'll return to Council. Chair of the Finance Committee Filseth.

Council Member Filseth: Thank you. I'd like to make a Motion. I would move to, one, approve the Staff and Finance Committee Recommendations 1-9 as outlined in the presentation and report, Packet Page 513 and 14. Second, move the Finance Committee referral to Staff as outlined on Slide— which slide is it?

Mr. Keene: Slide 29.

TRANSCRIPT

Council Member Filseth: As on Slide 29. Thank you. Third, I would move to shift the Staff-identified \$348,000 in maintenance cost from the General Fund to the Cubberley Infrastructure Fund and increase the General Fund contribution to the Infrastructure Reserve by the same amount.

Mayor Scharff: I'll second that.

Council Member Filseth: I should note that I would like this to include the BMR housing appropriation change identified by the City Manager.

Mayor Scharff: As I said, I seconded that.

MOTION: Council Member Filseth moved, seconded by Mayor Scharff to:

- A. Adopt a Budget Appropriation Ordinance, which includes:
 - i. City Manager's Fiscal Year 2018 (FY 2018) Proposed Operating and Capital budgets; and
 - ii. Amendments to the City Manager's Fiscal Year 2018 Proposed Operating and Capital Budgets including:
 - i. The transfer of \$348,000 from the General Fund to the Cubberley Infrastructure Fund and increase the contribution to the Infrastructure Reserve by the commensurate amount; and
 - ii. Amend Staff Report, Attachment A, Exhibit 2, Page 12, "Below Market Rate Housing Contract" for \$137,000 was erroneously appropriated in the Below Market Rate Fund (Fund 230) and these funds be corrected to be appropriated in the Housing In-Lieu/Residential Fund (Fund 233); and
 - iii. FY 2018 City Table of Organization; and
 - iv. FY 2018 Proposed Municipal Fee Changes; and
- B. Adopt a Resolution approving the FY 2018 Electric Financial Plan and proposing several transfers for FY 2018; and
- C. Adopt a Resolution amending Rate Schedules E-1 (Residential Electric Service), E-2 (Small Non-Residential Electric Service), E-2-G (Small Non-Residential Green Power Electric Service), E-4 (Medium Non-Residential Electric Service), E-4-G (Medium Non-Residential Green Power Electric Service), E-4 TOU (Medium Non-Residential Time of Use

TRANSCRIPT

- Electric Service), E-7 (Large Non-Residential Electric Service), E-7-G (Large Non-Residential Green Power Electric Service), E-7 TOU (Large Non-Residential Time of Use Electric Service), and E-14 (Street Lights); and
- D. Adopt a Resolution approving the FY 2018 Gas Utility Financial Plan; and
 - E. Adopt a Resolution approving the FY 2018 Wastewater Collection Utility Financial Plan; and
 - F. Adopt a Resolution increasing Dark Fiber Rates by 3.5 percent effective July 1, 2017 by Amending Rate Schedules EDF-1 and EDF-2; and
 - G. Adopt a Resolution approving the FY 2018 Water Utility Financial Plan and a transfer of \$1.877 million from the Water Rate Stabilization Reserve to the Water Operations Reserve; and
 - H. Adopt a Resolution amending Resolution 9671 to modify Permit Fees for the Downtown Residential Preferential Parking (RPP) Program and finding the action exempt from the California Environmental Quality Act (CEQA); and
 - I. Approve Amending Salary Schedules for:
 - i. Management and Professional Group (MGMT) as amended on March 27, 2017 to add one new classification and change titles of three classifications; and
 - ii. Service Employees International Union, Local 521 (SEIU) 2015-2018 Memorandum of Agreement (MOA) as amended on February 6, 2017 to reclassify four classifications and change the salary rates of two classifications; and
 - iii. Limited Hourly Group as amended on February 6, 2017 to update the salary rates of one classification; and
 - J. Direct Staff to return to the Finance Committee in August to review the citywide implications of:
 - i. Structural revenue and expense growth ensuring expense growth remains at or below that of revenues; and
 - ii. Unfunded Pension Liability:

TRANSCRIPT

- a. Look first at current public safety growth rate of 10 to 12 percent in relation to citywide growth rate of 6 percent; include a review of staffing levels and alternate models; and
- b. Review of the financial reporting of the Unfunded Pension Liability.

Mayor Scharff: Do you want to speak to the Motion?

Council Member Filseth: I think I've spoken to it quite a bit. The other thing I would say is, if there are Amendments, we'll have a discussion on that. By and large, most should be Amendments we discuss as opposed to friendly Amendments. Most of them.

Mayor Scharff: I actually just—I think the Finance Committee did a really good job on getting this through. It was a bit of a challenge. I do think that it was challenging for Finance in some ways this year, but at the end of the day the Budget proposed is a really good one. I appreciate all the efforts that Staff and the Finance Committee made. I guess I did want to say that typically what we've done in the last 8 years on Finance is the Finance Committee Members have really gotten into the weeds and gone through it. I think you guys did, which is great. That tends to allow the rest of us not to have to get into the weeds as much, especially the Finance Committee Members. I hope you won't rehash the weeds that you did during the Finance Committee meetings. That would sort of defeat the purpose of what you guys did at Finance. With that, I'm pleased to support this Budget. I think it's a good Budget, and Council Member Filseth's comments about this being a Transitional Budget in terms of the costs and how they're going to crowd out the services in the future is a cautionary tale that we need to think about as we move forward on this. I'm glad that you made the referrals to Finance to look at those other particular issues. You did put that in there, right? I was pretty sure you did. With that, I have a board of lights. Council Member DuBois.

Council Member DuBois: First of all, I wanted to see if we could see the whole Motion there. What was the third thing that you added?

Council Member Filseth: The \$348,000 in maintenance costs from the General Fund to the Cubberley Infrastructure Fund. It was on Slide ...

Council Member DuBois: But you're not supposed to (crosstalk) where that money goes?

Council Member Filseth: It's on Slide 14.

TRANSCRIPT

Council Member DuBois: I'm sorry. Could you explain that again, Eric?

Council Member Filseth: The Motion is to—the Staff's identified \$348,000 in maintenance costs in the General Fund that could be appropriately in the Cubberley Infrastructure Fund instead. If we reclassify those, the Cubberley Infrastructure Fund or that cost, and then that puts \$348,000 back into the General Fund, which—moving that we put it into the Infrastructure Reserve.

Mr. Keene: The Motion is different than what we wrote up there. We said you could just spend it in the General Fund, put it back in the BSR or, in this case, put it in the Infrastructure Reserve since we've got a \$26 million funding gap.

Mayor Scharff: Maybe I could be a little helpful for you on this, Tom.

Council Member DuBois: I got it. A couple of thoughts. I think a budget commitment of \$480,000 to the TMA is a big deal. It's kind of a large, new commitment that generally we would discuss on its own. I was glad to hear that they're going to come in the fall, but it sounds like we're deciding tonight that the City's going to be funding primarily all of the TMA. We're effectively committing about \$480,000 of General Fund money that could be used in the General Fund.

Council Member Filseth: I think it's actually in the parking ...

Mayor Scharff: It's Parking Fund (crosstalk).

Council Member DuBois: It could be moved over and used for other things. That's what Lalo said.

Mayor Scharff: I don't think it can just be moved over. I'm not so sure.

Council Member DuBois: I asked the question.

Mr. Perez: The Council has discretion to use them for General Fund purposes.

Council Member DuBois: Don't take me the wrong way. I want to fund the TMA. What I'm saying is we really haven't had a discussion of the best use of those funds. If we need to increase the amount of valet parking in the garages, if we need to fund another Residential Parking Permit District, if we don't want to fund the shuttle, if we wanted to have more low-income parking permits, it would impact that revenue. The benefits are clear for the TMA. We want to reduce congestion. We want to help the environment. I'm concerned about the precedent. This is just a TMA for the small part of Downtown. I think we already need a TMA for the extended Downtown,

TRANSCRIPT

which includes South of Forest Avenue (SOFA). We're going to have to expand to Cal. Ave. The point I want to make is we're clearly underfunded on transportation. We're not really discussing tonight how the TMA is going to be funded on an ongoing basis, so we're creating another structural issue in our Budget. I think it's clear that we need additional revenue likely from some form of Business Tax to address the impacts of commuting, congestion. We need to start to move quickly to engage the community with an eye towards the 2018 election. Otherwise, we're kind of paying lip service, but we're not really going to impact our transportation issues. I don't think any of us really understand the revenue forecast for parking and what our expected expenses are going to be. The City Manager talked about priorities and potentially going out on the ballot. Transportation has been a top priority for the last 3 years. It's clear it's a top priority. I'd like to try an Amendment, a Motion. I guess it would be Letter J or whatever is on the bottom, "K," just to have an Action Item come to Council as soon as possible to clarify transportation funding needs and revenue forecasts from parking permits and paid parking. Right now, it's kind of a black box, and we don't really know what we're signing up for.

Council Member Filseth: I don't think I actually understand what it is that we're talking about here. I think I don't understand the Amendment. What are you asking for?

Council Member DuBois: I'm asking for a more comprehensive discussion about our transportation funding needs and what revenue we're expecting to see from permits and paid parking to understand if we have a budget gap that we're creating here.

Council Member Filseth: Are you proposing that—I think the thing to do is probably we should discuss this. We should probably get a second and have a discussion about it as opposed to—then I can ask my questions about it from a procedural perspective.

Council Member DuBois: It's a friendly Amendment at first.

Council Member Filseth: Are you proposing that we not fund the \$480,000 for the TMA?

Council Member DuBois: No. I'm saying we go forward, but we need to have a more in-depth discussion in this area ...

Council Member Filseth: Is that ...

Council Member DuBois: ... and have it relatively (crosstalk).

TRANSCRIPT

Mayor Scharff: Jim, you want to say something?

Mr. Keene: Two things. One little bit of information, reminding you on some things. There's two ways you do this. You could have the Amendment right now, and you keep this idea of the \$480,000 being added to the TMA. In a sense, that's what you're saying right now. The fact of the matter is we're not going to be going out spending money on the TMA even if you budget and appropriate it because we've got to come back to the Council with the Business Plan and all of those sorts of things. Technically, you have the ability to say, "That's a lousy Business Plan. We don't think that's right." You're going to have a way to deal with that. On the other hand, you could also be saying, Council Member, "No, I don't want the Council to specifically allocate it right now," which would be different. The other thing I just wanted to say is there are many components to the parking needs and potential funding sources. We do already have an existing referral from the Council, when we brought the Downtown Parking Study, to return to the Finance Committee for a deep dive on that. At least that component of it is already expected. In that case, it was going to Finance.

Council Member DuBois: That's just the parking meter discussion?

Mr. Keene: Yeah. That's the paid Parking Study for Downtown. I understand that's not every component, but I just did want to share that that was prior direction.

Council Member DuBois: To be clear, I'm not saying we're—I'm saying we're moving ahead with the \$480,000 allocation, but we have two or three of these programs that are closely related. I'd like to see them come back relatively soon because I suspect that we have a budget issue around this.

Council Member Filseth: I guess I want to ask the City Manager, do you see this as a duplicative kind of thing? We have a process in place to evaluate the TMA, and the TMA has—we do review the TMA and how well they're doing every so often. Is this duplicative with what we're already doing or is this something that you feel is going to add a lot of value?

Mr. Keene: I think that you have an existing referral on the Downtown Parking Study to Finance, but that's segmented. The Motion as originally proposed plans to have this money available for the TMA, but it will be dependent upon subsequent Council action. Again, I hear Council Member DuBois saying there's more at play than just those factors in this comprehensive discussion.

Council Member DuBois: The money raised from permit sales. If all of a sudden the garages are filled and we need to pay for more valet parking, are

TRANSCRIPT

we just going to pull it from the General Fund or is that going to come from parking permit sales? I just think there's a lot of issues here that it would be worth having a discussion about in the fall.

Mr. Keene: I don't want to read in too much to the Finance Committee discussion but, as I recall, part of the reason for this recommendation was that the Committee was increasing the fees above the recommendation that the Staff had. There seemed to be a sense that there should be some clear nexus between those fees to the folks who are going to be saying, "Why do I have to pay more money with a specific initiative?" That's why the TMA piece, which is ultimately designed to have less cars and, therefore, less impact on parking—I think that was the thinking.

Council Member Filseth: There's definitely some synergy there. As I've thought about this and we had some discussion on this, again there's two issues. One is what's the right level for the parking fees. That's part of it. The other is how do we fund TMA. There is some synergy; it does make sense to do this. Here's what I don't want to do. The City's made a strategic decision to go down the TMA path. What I don't want to do—we have a process for evaluating how far we've gone down. We're checking in. They have goals and results. What I don't want to do is question what's a strategic decision every time an allocation comes up. I don't want to question the strategy each time. I think we have a process for how to do that. I don't want this to throw the whole TMA thing in question. We should move forward in the TMA. We said we're going to do it, and we should do it at least for this year. They need \$480,000; let's do it. Otherwise, we'll never get there. The decision of should we renew that next year and the year after and so forth depends on how well it does. What I don't want to do is be questioning it here. I want to make sure that's not what we're doing.

Council Member DuBois: (Crosstalk) debate. I was making a friendly Amendment. I don't think I was saying some of those things that you're suggesting. I don't know if it's accepted as a friendly Amendment.

Council Member Filseth: (Inaudible) accept it?

Mayor Scharff: No, I would not accept it.

Council Member Filseth: I'll accept it, but the seconder's not going to accept it.

Mayor Scharff: I'm not going to accept it for the reasons you just stated. You just convinced me not to accept it. You made a cogent argument.

TRANSCRIPT

Council Member DuBois: What Eric said was not the Motion. I'm saying we fund the TMA.

Council Member Filseth: He said we're going to fund the TMA; that's not up for grabs.

Council Member DuBois: It's not a strategic—we haven't seen how much revenue we're going to generate, and we haven't seen where that revenue is going to go beyond the TMA.

Mayor Scharff: Tom, I think we're already doing this. We have the paid parking thing going. You talk about paid parking. If you wanted to just make sure—if we're going to go spend this money this year anyway on the TMA, which you've said we're going to do—that's not what this is in question. We're going to spend that money anyway, and we already have a referral to Finance to talk about paid parking and that kind of stuff. If you wanted to increase the scope of what Finance talks about, I'm not opposed to that, but I don't think this belongs in the Budget discussion tonight since you've already agreed that we're going to spend the \$480,000 on the TMA.

Council Member Holman: Again, I'm trying to figure out are we losing money, making money. I can't tell. Staff has basically told us that we're going to get an extra \$700,000 in revenue from this, Tom. If their projections turn out to be wrong, we will obviously know that by the end of the year frankly. It'd be stupid to have the discussion about that before we know if we're going to lose or not the money. I think Staff feels pretty confident in their numbers. Speak up if you don't.

Council Member DuBois: They listed a whole bunch of Unfunded Parking Initiatives. Is there a second?

Council Member Holman: I would. I would and maybe a little bit more clarification too. I'd second it.

AMENDMENT: Council Member DuBois moved, seconded by Council Member Holman to add to the Motion, "direct Staff to return to Council to clarify transportation funding needs and revenue forecasts from paid parking."

Council Member Holman: I think what you're trying to get at is you want to know as far as the Budget is concerned if we're committing more than we're actually going to get in. I think it's a rational question because how many people are going to find other ways, and they're not going to buy permits. I guess there's a saying called betting on the come. I'm not sure that we're not doing that. I think it's a calculated guess and proposal, but I'm not sure

TRANSCRIPT

that it's absolute. Are we making a commitment before we have a real direct commitment of funds coming in? I think that's what you're trying to get at, is it not, Tom?

Council Member DuBois: It is. Again, are there other parking programs that we're going to need to fund too as a result of changing the permit fee structure?

Council Member Holman: Broader than this—I would appreciate a later conversation about this, what I brought up earlier about looking at other funding mechanisms in parallel with paid parking. For tonight's discussion, I think it's appropriate to limit it to this because it's what's in the Budget discussion.

Mr. Perez: Mr. Mayor, if I can add a little data for you to consider. As of June 26, Monday, these are the number of people waiting in line to buy a permit, that's beyond what we already issued. California Avenue 347 people, City Hall 91, Cowper-Webster which typically is not fully occupied 73 people, Lot Q 65, Lot R 48, Lot S 77. It just goes on. We believe the demand for parking will continue. It may be a cash flow situation of when the funds come in because of the renewal, the expiration of permits, but we feel fairly confident with the projections at this point based on the demand and the number of permits that we believe we can renew.

Mayor Scharff: I'm a little uncomfortable with where we are on the procedure. I'm just going to state it that you seconded it. Is that what I gathered? You just spoke to your second.

Council Member DuBois: You said you wanted to make an Amendment?

Council Member Holman: That was clarification. I was trying to get some clarification around what your Substitute Motion was.

Mayor Scharff: That's your Amendment right there, right, Council Member DuBois?

Council Member DuBois: Okay.

Mayor Scharff: I have all these lights for people talking before. I could clear the board and have you speak or if you want to just quickly raise your hand. Council Member Fine.

Council Member Fine: Thank you, Mr. Mayor. Council Member DuBois, what you're getting at here is there's an integration problem across our different permitting, whether it's off-street in the garages, on-street. It even gets to

TRANSCRIPT

issues of RPPs too about how folks are (inaudible) hangtags and transferrable permits, things like that. There is a really big issue here for the City, and I hope that the City Manager and Staff will address that in this fall's Parking Study. I think this clearly falls into that. Tonight, the lever we're looking at is the Municipal Fee Schedule, and it's specifically Cal. Ave. and Downtown. I'd like to pass it as it stands.

Mayor Scharff: Council Member Wolbach.

Council Member Wolbach: I very much support what's in this Motion—in the Amendment, but I do think it's duplicative of efforts that we're already going to be hearing. We may disagree on that, but I'm comfortable with what I understand to be the work plan and expectation of meetings that we're going to be having and opportunities for review by Council about the Downtown Parking Study, about paid parking Downtown, about the TMA work plan. All those things are coming to us over the next few months, and I just think that this Amendment is not necessary. If those things weren't already on the agenda for the next few months, I would in that case support this Amendment. I just don't think it's necessary at this time.

Mayor Scharff: Council Member Tanaka.

Council Member Tanaka: I think it was last week I attended the Cal. Ave. Business District meeting. There were a lot of really cranky restaurateurs, retailers at that meeting because they saw the increase is like 150 percent. The concern that they had was that—I talked to a few others afterwards as well—this is impacting some of the—it's basically impacting them, the ability to retain and attract employees for their business. A lot of restaurants are marginal. I was actually talking to Peter Katz; he's the operator for The Counter. He was telling me about what a struggle it is to retain workers. Maybe for a wealthy individual this is no big deal. This is an entry-level job for a lot of people. Doubling the fees is not trivial for these people. You have to understand—I know the math here is basically you work 5 days a week for the whole year. It's only \$2.00 or \$3.00 a day. The view of a lot of these workers isn't that. In retail, in restaurants, people don't generally work a whole year. They may work one quarter, two quarters during school, and they might work part-time. They may work 2 days a week or 3 days a week. It's not \$2.00 or \$3.00 to them to park that day. It's actually \$20 or \$30 because they're not parking every day, and they may not work for the full year at that place. Council Member Fine also talked a bit about it. The other issue they had was, because there is such a turnover in retail. It's just the nature of the business. Retail and restaurants have tremendous turnover. The system right now where an employee buys it and it's not transferrable is a big problem because of just the nature of our business

TRANSCRIPT

districts. The businesses I'm talking about are the service (inaudible) ones, the retailers, the restaurants. This is evident in all the emails you guys have gotten as well. I like the spirit of what Council Member DuBois is trying to do here. Although you're not addressing this issue in particular, you're kind of addressing that to the bigger, broken issue. I do think on one hand we want to fund the TMA. We also want to encourage less usage of single occupancy vehicles, and that's a totally notable goal that we want to do. On the other hand, we're impacting inadvertently some of the people that serve our community. That's also not good. I don't know if Staff has a suggested answer of how do we deal with this. To a lot of the business owners, especially along Cal. Ave., it's a seriously big issue. If we value having retail here, if we value having restaurants, if we value having these community-serving organizations, we've got to think about how do we deal with that. Some of the ideas we bounced around at the Cal. Ave. meeting was could we do—this is beyond the Budget meeting—stacked parking, can we buy some of those cheap car lifts and increase the amount of supply for employees. What's happening is we're—the feeling I got was the parking fees are stacked against these community-serving retailers and restaurants. That's the angst I have over the current parking increases. All that my fellow Council Member said is true, but there's a segment of our constituency that's getting hit and is not being well addressed. I don't have the solution here, but I do think it's a problem.

Mayor Scharff: Maybe Staff could just clarify. Wouldn't the low-income permits work for the retail?

Ms. Nose: There are still low-income permits in the RPP Districts. In the Cal. Ave. district, it would be the Evergreen-Mayfield.

Council Member Tanaka: What I was told by—I asked that, and they said that they're long gone. Maybe it's part of education. I'm not sure what it is. I'm told a lot of the workers have trouble getting them. Maybe it's because the website sucks. I don't know. There's an issue going on. I'm just talking about what I'm hearing from the merchants; maybe it's not reality, but there's a problem.

Ms. Nose: There is a limited number in terms of the number of RPP Permits that are able to be issued in each district. That's set by Council as you guys established those pilot programs. That could be a factor maybe that you're hearing from a constituent standpoint. I also think a lot of the issues that you've raised came up as part of the Downtown Parking Study conversation with the full Council. One of the things that Hillary discussed was needing to put a pause on establishing new RPPs. After Southgate, the intent was over the next year to stop so we can learn how to scale them, to look at things

TRANSCRIPT

like when we build new garages if we put in access and guidance systems, we can better regulate or manage how permits are administered. Right now, it's been startup style, just get each one rolling, trying to emulate them as similarly as possible based on each individual district's need. Now, we are at a point of needing to learn how to scale and being able to address some of these broader, larger issues.

Mayor Scharff: Anyone else want to speak to this? Council Member Kou.

Council Member Kou: It's really interesting that when we're talking about parking, it goes back to trying to resolve this parking and traffic congestion issue, which I find very hard to do. We have developments that come up, that are not fully parked. No matter how far we go, it's always going to go around in circles. I support looking at—my concern about going with \$480,000 towards the TMA and just basically the way the language is, it's something that the TMA folks are going to expect that they get \$480,000 towards them. On all programs they are subsidizing something for them. If it's not the Caltrain Go Passes, then it's Scoop, etc. I just can't see when does this stop, where we're not targeting our businesses over here like what Council Member Tanaka is saying, where they have to pay up so much. We have the higher-paid wage group that might be able to afford it, but then we also have a lot of the sole proprietors that are not going to be able to take on this, like the therapists in town or the dentists and all the community-serving people that Council Member Tanaka talked about. As we continue to add more—a great economy is super, but as we continue to add on all these jobs, there's also the jobs multiplier that comes in. Somebody in the audience had said—as a public speaker they said the higher-wage getters are going to be—they mostly don't drive already. With the job multiplier, that effect is bringing in at least, according to the Bay Area Council, another 4.3 jobs. Most of the time, those are local goods and service sectors, so they're from all incomes. There's a middle income group that we're going to be putting into a hardship. I do have concerns about this TMA that is getting all this money, but it's really servicing either the very-low-income or providing Go Passes that we don't even have a count on if it's been properly used. I do want to see that we have some clarity towards transportation funding and also have the opportunity of looking at funding other things if the need comes up. Thanks.

Mayor Scharff: Vice Mayor Kniss.

Vice Mayor Kniss: Tom, because this is your Motion, are you indicating that you are troubled by funding the TMA?

Council Member DuBois: No, I'm not.

TRANSCRIPT

Vice Mayor Kniss: Are you troubled by funding the TMA without some strings attached? Is that it?

Council Member DuBois: No. I'm troubled that we're passing these things piecemeal. We're talking about TMA and funds for the TMA. We're talking about paid parking. When we talk RPPs when they come up, I think we need just a holistic look at those things together and how they interplay together.

Vice Mayor Kniss: I believe, from what I'm hearing tonight, this is going to go back to transportation in the fall. Am I correct? The part I'm really troubled about is—we've talked about the TMA now since 2013. We have been trying to get a definitive funding mechanism for it to operate. As one of our writers said tonight, this isn't going to be glamorous, and it isn't going to be what Stanford or someone else has. We have woven this into so much that we have done, including Motions that we have, where we have said, "You will have to be part of a TMA." At this point, I don't really need it clarified any more. I could understand if you said we've got to get a report back every 3 months.

Council Member DuBois: I'm concerned that it's underfunded, and we're kidding ourselves that it's funded.

Vice Mayor Kniss: You don't think it's funded sufficiently?

Council Member DuBois: Yeah.

Vice Mayor Kniss: I might agree with you on that, but I don't think this takes care of that.

Council Member DuBois: I was trying to make it general enough. It doesn't even really refer to the TMA. It's just to clarify what our transportation funding needs are.

Vice Mayor Kniss: I'm certainly sympathetic with your goal of trying to continue finding out more about what the needs are. I'd really like to hear back first from Finance that is probably going to take it up in August and September. I feel pretty comfortable with your projections, Lalo, as far as the amount you think is going to come in from paid parking. Remember we had that three-legged stool that was going to fit together. TMA was one of the legs that we had screwed on but not very tightly yet. I'm hoping with this funding we can finally really put that into place. I'm sympathetic, but I think there's sufficient on the table for me not to support that.

TRANSCRIPT

Mayor Scharff: If we could vote on the board. It's for the Amendment. That fails on a 4-5 vote with Council Members DuBois, Kou, Tanaka, and Holman voting yes.

AMENDMENT FAILED: 4-5 DuBois, Holman, Kou, Tanaka yes

Council Member DuBois: I had a couple of additional ones. Sorry that one took so long. I did want to bring up HSRAP Funding. We talked about it in Policy and Services last year. There was a split vote on increasing it back to the levels it would have been without the recession. I really think it's time we restore the funding. Hopefully YCS has gotten its piece, but there's a lot of other worthy organizations that have not. My Motion there would be that we modify A(ii)(i) to allocate \$150,000 for additional HSRAP Funding and the remainder will go to the Infrastructure Fund. A(ii)(i) was the one that was reallocating the Cubberley Maintenance Fees.

Council Member Holman: You said an additional \$50,000?

Council Member DuBois: \$150,000.

Vice Mayor Kniss: To come from the \$348,000?

Council Member DuBois: Yeah. \$150,000 of that would go to HSRAP; the remainder would go to the Infrastructure Fund. With the \$50,000 that the City has already committed to YCS, we would basically be—we'd basically restore HSRAP Funding.

Council Member Filseth: I think we should discuss that one.

Mayor Scharff: Do you have a second?

Council Member Holman: Second.

AMENDMENT: Council Member Dubois moved, seconded by Council Member Holman to modify the Motion Part A.i. to allocate an additional \$150,000 to Human Services Resource Allocation Process (HSRAP) and \$198,000 to the Cubberley Infrastructure Reserve.

Mayor Scharff: Do you want to speak to your Motion?

Council Member DuBois: These are a lot of very worthy organizations asking for relatively small amounts of money. I can't remember how many. It's probably at least ten organizations for that \$150,000. I think it's money well spent.

Mr. Keene: Mr. Mayor?

TRANSCRIPT

Mayor Scharff: Yes.

Mr. Keene: Just a clarification on the math. I think the gap estimate that had been developed was \$94,000.

Mayor Scharff: I was going to say it's \$94,000.

Mr. de Geus: I'm sorry, excuse me. Rob de Geus, Director of Community Services. It was at one point estimated to be \$200,000. That's right, Council Member DuBois. Going back and doing a recalculation and understanding that Project Sentinel was moved out, the gap is actually \$94,000 from 2004, if a CPI was given every year.

Council Member DuBois: I would go ahead and change that to \$94,000 then.

Vice Mayor Kniss: \$94 from \$250?

Mr. Keene: \$94,000 out of the \$348,000 would go toward HSRAP with the remainder going to the Infrastructure Reserve.

AMENDMENT RESTATED: Council Member Dubois moved, seconded Council Member Holman to modify the Motion Part Modify Part A.i. to allocate an additional \$94,000 to Human Services Resource Allocation Process (HSRAP) and \$254,000 to the Cubberley Infrastructure Reserve.

Mayor Scharff: I am going to clear the board just because it's easier. If you want to speak—Karen, speak to your second.

Council Member Holman: No surprise here. I fully support this. These organizations tend to take hits when we have economic downturns or budget constraints. I think it's time we try to restore back to the level that they would be if we just added a simple 2.5 or Staff used a 2.6 percent to the Budget that they can draw from, the HSRAP Budget they can draw from. They're all great organizations. A lot of organizations don't even apply because it's not worth their time because that takes a lot of effort, and there's not funding for them to participate. There's not funding enough to go around for them to even be worth their time to send in applications. I think this is appropriate. We hear every once in a while from members of the public that we have organizations that are trying to serve the needs of those who aren't otherwise faring as well as some of the rest of us. I think this is a really appropriate expression of our values as a community and as a Council. I think it's very appropriate.

Vice Mayor Kniss: Me.

TRANSCRIPT

Mayor Scharff: Yes. Vice Mayor Kniss otherwise known as me.

Vice Mayor Kniss: Would you put up the organizations again? I can find it in here somewhere but, if you can pull it up, Rob, that would be helpful. Or tell us where it is or something. We looked at it in Policy pretty recently.

Mr. de Geus: It's Page 212 in the Operating Budget book.

Vice Mayor Kniss: 212?

Mr. de Geus: There are some organizations like the Downtown Streets Team, DreamCatchers which is a program that serves at-risk youth, homework support, La Comida, Momentum for Mental Health. A new nonprofit Kara, a non-profit organization for grieving youth that provides grief counseling is getting some funding this year for the first time. And a number of others.

Council Member DuBois: For cancer victims, right?

Mr. de Geus: Kara is grief counseling for all sorts of loss.

Vice Mayor Kniss: Let me continue on this. We've discussed this since I came back on the Council extensively. The question is making these groups whole as a result of the recession when the funding was actually cut back. If we were to add this \$94,000 this year, how does that affect every other Budget going forth?

Mr. Perez: It would be an ongoing allocation. At this point, we're projecting that you would have a surplus in '19, so you would be able to afford it. You do have other obligations. We have a gap in the Infrastructure Plan, and we have a funding plan that we want to adopt for the Unfunded Liability. It just competes with those or gets ahead of those.

Mr. Keene: It sort of depends. If you have 20 more like this, it's more of a problem.

Vice Mayor Kniss: I think what this does, though, is it affects the future. Now, we have affected the amount that we're spending on this. We spent a fair amount of time on this in Policy. I'm very sympathetic with wanting to add to it. Karen, you and I have discussed this any number of times. The numbers that I see here, the numbers that we went through before, I know almost every one of these organizations pretty intimately. A number of these, by the way, are funded by the County as well. Without knowing how many are funded by the County, but I can look down here and see that Kara—La Comida, of course, is almost totally funded by the County of Santa

TRANSCRIPT

Clara. You've got Momentum. You've got (inaudible). I could pick out a few that are my favorites, but tonight we're really being asked to look carefully at a budget that the Finance Committee looked at for several months now. I'd be tempted to add the \$94,000 but, as we just said, there are a number of other places that will be shorted if we actually add to this.

Mayor Scharff: I'm just going to add to that as well. It's the County's primary responsibility for this. Once you add something like this, you can't take it away. It's not like other things in the Budget. People come to rely on it. It's a really long-term commitment. I did have a question for—was Project Sentinel in HSRAP? Wasn't it?

Mr. de Geus: It was in HSRAP.

Mayor Scharff: We moved it out. Didn't we, in fact, create an additional \$65,000?

Mr. de Geus: We did. That's in the Community Services Budget in the human services.

Mayor Scharff: By doing that, if you put that back in, aren't you in effect double counting because you're saying—by putting the \$65,000 out, doesn't that provide \$65,000 more to HSRAP right there and still fund Project Sentinel?

Mr. de Geus: We took that into account when we did the calculation of the CPI.

Mayor Scharff: I wasn't sure.

Mr. de Geus: I will add one other thing, which is good news. Last year, the Council did add an emerging needs fund to the HSRAP program. It's \$50,000 over 2 years, which allows for ...

Mr. Keene: Is that twice? \$50,000 (crosstalk).

Mr. de Geus: No, it's one-time I understand. \$50,000 over 2 years for needs that come up—is it annual?

Mayor Scharff: It's an annual fund, isn't it?

Mr. de Geus: My apologies. It's \$50,000 a year for additional needs that come up throughout that 2-year cycle.

Mayor Scharff: Is that taken into account or is that ...

TRANSCRIPT

Mr. de Geus: No.

Mayor Scharff: That's additional, right?

Mr. de Geus: Yes, it is.

Mayor Scharff: By adding the \$96,000, we still have—we're actually adding over 2.6 percent because we already have the \$50,000.

Mr. de Geus: That's correct.

Mayor Scharff: The real number is \$46,000?

Mr. de Geus: If you take in the emerging needs \$50,000.

Mayor Scharff: I could support this if we went down to \$46,000. I will make the Amendment to the Amendment, which I believe we can do, that we put it at \$46,000. Would you accept that, Tom, or not?

Council Member DuBois: I think you're arguing over mice nuts. The \$50,000 is an Emergency Fund in case things come up. You're just going to remove the Emergency Funding.

Mr. Keene: No, no. It's an emerging needs (crosstalk).

Mayor Scharff: It's an Emerging Fund. It's not an Emergency Fund.

Mr. Keene: You also have a separate \$50,000 reserve, a separate \$50,000 reserve for emergencies or if we were to fall below (crosstalk).

Council Member DuBois: Out of a \$200 million Budget, I don't think we should be arguing over \$50,000 (crosstalk).

Mayor Scharff: If we take that attitude, we're not fiscally responsible. Every \$50,000 matters.

Council Member DuBois: There aren't 20 of these.

Mayor Scharff: I guess you're not accepting that.

Council Member DuBois: No.

Mayor Scharff: Do I get a second for my Amendment?

Council Member Filseth: I'll second it.

TRANSCRIPT

SUBSTITUTE AMENDMENT: Mayor Scharff moved, seconded by Council Member Filseth to modify the Motion Part A.i. to allocate an additional \$44,000 to Human Services Resource Allocation Process (HSRAP) and \$304,000 to the Cubberley Infrastructure Reserve.

Mayor Scharff: Anyone else need to speak to that? Council Member Fine.

Council Member Fine: Just a quick question. I was a little surprised by the note about the Cubberley Fund. I'm wondering in years past have we not attributed the Cubberley Maintenance to that Fund. If so, why not?

Mr. Perez: No, we had it in the General Fund for years. When we made the deal with the School District to set those funds aside for the maintenance, as we were revisiting our Budgets, we recognized that and said this is one that fits in that fund. That's why we're bringing it up now.

Council Member Fine: Just as a comment for budget hygiene, it's nice to attribute those costs to the right fund where we can. Thank you for bringing that up.

Mayor Scharff: You're going to speak to your second?

Council Member Filseth: I support bringing it back up to the previous level at whatever the number is. If the number is \$56,000—is it \$45,000?

Vice Mayor Kniss: Forty-six.

Council Member Filseth: If the number's \$46,000, I support that. I think anything on and (inaudible) that is ...

Vice Mayor Kniss: It's \$44,000.

Council Member Filseth: What is the number? I support the number. Forty-four. I support bringing it back up to the level. Anything beyond that, we're moving away from that into other kinds of territories. I think that's the right number.

Mayor Scharff: Vice Mayor Kniss.

Vice Mayor Kniss: At the risk of not being a total Grinch, I'll support this one but with great hesitancy. Please let me remind you once again the responsibility of the County is health and human services and welfare. There is no question. When I ran into one of my former Colleagues recently, he said, "We're working hard to give all the money away this year." We apparently didn't or local groups didn't know enough to apply for it. We're way to the north. They frequently do not realize that the County is there

TRANSCRIPT

and is more than willing to help support many of these organizations. This isn't our responsibility. I will support this but, just as I've argued against this before, when this happens we have a government that has a \$6 billion Budget. Six billion, that's a little more than ours, ten times ours. That is their responsibility. We don't say to the County, "This is your responsibility. You should have stepped up here." We step in instead, and then in off years we're forced to cut. That really is very unfair to the organizations that have applied for this. I will vote for this, but not without giving that very clear message first. We need to look to the County of Santa Clara. That County is meant to support just this kind of service in our community.

Mayor Scharff: Council Member Holman.

Council Member Holman: I take a different approach to this, and I know that's not terribly surprising to anyone. If we allocate more funding, it is affecting our future, but it's not just our economic future, which this is such a small amount of money, Council Member DuBois' original Motion. It is such a small amount of money compared to the amount of money that we approve on consent week after week after week after week without even questioning it. It affects our future because we have people in this community who rely on organizations that support them. If they're subject to elder or spousal abuse, for our mental health organizations, for—there are organizations that don't even apply. One of my favorites, Fresh Lifetimes for Youth (FLY) or FLY, doesn't even apply. They have an amazing recidivism rate. What they do is they get kids out of the juvie system. They save kids; they literally do, but they don't even apply. We don't have the bandwidth here for them. We can say it's the County's responsibility, and the County does support a number of these. I don't argue with that. Palo Alto needs to make a values statement that we also support these organizations, we support these values. We have as a Priority Healthy City Healthy Community. We need to be supporting these organizations. It is such a paltry amount of money, \$94,000. We don't even blink an eye at approving that regularly, without question. We're debating over whether to put \$94,000 additional into our HSRAP Funds to support organizations that support our community, support the individuals and families in our community. It is a mindboggling to me, frustrating, almost unimaginable conversation. With due respect to Colleagues, it's frustrating and has been for many years. I hope we go back to the original Amendment and approve that. I won't be supporting this.

Mayor Scharff: Council Member Wolbach.

Council Member Wolbach: I come at this with the same zeal, if I can use that word to describe my own feeling, that I think Council Member Holman

TRANSCRIPT

expressed. From my perspective, even though it is the County's primary responsibility or it is primarily the County's responsibility, I don't think that absolves us of our responsibility. Where we have the capability to help close a gap for an important service for our community, we shouldn't scoff at that idea, and we shouldn't dismiss that idea just because some other level of government takes the lead on it. We can help out. As we saw in the partnership on YCS, we can work together. We've done that on a number of other projects. There are a lot of things we do in Palo Alto that we don't have to do, but we've decided the Budget is a statement of our values. If we want to actually see a positive effect in our community, we'll make the investment. I think it is worth making the investment to return us to where we used to be. I really agree I think with the goal. Actually, the Substitute Amendment pursues that goal. I agree with argumentation of Council Member Holman and also for the Substitute Amendment because I still think it gets us where we've committed to getting. I'm open to further discussions in future years. I do think this is a compromise where we saw a lot of Council Members were going to vote to not have anything. This gets us closer to consensus. This gets us a compromise. It gets us back to the funding levels we used to have. That's something I've wanted to see for a couple of years. Even if it's only another \$44,000, it's still getting us closer to where we used to be. I think that's important. As far as the question of whether it's \$55,000 or whether we should bat an eye or not, maybe we should bat an eye more often when we're spending or dismissing opportunities for additional revenue or not being careful about expenditures. This is worthwhile. If the amount was \$200,000 to get us up to our previous levels, I'd probably support that too. I'll support the Substitute Amendment.

Mayor Scharff: Council Member Filseth.

Council Member Filseth: Just really briefly here. The number to get us to that level is—that's a number. Anything other than that number seems to me arbitrary. Why \$96? Why not \$98? Why not \$110? Why not \$75? I don't support arbitrary.

Mayor Scharff: Council Member Kou.

Council Member Kou: We just gave \$480,000 towards the TMA just like that. This is for people in our community, Palo Altans also, who are going through hardship or even to help the kids in our community to further their lifestyles and to give them an opportunity. It's \$94 or \$44. Every dollar that is attributed towards the HSRAP Fund goes toward a worthy cause. I am just completely flabbergasted by the discussion right now over here. That should be a no-brainer to approve. I'm supporting the Amendment.

TRANSCRIPT

Mayor Scharff: If we could vote on the board. This is for the Substitute Amendment. The Substitute Amendment passes on a 5-4 with Council Members Wolbach, Kniss, Scharff, Filseth, and Fine voting yes.

SUBSTITUTE AMENDMENT PASSED: 5-4 DuBois, Holman, Kou, Tanaka, no

Council Member DuBois: I don't have any more Motions, but I did have a few quick comments. I just wanted to say that I'm not very happy that we're raiding the Fiber Fund for the video camera system. (Inaudible) before we decided on our fiber strategy. If any of my Colleagues wanted to make a Motion about that, I would support it. I am concerned about our Infrastructure Budget Overages. I think we really need to find places to cut back on the infrastructure list or at least get those costs under control. I also just want to support the comments of Council Member Filseth and Tanaka about our structural issues and support having Finance look at this, the pension issue. At the very least, I hope the first step will be that we start to transparently report what our Unfunded Liabilities are, particularly look at making new hires or making salary changes, what are the real, full costs of that. Unfortunately, any real change is going to be tied to staffing levels. I hope the Finance Committee will take a hard look at what it would really take to make an impact on the long-term Unfunded Liabilities. Thanks.

Mayor Scharff: Council Member Wolbach.

Council Member Wolbach: To speak to the main Motion, I just wanted to express my thanks to the Finance Committee. You did a great job. Thanks to the Staff, those who are here and those who have already left. As others have mentioned, we recognize the mountainous work that went into this. I think you did a really good job. I especially want to give credit to Council Member Filseth for a great job bringing us what I think is a very solid but realistic approach. I look forward to observing and hearing back recommendations from Finance Committee once they've heard from Staff on some of the recommendations regarding Unfunded Pension Liabilities and how to really tackle that in a way that's thoughtful and effective, fair to our employees but really, really dealing with our long-term issues.

Mayor Scharff: Vice Mayor Kniss.

Vice Mayor Kniss: I think, Jim, I can claim almost as many Budgets as you have.

Mayor Scharff: I think you can claim more.

TRANSCRIPT

Vice Mayor Kniss: I think I can too, but who's counting, right? However, I've always judged how successful a committee had operated by whether or not there was a room full of people when you go to vote. Tonight, there was not a room full of people. In fact, we hardly heard from anyone of the public who felt it was important enough to come down here and argue their particular case. Fred, you're excused, because I know you've waited. You did stay all night. It is such a clear indication that this was done well, effectively, with a lot of depth. If you've got a room full of just about all Staff now—there's hardly a civilian here—then I think you really got to the meat of it. Secondly, the reason that I can vote for this so comfortably is I know how much of this is going to go back to you in the fall. You are going to have a very full plate from August on. I think that's actually excellent. That's our opportunity to follow up. That's where the TMA will be followed up on, the parking permits. We've made some really major changes over the last 2 or 3 years with how we're handling parking in our community, how we're handling development, how we've handled a number of different things. I would commend the Committee of Holman, Tanaka, Filseth, and—who's the other one?

Council Member Filseth: Adrian.

Vice Mayor Kniss: Sorry, Adrian. I just realized it's all four of you that are on Finance, isn't it?

Mayor Scharff: This side's Finance. This is Policy and Services. I can keep it that way.

Council Member Holman: We're segregated.

Vice Mayor Kniss: (Crosstalk) quite as defined. Thanks to all of you because sitting through Finance is long, tedious. I'm just grateful to you guys for sitting through the hours that you sat through. Thanks.

Mayor Scharff: Council Member Tanaka.

Council Member Tanaka: Going off what the Vice Mayor just said, which is long and boring and what not. My team tried to really make this a little bit more real for everyone. I don't know if you guys have seen the infographic that my team put together.

Mayor Scharff: Do we have that At Places?

Council Member Tanaka: Yeah, it's At Places. It's on the back sheet of—it's a letter from me. Our intent here was really trying to make this more tangible for everyone just because of what the Vice Mayor said. It's hard to

TRANSCRIPT

look at the numbers, because what do the numbers mean. I'm not going to go over all the numbers; I'm going to talk about the first one, which is kind of what the speaker was talking about earlier, Professor Bulow. It's what we've been talking about in terms of what is the Funded Liabilities. This is just the pension, not the healthcare. This \$1 billion number actually comes from Professor Joe Nation at Stanford and a lot of his Colleagues there. They did it not just for Palo Alto, but they did it for basically all the cities in California. This is out of 500 cities. You can see from our neighbors that Palo Alto is not quite double Mountain View in terms of per capita. In the State out of 500 cities, we're actually Number 10, so we have the highest market pension debt. This is the technical term of the Unfunded Liabilities. In terms of total debt, we're actually eighth largest in the State. That's not a good thing; that's not good at all. The way this works out to be is per capita, using that 67,000 population, it works out to almost \$16,000 per person. That means man, woman, child. That means my 10-year-old daughter also owes us \$16,000. Roughly about \$63,000 per household. In terms of debt, that is probably one of the biggest liabilities that the City has. I bring this up because this represents part of the promise. Actually, the promise is \$1.7 billion, but we have about \$700 million in assets, so it's about \$1 billion. Anyways, this represents the net negative promise that we've made to our employees that have served our City, who have worked for these pensions. The biggest problem I have with this Budget is that—it's not that this year's exceptional because it's been like this for many years. My biggest problem with this Budget is that one of the biggest liabilities that the City has we don't really address in our Budget. It's kind of the analogy everyone's been using, the minimum credit card payment. Let's just look at this. The way to think about it is each person in Palo Alto has about a \$16,000 credit card debt. We're making the minimum payment on it, and we're pretending that, even though we're going more and more negative every year because we're not really addressing it, we are okay, that we're balancing our Budget, that there's really no problem. That's not true. If we were really balancing the Budget, we would at least stay stable. This wouldn't go to \$16,000—this wouldn't go more; this would stay where it is, but it's going to go more. That's not good. Admittedly, we're doing the Section 115, which means we're putting away yearly about \$3.5 million a year, which is a nice attempt to try to settle this problem. Take \$1 billion, divide it by 3.5, how many years does that take for us to pay this off, not counting the extra interest? This is 283 years, so it'll take us 283 years at the current rate of how we're contributing to this Unfunded Pension Liability. That's maybe longer than the Nation's been in existence. While we're making an attempt to fund this Unfunded Liability, it's such a paltry amount that it's not even funny. It's barely scratching the surface. I think the reality is this. We don't know the exact number. Council Member Filseth thought maybe \$800 million. Some professors at Stanford think it's \$1

TRANSCRIPT

billion. Whatever it is, it's a big number; it's a big, massive number, probably the biggest number that we have in Palo Alto. I think we owe it to our employees, our retirees. I think we owe it to our taxpayers to not kick the can down the road. We should at a minimum make an approximation of what this is to keep it level versus pretend that this is not a problem, that we can safely ignore it. We can make the minimum credit card payment, let the interest accumulate, let the debt get bigger and bigger and bigger, and pretend there's no problem. This will get bigger and bigger over time. I think it's important that we actually start accounting for this because it's a real liability, and it's something which, if we don't address soon, it's going to become a bigger problem. I'm going to make an Amendment, which will probably fail, but we'll never know. I'll make an Amendment that we put an approximate of what this liability is in our Budget. I'm not proposing that we change our Budget. I'm proposing that we at least acknowledge the problem. It's like Alcoholics Anonymous. You've first got to acknowledge you have a problem. Right now, our Budget doesn't acknowledge that we have a problem. We're chipping away at \$3.5 million a year, but it's such a small amount compared to the big debt that I don't think it really—it's deceiving. Each person in Palo Alto owes about \$16,000 or something on that order. We're putting in such a relatively small minimum that we're not doing justice to our constituents or to our employees or to our retirees. I'm looking for either acceptance or someone to second it.

Council Member Filseth: I don't know exactly what you're proposing. Are you proposing that we ...

Vice Mayor Kniss: How are you going to get it somewhere?

Council Member Filseth: ... contribute another \$20 million to the Section 115?

Council Member Filseth: I'm not proposing that we contribute extra to the Section 115. I want to show that we have this liability in the Budget. I want to show that we have—we could take whatever number we want, \$800 million which is your number, \$1 billion which is ...

Mayor Scharff: Greg, where in the Budget would it go? The Budget doesn't ...

Council Member Tanaka: Debt service.

Mayor Scharff: But we're not paying that. If we're not paying it, it doesn't go in the Budget.

TRANSCRIPT

Council Member Tanaka: I guess—let's put it this way. I'm not as particular actually where it goes or how it goes. I think it's important that we realize that there is a big part of the Budget that's not being accounted for, which is this debt, this liability.

Mayor Scharff: isn't that the referral to Finance Committee? Isn't it that they're supposed to look at where that would go and what that would do and how we would discuss it? Isn't that part of that referral? I'll let the Chair answer that, but that was my understanding.

Council Member Filseth: Unless there's something specific you want to propose, I'm not going to accept it as proposed. Although, we could certainly discuss it if you find a second to it. As the Mayor said, I think what you're talking about as part of what we're asking Council to refer to Finance. I understand the idea of making an estimate, but I'm still not 100 percent sure what we would actually do with that estimate in terms of operations. I'd like Finance to cover that as well. I think that's the way it ought to be done. That said, it's a huge number. It is currently in the equivalent of our balance sheet, which is our statement of position, but nobody reads the statement of position. It's not an operating expense at this point. The pie slice is the operating expense for the moment. I think that's one of the things the Finance Committee really needs to look at, which is how do we exactly get our arms around this thing.

Council Member Tanaka: I don't necessarily disagree with that.

Council Member Filseth: I'd like to agree with you to do a comprehensive approach to it.

Council Member Tanaka: My point is we know we have this liability. To fail to even approximate it, even though we know it's there—I think we all know it's there. There's nothing to hide here. We all know it's there—is a failure of the Budget. It's pretending that this \$800 million, \$1 billion number doesn't exist, and that we don't have to take care of it. We could pray that maybe the federal government comes in and saves us or we will default on it. Whatever the case is, it's not good. If we're fiscally responsible, we should at least approximate it. The option is we could kick it to next year, but there's nothing like the present to deal with it.

Mayor Scharff: He's going to need a second if someone wants to talk further about it.

Vice Mayor Kniss: I'm a big fan of Robert's Rules. One of the things they say is you can second it, but you don't have to vote for it. I'd like to hear it discussed a little more because I have some questions for Lalo and Jim.

TRANSCRIPT

Mayor Scharff: You're going to second it for discussion purposes?

Vice Mayor Kniss: I'm seconding it for discussion purposes, but it's not something I might vote for in the end, Greg, as long as you know that.

AMENDMENT: Council Member Tanaka moved, seconded by Vice Mayor Kniss to add to the Motion, "direct Staff to include an approximate market pension debt for the City in the Budget."

Mayor Scharff: I was going to let you speak, Adrian, but now she needs to speak to her second.

Vice Mayor Kniss: I understand where we're going with this. Eric is very aware of this as well. We have this almost unconscionable amount of money that we somehow owe. Yet, we're having a hard time figuring out how to put it in our Budget or in our future or we're not quite sure how to handle it. What we have said is let's at least kick it 'til August or September and to the Finance Committee. I think what Greg is asking now is there any way to indicate in this current Budget that we have this kind of liability and is there any advantage to it.

Mr. Keene: If I could make a suggestion. First of all, let's not overly glamorize the Budget. The Budget is an annual spending plan. It's an annual spending plan. Even if we're making our minimum credit card payments for 1 year, that doesn't mean we aren't able to look and say, "I'm not making any progress. We can't go on like this forever." You're saying that by this discussion. You're saying that by this referral. We do a Long Range Financial Forecast. I would have to think for sure the 10-year forecast would also be really factoring in this including identifying what the number should be. I don't think you can say \$1 billion is the right number yet. There are lots of issues with that. That is just a—it is a potential number. On the other hand, it could be a disastrous situation for the City to make a long-term plan and fund it 3.5 percent, and you actually over the next 20 years have a 5 percent rate of return. Let's put this in real dollars. If we want to go to this \$1 billion thing, \$1 billion target, if you want to make this year's payment that we should make to that, then we can add \$70 million to the Budget. That's the magnitude of what we're dealing with. That is not a discussion we can do fast. What I would propose is that at a minimum the transmittal letter that we right to the community on the adoption of this Budget include some language in the letter itself that identifies this as an outstanding discussion, a range of things that the Finance Committee at a minimum is going to be picking this piece up and identifying this so that it is in this document itself. For us to be able to generate a page or anything that would start to state liabilities without the

TRANSCRIPT

transparent public process to work through to identify exactly what you think collectively that should be, we're not ready to do that. We will be ready to do that over the course of this first half of the year, given what Finance has asked.

Vice Mayor Kniss: That gives me some comfort. I think what that does is it also meshes well with Eric's comments regarding transitional. It may be puzzling to the public that we have said we are transitional, but a good argument has been made for that. There are some crazy numbers in Palo Alto, and these are they. Greg, I can't support your Motion, but I'm delighted that we've had a really good discussion about it. I'd be comfortable if Jim and Lalo follow through on what they've indicated that says to the public we have some serious looking to do at the finance situation that we find ourselves in, in Palo Alto.

SECOND WITHDRAWN BY THE SECONDER

AMENDMENT FAILED DUE TO THE LACK OF A SECOND

Mayor Scharff: Adrian.

Council Member Fine: Thank you. Just quickly echoing the Vice Mayor. I agree this is a Transitional Budget. Liz, to your earlier comment about nobody being in the chambers, if these numbers were on things like the transmittal, we might have more people in the chamber, which would be helpful. That said, we on Finance have volunteered and decided to look at this issue in more depth in August. I think that's the right place to do it. Greg, I think your Motion is well-intended, and I hope Staff does get the message that whatever the number is, \$500 million, a billion, we want it plastered up high so we are held accountable to it.

Mayor Scharff: Did anyone else want to speak to this? Council Member Wolbach.

Council Member Wolbach: I feel about this Amendment like I did about the one about parking earlier. I agree that it's important, and I think it's already being addressed. I'm not going to support the Amendment. I just want to point out to the maker of the Amendment the last item in the Motion as it already is, Item J, is all about this. Item J tackles this. It says "look at the Unfunded Pension Liability, review the financial reporting of the Unfunded Pension Liability; figure out how best to communicate that to the public, to communicate it to Council Members. I think this Amendment is redundant of Item J in the existing Motion. For that reason, I will not support it.

Mayor Scharff: Council Member DuBois.

TRANSCRIPT

Council Member DuBois: I just wanted to make a comment. I'm hearing from the members of the public why we should just have 401(k)s. I believe maybe in that letter it might also be good to reference the buyout cost of CalPERS, which I think that buyout is about \$1 billion. Rather than argue over what the market valuation is, you could refer to that buyout number as part of the problem.

Mr. Keene: I just want to put some perspective. I know that the infographic was put together pretty quickly to be able to be here for this meeting. I would just say the percentage estimates that are there are a little bit off. I don't think they control for the 100 percent base. It actually would be, rather than 197 percent, 97 percent, 289, 189. Those still are large percentage numbers. Some other things I think we need to be thinking about when we're doing comparisons. Why do we have higher numbers than these other jurisdictions? Why? I'll tell you why. We have, particularly on the market debt numbers, more employees relative to our size than the other jurisdictions. If we actually divide these costs by the number of employees we have, we're actually in the middle of the pack of these adjoining cities. I think it's a mistake to think that something is awry with Palo Alto. Now, we do we have more employees? Because we provide a much broader range of services, some of them we provide to these other communities. The Regional Water Quality Control Plant is on our books, not on theirs. Even if you take Utilities away, I would say nobody has a Community Services Department like we do, that provides beyond parks and recreation. The depth and quality of services we provide is distinctive. It's one of the reasons people live here. That doesn't take away from the financial challenge that we have. We have to understand that there are other really good reasons why we are different. The last thing I would say is this. These are the kinds of things that during your discussion we need to be looking at because this is not just the matter of this debt problem. It's about the quality of life in this community and how we're best going to provide that. Because of our Enterprise Funds and the large number of those, 40 percent of our costs are not being provided out of the City's General Fund. That means when we're in conflict for where we're going to spend, we can have a lower risk profile on affecting other services as we have to increase costs. We've got a Market-Based Business Environment in the Utilities. I'm not saying that doesn't have issues as it relates to rates, but we're much less likely than some other cities at times to have to start cutting parks and recreation programs because Public Safety pension costs are going up even more. Our community discussion has to have the full texture of what it is we want, what does it really cost to get that, and how much are we willing to pay, and what are the risks. All of those things are there. The last thing I want to say is professionally the Staff has no interest in kicking the can down the road on this issue. The Council is demonstrating

TRANSCRIPT

exceptional leadership in this conversation. This is open and transparent here. You have always generally been ahead of where other communities are. Sometimes we have to be careful. We were open of the first communities to institute a second tier pension ahead of everyone else. I'm just saying when we did that, when Public Employees' Pension Reform Act (PEPRA) came in at the State level, they made a different change. We're now penalized as an organization competitively because we were ahead of the game. I'm just saying there's a lot of strategic things you want to be thinking about. I really welcome it. I can't imagine this is going to be two or three Finance Committee meetings and we're done with it. I think we've got a really busy first half of the year. Thanks.

Mayor Scharff: I think I just wanted to add to this that the fact we do have Utilities we could pay this off by basically raising our utility rates and start creating a Sinking Fund at least for Utilities cuts us down. Utilities is what percentage of our employees?

Mr. Keene: They're about 33 percent employees, 40 percent on the cost side right now.

Mayor Scharff: I'm not actually suggesting we do that. We have to think long and hard about what we do and how much we have the current generation pay and how much we do that and all of that, but we could. If you redid those numbers and looked without Utilities or took that out and allocated part of that and the other issues (inaudible) the City Manager, I think it'd be really interesting to see where we were in reality with other communities. I think all of that makes a difference. I do want to thank you. That's a really good discussion starter of doing that. When Finance goes at it, I'd like to at least see these numbers redone by Staff and looking at it different ways, with Utilities, with Enterprise Funds, and where we really are on this and how we are compared to other communities or at least some of our neighboring communities. I think that might be useful. The only other thing I wanted to mention is I do have some concerns. My sense is we are like what the City Manager said. If you start accounting for these issues of number of employees, taking out Utilities and that, we're probably in the middle of the pack. I think we want to be a little careful about how we package this and how this appeals to—we're about to go out for \$100 million in debt financing. I don't think we want to say to the people that are going to give us the money, "We're bankrupt. We owe \$1 billion." I don't think that's a good marketing ploy. That's a significant thing that we are doing. I say this in some seriousness. We are about to do probably the biggest bond financing that we've done in Palo Alto's history. I don't disagree that these are serious challenges, but I would caution everyone to keep their eye on the ball and make sure we don't put that at risk in some way.

TRANSCRIPT

Council Member Filseth: Can I make a comment on that?

Mayor Scharff: Yeah.

Council Member Filseth: Somebody in fact—maybe it was the Stanford professor had an interesting point on that. The debt is secured by the taxpayers of Palo Alto. It's not the same as a Chapter 11 or something like that.

Mr. Keene: Can I just say one other related thing? Just as it relates to the other pieces, the outstanding debt, we can talk about that more again. The debt that the City of Palo Alto has we can break down pretty simply. \$139 million, \$68 million of it is in the Enterprise Funds, some of that is actually debt that is financing the Regional Water Quality Control Plant that, again, supports Los Altos and Mountain View. The other main piece is \$65 million of outstanding debt; that's the debt we have on our libraries that we went to the voters for and passed a \$78 million bond to completely remake our libraries. If you take those two things away, there's nothing there right now. With those, we go down to \$94 a person per capita as an example. You have to say was that a good idea to do the library bond. The other things are all really being paid through the Utilities.

Mayor Scharff: Can we vote on this Amendment? Go ahead, Karen. You removed your second.

Council Member Holman: There's no Motion on the ...

Mayor Scharff: Now, there's a bunch more lights. Council Member Fine, you haven't spoken.

Council Member Fine: I've spoken on a number of smaller issues but at a high level. I wanted to thank Staff and especially Budget for all your hard work on this. Also, much thanks to my fellow Council Members and Council Member Filseth. Eric, I think you did a really good job teeing this off at the beginning of our meeting, that there are some hard choices on issues like fire, parking, pension, but I look forward to working on the biggest one there, pension, come this fall. I have a lot more comments prepared on fire issues and parking permits, but I won't bring them up. I just hope my Colleagues will support the Budget as it is. I'd be prepared to do so at the current time. Thank you.

Mayor Scharff: Council Member Holman.

Council Member Holman: A couple or three things. I do appreciate actually working with my Colleagues here. We're all segregated down here on this

TRANSCRIPT

end of the dais. I appreciated working with each and every one. We all bring different perspectives and different talents to the party. It's a good Committee and appreciate all the efforts and Council Member Filseth for chairing. A couple of difficult ones. One, I brought this up at the Finance Committee, and I've brought it up before. We haven't really done anything about it. We just have to—we're looking at a Budget. We're looking at Budget challenges going ahead. We have to have serious discussions with Palo Alto Unified School District (PAUSD) to talk about cost sharing on at least a couple of things. One of them is ...

Vice Mayor Kniss: I've been talking about it for years.

Council Member Holman: We pay full fare for crossing guards, for instance. We pay for fields maintenance. The schools use them as well as the public, so why are we paying the full load? They have Budget constraints and concerns, so do we. We need to recognize going forward that it is a shared responsibility, and it's a shared benefit. I think it needs to be a shared cost too. Maybe I'll make a little Amendment here and see if Vice Mayor Kniss would support it. Refer to Finance Committee discussion and consideration of cost sharing with PAUSD on particular budgeted items.

Vice Mayor Kniss: Second.

AMENDMENT: Council Member Holman moved, seconded by Vice Mayor Kniss to add to the Motion, "refer to the Finance Committee discussion and consideration of cost sharing with the Palo Alto Unified School District (PAUSD) relating to budget costs." (New Part K)

Council Member Holman: I think I've spoken to the Motion as much as I need to.

Mayor Scharff: Vice Mayor Kniss, do you want to speak to this?

Vice Mayor Kniss: We have brought this up a number of times before. I don't recall whether or not we have had any discussions. Putting it right out there and saying this is the cost. It primarily affects students no matter what. That is why we have had what we do. I've discovered most people have no idea what the cost is. The cost is—if we kept up our guards, what the cost be this year?

Mr. Keene: The monitors are—I think we've got \$1.7 million this year, and that anticipates ...

Mayor Scharff: That's Track Watch.

TRANSCRIPT

Mr. Keene: I'm sorry. The school crossing guards. When we were proposing—how much? I was going to say it was \$330 a few years ago when we were talking about it. It's \$360 now.

Council Member Holman: There's also field maintenance.

Mr. Keene: There's probably a range of (inaudible).

Vice Mayor Kniss: I just think sharing is a good thing. It's time to approach our School District and tell them they have a unique opportunity to share.

Mayor Scharff: Partner as Council Member Gail used to say, let's partner with the School District. Anyone else want to speak to this? Council Member Wolbach.

Council Member Wolbach: Actually just a question for the maker and the seconder. Is this better to refer to Finance or better to refer to City/School Liaison Committee (City/School) or refer it to Finance and, once Finance has made a recommendation, have it come back to Council, and then Council tells our members of City/School to carry it to the School District? Where does the City/School Liaison Committee fit into this picture is the question.

Vice Mayor Kniss: I'd like to look to our City Manager again. I have brought it up at City/School. I think, Eric, you were there when I brought it up. We must not be very persuasive. Maybe you are more persuasive than we are. Do you have a suggestion?

Mr. Keene: There's a conversation that you would at a minimum have at City/School, but it does seem to me that there I some groundwork that Finance would want to do about what the facts are.

Vice Mayor Kniss: I'd refer it to Finance.

Mayor Scharff: I'm going to support the Motion reluctantly. I consider education as one of the most important things we do. As Council Member Filseth keeps reminding me, I disagree with him, but he keeps reminding me that the huge value in Palo Alto is in its schools. That's why we have such high property values, etc., etc. The School District actually—I swear I just read in today's paper about them cutting the Budget, and them cutting positions and that kind of stuff. I'm not going to feel good—we're not in a crisis right now in our Budget. They seem to be in a crisis in their Budget. I'm just thinking the timing on this is impeccable on our part. I read in the paper that they're laying off people and reducing positions and cutting services to kids. We're talking about now is the time we're going after crossing guards and maintenance and that kind of stuff, when they can't

TRANSCRIPT

afford it right now. I think it's good to have a discussion at Finance, if that's what you guys want to do. I'll support that, but I probably wouldn't support actually at this time doing that. We just had a long discussion with the School District, which took a couple of years, on Cubberley. We're no longer paying them not to develop their school sites. That seemed to make a lot of sense to me, that we weren't paying them not to develop their school sites. This, on the other hand, we've traditionally funded. How long have we funded those crossing guards? It's 20-plus years I'm guessing. On Track Watch ...

Mr. Keene: That will be a way to fill the chambers when we (inaudible).

Mayor Scharff: I'm asking us those questions. People come in and say ...

Vice Mayor Kniss: I think since I was in elementary school.

Mayor Scharff: It could very well be since you were in elementary school. I think all of us, at least I would—when I talk to our Legislators in Sacramento, one of the things I say is "I want you to fund education." Here we are trying to defund education as a Council. I'm not going to support that. If you want to have the discussion at Finance, I'm fine with that. Did I light this board up on this issue? Tom, you put your light on. Council Member Kou, you have your light on, but is that to speak to the main Motion?

Council Member Kou: Yes.

Mayor Scharff: Tom.

Council Member DuBois: You said that pretty well, Greg. We have brought it up on City/School the last couple of years. They're not going to volunteer any money, and I don't think we want to force them to pay. I think partnering with the schools is the right way to look at it. We pay for the fields, but we use the fields. Maybe we should look at getting more use out of the fields and cooperating in better ways. I'd actually go a little bit further than Mayor Scharff and not support this Motion at this time.

Mayor Scharff: I won't support it. I'll be in solidarity with you, Tom, and not support it either.

Council Member Holman: Can I clarify something about the Motion?

Mayor Scharff: Sure.

Council Member Holman: My intention about the Motion is—clearly we're not going to hit them up for any funds this year. This isn't going to be a

TRANSCRIPT

discussion that's going to impact this next Fiscal Year. One reason to have the discussion, no matter what we end up doing about it, is do we do something about it, to get clarity with the public what we do contribute to the School District in an array of areas. My impression is—maybe it's not correct—what we contribute to the School District is invisible. I'm not really sure—maybe Vice Mayor Kniss would have an impression of that. It seems to me it's kind of invisible. We do it, and they don't think about it. I'm not even sure we're—I don't think we ought to absolutely get credit for everything we do, but there ought to be an acknowledgement or an awareness of what we do contribute. I'm not even sure we're at that point yet. Whatever the end result is at the Finance Committee, the discussion is an important one to have. I hope you would support that discussion.

Mayor Scharff: Council Member Filseth.

Council Member Filseth: I have pretty mixed feelings about this one, but I think I'm going to support it but for a different reason than most people. I suspect that we're going to find—my intuition is we're going to find, when we dig into this, there's not that much there. There may be some things. At some level, it's clear this should be the bailiwick of the school system. It's clear this should be the bailiwick of the City. We're all walking around going, "We think that should be." If we have the discussion—the alternative to not looking at it is we're going to walk around going what about this, what about this. I would hope that an outcome of this would be to put the issue to bed and put some clarity on it so we're not walking around talking to each other about it. I'm sure the same thing happens on their side too. If we can bring some clarity to it, that would be great. I know I'm going to get shelled for this. My personal suspicion is that, when we really dig into it, we're going to find there may not be as many opportunities there as we thought. It's more, like you said, a partnership model.

Mayor Scharff: If we could vote on the board. That passes on a 6-3 with Council Members Kou, Wolbach, Kniss, Filseth, Fine, and Holman voting yes.

AMENDMENT PASSED: 6-3 DuBois, Scharff, Tanaka no

Council Member Holman: I had one more Amendment. I said I had a couple of difficult ones. The other is we've had this discussion tonight about Unfunded Liability and how we get there and such. There was a question early on in our discussions about what the added Staff members were and how we got there. One of them is a 0.6 Full Time Equivalent (FTE) in the Office of Sustainability. It's not the Council's job to manage the department or manage outcomes, but it is our job to manage the Budget. I'm not seeing a return on investment. It has been managed through Contingency

TRANSCRIPT

Funds. Now, this is transferring into a 0.96 FTE at a cost of \$133,051. When the Sustainability Implementation Plan came to us, we basically sent it back. I'm proposing that we eliminate the 0.96 FTE that is proposed to be added in the Fiscal Year 2018 Budget for the Office of Sustainability.

Mayor Scharff: Is there a second?

Mr. Keene: Can we add some explanation here? I think there's—maybe we didn't reflect it correctly in the Budget.

Ms. Nose: It's not so much that we didn't reflect it correctly; it is a very technical thing. First of all, the 0.96 is not benefited. There is actually no pension liability associated with them temporarily. Temporary staffing, so as long as they stay under 1,000 hours a year. That 0.96 is actually two positions. In addition to that, this really does maintain status quo. Last year, Council had approved about \$100, \$110,000 in contract staffing in the Sustainability Budget, but we figured out throughout the course of this year's business there really wasn't a contractor to come and help support that, so we went back to having temporary, hourly staffing. That's what you guys are seeing, that technical movement. If you were to look at the Sustainability Budget, you actually see a reduction of \$110,000 on the contract staffing side. You see the \$100,000 increase on the staffing salary and benefits side. It is a re-categorization.

Council Member Holman: It says total salary and benefits, and that's where the \$133,051 comes from. It says salary and benefits.

Ms. Nose: Correct. If you look at the proportional increases, the bulk is under salary. You can see that in the salary line. If you look at the pension line, there's only about a \$5,000 increase year over year. Pension for miscellaneous is 30.2 percent, so that math doesn't work out.

Council Member Holman: That is a clarification. I still would like to see the department more focused. When the Sustainability Implementation Plan (SIP) came to the Council, we basically sent it back.

Mr. Keene: I think the Council has given us that explicit direction.

Council Member Holman: Yes. I don't think continuing the same staffing is getting us where we want to go. It seems like we're just treading water here. I'm not supportive of that additional expense.

Mayor Scharff: Do you have a second?

Council Member Tanaka: I'll second it.

TRANSCRIPT

AMENDMENT: Council Member Holman moved, seconded by Council Member Tanaka to add to the Motion, "remove the proposed 0.96 FTE from the Office of Sustainability."

Mayor Scharff: Council Member Tanaka seconded it. Do you want to speak to your Motion, Council Member Holman?

Council Member Holman: I think I have. Thank you.

Mayor Scharff: Council Member Tanaka? No. Anyone want to speak against it? I'll speak against it. It was unfortunate that the SIP, when it came to us, was not fully done and vetted and comfortable with Council. I don't think as the proverbial thing is you throw the baby out with the bath water. Literally, if we were going to do this, I think we should just eliminate the entire Office of Sustainability and be done with it. I personally think sustainability is an important thing. I actually have to say as Mayor, working with Gil, I actually think he has done a really good job on sustainability in lots of ways that the Council doesn't see. I'm going to say that I think Gil is actually on a national level getting it out there about climate change. One of the speakers came to us recently and said—I don't remember which one it was—that if Palo Alto reduces its carbon emissions to zero and the rest of the world does nothing, the fact that we reduced to zero is irrelevant. What Gil is actually out there doing is getting other people inspired by us. He's getting other people to change their behavior based on what we're doing. We have a great story in Palo Alto. When Gil goes to these conferences, people are amazed at what we're doing in Palo Alto. What's important about that is not that we're getting accolades for it or that we're on top of sustainability. What's important is that other people are changing their behavior. Without other people changing their behavior, we won't get anywhere with climate change. I realize that that Staff Report wasn't necessarily where Council wanted it to be, but sustainability is something that is really important to Palo Alto and, as far as I can tell, to the Council. This would send the wrong message, and it's really unfair to Gil and not really appropriate to make that Motion. That's what I have to say about that. Council Member Wolbach wants to speak.

Council Member Wolbach: A couple of things. First, I agree with everything that the Mayor just said. Also, we get Staff Reports from time to time, maybe more often than not, that we're critical of. We're a highly critical Council. It's part of our nature, and it has been for quite a while. Our response to being critical of Staff Reports is not typically to gut a department. If anything, if we feel that there hasn't been enough work or there hasn't been enough support or we want to see more from a department, I can make an argument that we need to support that

TRANSCRIPT

department more, whether that with direction to the City Manager to provide greater support to the department, whether that's encouraging the City Manager to have other department heads work better with that department in question, or by increasing the Budget for the department for additional employees to help the department flesh out its reports and expand its reach within the City and outside the City as the Mayor eloquently pointed to. I'm not going to be supporting this Amendment. I think that the department is important, and I look forward to seeing even more success from that department in the year ahead.

Mayor Scharff: Council Member Filseth, did you put your light on? No, you didn't. Council Member DuBois, did you put your light on?

Council Member DuBois: Yeah. What you guys are raising here is what's the role of the office, what's the appropriate staffing level. When we talked about it recently, you really are working across departments, leveraging yourself across a whole bunch of other departments. I agree with Mayor Scharff that it's not the time tonight to have that discussion. Maybe when the SIP comes back, that would be an interesting thing to talk about, Gil going out and speaking and working across departments, and then how big does the Office of Sustainability itself have to be.

Mayor Scharff: Council Member Kou.

Council Member Kou: The way I look at this is if the Office of Sustainability hasn't been—it didn't have that 0.96 FTE position in the past, and it has operated pretty well and has been leveraging the other departments to provide the information ...

Mayor Scharff: It has had it in the past. It just was a consultant, and the consultant was basically an hourly employee. They just corrected the Budget to reflect the reality.

Council Member Kou: How about the use of all the other departments in providing all the information? Is this information that's gathered through the other departments? There's time spent from other departments to provide this information in order to put together the report. Correct?

Mr. Keene: As Council Member DuBois was saying, this is really an organization-wide initiative. One of the key responsibilities of the Office of Sustainability is to staff that collaborative work across departments to be able to leverage people who have other full-time jobs but have got to get some things done on sustainability in addition to this external piece. I can't tell you practically that the part-time folks we have are really essential to keeping everything lubricated and moving. They're really a great value,

TRANSCRIPT

very capable people at a very different cost than some of the other stuff we were talking about earlier.

Council Member Kou: Is this FTE position—do they come with benefits?

Mr. Keene: No. The only permanent position is Chief Sustainability Officer.

Council Member Kou: Thank you.

Mayor Scharff: Let's vote on the board on the Amendment. That fails on a 6-3 vote with Council Members Kou, Tanaka, and Holman voting yes.

AMENDMENT FAILED: 3-6 Holman, Kou, Tanaka yes

Mayor Scharff: Do you have any other Amendments, Council Member Holman?

Council Member Holman: That was it.

Mayor Scharff: Council Member Kou, you wanted to speak to the main Motion.

Council Member Kou: Yes. I actually just wanted to say thank you to Kiely and Ed for offering to go through the Budget with me. I really appreciate that help. It helped a lot. Also, for the rest of the departments, all the teams, for working so hard on it. Also, to the Finance Committee. It makes it easy. I may not agree with everything, but it was a great Budget that you guys worked on and put together for us. Thank you.

Mayor Scharff: One more kudo, as long as it's a kudo.

Council Member Holman: It's definitely a kudo. I recognized fellow Colleagues on the Finance Committee, but I should have also acknowledged the department heads who helped put together the Budget, the City Manager certainly, and Lalo. Kiely, you are a great addition. Thank you so very, very much. Glad you're here.

Mayor Scharff: I'm just going to briefly also thank everyone and thank the Fire Chief for sitting through it, thanking Gil for staying. Thanking everyone from Staff for staying late. The two members of the public, thank you guys for staying as well.

MOTION AS AMENDED: Council Member Filseth moved, seconded by Mayor Scharff to:

A. Adopt a Budget Appropriation Ordinance, which includes:

TRANSCRIPT

- i. City Manager's Fiscal Year 2018 (FY 2018) Proposed Operating and Capital Budgets; and
- ii. Amendments to the City Manager's Fiscal Year 2018 Proposed Operating and Capital Budgets including:
 - i. The transfer of \$348,000 from the General Fund to the Cubberley Infrastructure Fund and increase the contribution to the Infrastructure Reserve by \$304,000 and Human Services Resource Allocation Process (HSRAP) by \$44,000; and
 - ii. Amend Staff Report, Attachment A, Exhibit 2, Page 12, "Below Market Rate Housing Contract" for \$137,000 was erroneously appropriated in the Below Market Rate Fund (Fund 230) and these funds be corrected to be appropriated in the Housing In-Lieu/Residential Fund (Fund 233); and
 - iii. FY 2018 City Table of Organization; and
 - iv. FY 2018 Proposed Municipal Fee Changes; and
- B. Adopt a Resolution approving the FY 2018 Electric Financial Plan and proposing several transfers for FY 2018; and
- C. Adopt a Resolution amending Rate Schedules E-1 (Residential Electric Service), E-2 (Small Non-Residential Electric Service), E-2-G (Small Non-Residential Green Power Electric Service), E-4 (Medium Non-Residential Electric Service), E-4-G (Medium Non-Residential Green Power Electric Service), E-4 TOU (Medium Non-Residential Time of Use Electric Service), E-7 (Large Non-Residential Electric Service), E-7-G (Large Non-Residential Green Power Electric Service), E-7 TOU (Large Non-Residential Time of Use Electric Service), and E-14 (Street Lights); and
- D. Adopt a Resolution approving the FY 2018 Gas Utility Financial Plan; and
- E. Adopt a Resolution approving the FY 2018 Wastewater Collection Utility Financial Plan; and
- F. Adopt a Resolution increasing Dark Fiber Rates by 3.5 percent effective July 1, 2017 by Amending Rate Schedules EDF-1 and EDF-2; and

TRANSCRIPT

- G. Adopt a Resolution approving the FY 2018 Water Utility Financial Plan and a transfer of \$1.877 million from the Water Rate Stabilization Reserve to the Water Operations Reserve; and
- H. Adopt a Resolution amending Resolution 9671 to modify Permit Fees for the Downtown Residential Preferential Parking (RPP) Program and finding the action exempt from the California Environmental Quality Act (CEQA); and
- I. Approve Amending Salary Schedules for:
 - i. Management and Professional Group (MGMT) as amended on March 27, 2017 to add one new classification and change titles of three classifications; and
 - ii. Service Employees International Union, Local 521 (SEIU) 2015-2018 MOA as amended on February 6, 2017 to reclassify four classifications and change the salary rates of two classifications; and
 - iii. Limited Hourly Group as amended on February 6, 2017 to update the salary rates of one classification; and
- J. Direct Staff to return to the Finance Committee in August to review the citywide implications of:
 - i. Structural revenue and expense growth ensuring expense growth remains at or below that of revenues; and
 - ii. Unfunded Pension Liability:
 - a. Look first at current public safety growth rate of 10 to 12 percent in relation to citywide growth rate of 6 percent; include a review of staffing levels and alternate models; and
 - b. Review of the financial reporting of the Unfunded Pension Liability; and
- K. Refer to the Finance Committee discussion and consideration of cost sharing with Palo Alto Unified School District (PAUSD) relating to budget costs.

Mayor Scharff: With that, let's vote on the Budget. That passes on an 8-1 vote with Council Member Tanaka voting no.

TRANSCRIPT

MOTION AS AMENDED PASSED: 8-1 Tanaka no

Mr. Perez: Mr. Mayor, thank you for leading the meeting tonight for the Budget and the rest of the Council Members. Thank you, Council Member Filseth, for all the work and all the members of the Finance Committee. We appreciate the work and questions and comments and the Motions.

Inter-Governmental Legislative Affairs

None.

Council Member Questions, Comments and Announcements

Mayor Scharff: Council Member Comments, Questions, Announcements.
Council Member DuBois.

Council Member DuBois: We had several speakers speak tonight during Oral Communications about affordable housing. I wanted to let Council know that Council Members Holman, Kou, and myself have submitted a Colleagues' Memo on enhancing the renter protection Ordinance that the City has. Staff is reviewing and scheduling, but I look forward to that coming back to Council as soon as possible. We see a lot of cities around us moving forward in this area. It's really something that we need to look at as a Council.

Mayor Scharff: Council Member Tanaka.

Council Member Tanaka: I had one other thing for the Budget, but that's okay. It's done.

Mayor Scharff: Vice Mayor Kniss.

Vice Mayor Kniss: I don't know if all of you got one of these, but this is one of the things that the Air Board puts out. It's called *Leading the Way*. It's particularly interesting because in the middle it gives you the sources for our greenhouse gas gases and so forth in the Bay Area. I thought I would also tell you that at the end of May we got very close to capping the greenhouse gases that come as emissions from the refineries. In fact, we did so well we got a pretty overwhelming vote on it. Between that and the next time we voted on it, something happened. As the kind of thing that happens when a group doesn't really want to vote on something, one of our members made a Motion to postpone. It now has been postponed. I can only hope that sometime before the end of the summer it will come back to us again. If not, we also know that at the same time the State is looking at perhaps setting the cap for everyone else in the State. I feel like we're a bit under

TRANSCRIPT

the gun. It's been an interesting process. Just to let you know. I know you read some stuff in the paper. I do think you'd find this good. If you didn't all get one, you know I'd be delighted to get one for you.

Mayor Scharff: Council Member Holman.

Council Member Holman: For the last couple of years—I guess this is the third year—Vice Mayor Kniss and I have been participating in the Healthy City Healthy Community group that meets sometimes monthly and now more like bimonthly. They're great meetings, very informative, making lots of progress, and now looking at ways that we can measure progress. Last Thursday's meeting was really great. The group operates in absence of this Council. I would hope that after the break Community Services Staff could make a presentation about where we are with Healthy City Healthy Community, give some updates about metrics and actions that are being taken and initiatives that are being supported.

Vice Mayor Kniss: You might mention that many people turn out for this. I think there were at least 30 or 35 last week.

Council Member Holman: There are a lot of people, across departmental and several members of the public from different persuasions as well.

Mayor Scharff: With that, the meeting's ...

Mr. Keene: Mr. Mayor, just one last thing. I'm sorry. I do really want to thank the Council for the vote. Lalo actually has a tradition; he says we have to get at least an 8-1 vote for me to shave off my beard. I want to thank you all for the vote.

Mayor Scharff: Meeting adjourned.

Adjournment: The meeting was adjourned at 9:49 P.M.