



# CITY COUNCIL SUMMARY MINUTES

Special Meeting  
February 8, 2021

The City Council of the City of Palo Alto met on this date in virtual teleconference at 5:02 P.M.

Participating Remotely: Burt, Cormack, DuBois, Filseth, Kou, Stone, Tanaka

Absent:

## Study Session

1. 231 Grant Avenue: Request by Santa Clara County for a Study Session to Obtain City Council and Community Input on its Proposed Teacher Housing Project. Environmental Assessment: Not Subject to the California Environmental Quality Act (CEQA) Because no Action Will be Taken. The County Will Serve as the Lead Agency for the Project. The County Issued a Notice of Preparation of an Environmental Impact Report (EIR) for the Project on December 4, 2020. Zoning District: PF (Public Facilities).

Mayor DuBois recused himself from this item due to owning real property near this location. He left the meeting at 5:07 P.M.

Jonathan Lait, Planning and Development Services Director, noted the City earmarked \$3 million for the project. The project was exempt from local zoning standards; however, the project was fairly consistent with the City's workforce housing overlay. The proposed height of the building was approximately 55 feet. If the project was subject to local zoning standards, it was still a qualifying project under the Planned Housing Zone (PHZ). The project was subject to the California Environmental Quality Act (CEQA), but the Study Session was not. The County of Santa Clara (County) began the environmental review process for the project, and the City submitted a comment letter. City Staff found the project to be generally consistent with the Comprehensive Plan.

Joe Simitian, Santa Clara County Supervisor, reported he first presented the concept to the Council in June 2018. Facebook provided a \$25 million grant. The County partnered with Abode Communities and Mercy Housing California. The County wished to obtain the Council's and the community's feedback on the project. The project was a recruiting and retention tool for area schools.

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Emily Chen, Senior Planner Santa Clara County, advised that the project was located on County-owned property within the City of Palo Alto. The project was intended to provide housing for public employees and teachers. The housing units generated by the project were going to count toward the City's Regional Housing Needs Allocation (RHNA) numbers. The County was preparing a Draft Environmental Impact Report (DEIR) and receiving comments. The Final Environmental Impact Report (FEIR) was expected to be ready in the late summer or early fall of 2021.

Maegan Pearson, Abode Communities Project Developer, indicated the proposed project was a 112,000-square-foot, four-story building with 110 units. Amenities included 2,000 square feet of community space, an onsite laundry, private courtyards, and onsite property management. The project was intended to serve teacher and educator households that did not qualify for affordable housing and were unable to afford market-rate housing. Twenty-seven units were designated for households earning 60 percent area median income (AMI), 12 units for households earning 80 percent AMI, and 70 units for households earning more than 90 percent AMI. The project proposed 112 parking spaces, a controlled-access garage, at-grade double car stackers, 134 secured bike parking spaces, three public plazas along Grant Avenue, and 1,120 square feet of flex space. The proposed building height was comparable to the heights of surrounding buildings. The plazas were designed around existing trees.

Sarah Chaffin, Community Engagement Planner, relayed that community engagement began in January 2021 with adjacent residents. The 231grant.org website was available to the public for information. Plans for community outreach included study sessions, focus groups, community meetings, and listening sessions in February through April 2021 and an open house in May 2021.

Ms. Pearson shared the project timeline with construction anticipated in August 2022 and completion in February 2024.

Council Member Filseth requested clarification of criteria for tenants and the parking plan.

Ms. Pearson explained that units were going to be allocated to each district participating in the project, and tenants were going to be selected through a lottery.

Council Member Filseth inquired whether an employee was required to vacate the unit if they left the district's employ.

Ms. Pearson advised that the policy was being developed.

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Council Member Filseth asked if employees already living in Santa Clara County were eligible for units.

Ms. Pearson reiterated that policies and regulations were being developed as were parking options such as carpooling.

Council Member Tanaka asked if Facebook's grant meant the City's funding was no longer needed.

Ms. Pearson answered no.

Council Member Tanaka asked if the City had the funding in reserve.

Ed Shikada, City Manager, responded yes.

Council Member Tanaka requested the percentage of units designated for employees of Palo Alto Unified School District (PAUSD).

Ms. Pearson reported the City's contribution equaled approximately 5 percent of the total development cost.

Mr. Simitian indicated the initial discussion was an allocation of 12 units per district. If the City contributed \$3 million, more than 10 percent of units were intended for PAUSD employees. The City was allowed to count 100 percent of the units towards its RHNA allocation.

Lizanne Reynolds, Santa Clara County Counsel, added that the default arrangement was the City counting the units.

Council Member Tanaka asked if the project was excluded from the City's Development Impact Fees.

Ms. Chen reiterated that the project was subject to the County's approval process.

Claire Ray, Planner, added that City Staff intended to discuss Development Impact Fees with the City Attorney.

Gail Price, Palo Alto Forward, supported the project and the City's recommendation for a Transportation Demand Management (TDM) plan. The project for workforce housing fulfilled a critical need.

Rebecca Sanders, Palo Alto Neighborhoods, supported the development of 231 Grant as teacher housing and expressed concerns regarding the size and scale of the project.

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Stephen Levy supported the project and the Council's emphasis on workforce housing. The project served education, equity, and the environment.

Jennifer DiBrienza appreciated everyone's efforts to make this project a reality.

Chris Robell supported the development of affordable housing for teachers and suggested the City review density, traffic, and parking.

Mary Ryan, Birch Court Homeowners Association, expressed concerns about construction noise and traffic if the project and the Public Safety Building were constructed at the same time.

Raayan Mohtashemi indicated that the project was modest and that teachers' employment should not affect their housing.

Winter Dellenbach liked the setbacks and landscaping. More than 30 percent of the units were below-market-rate (BMR) units.

Terry Holzemer expressed concerns regarding height, density, open space, and neighborhood outreach.

Kelsey Banes supported the project as proposed but preferred a taller building with more units.

Angie Evans supported the proposal as a way to inspire young people to become educators and suggested childcare for the flex space.

Rohin Ghosh looked forward to having teachers who lived in the community.

Raven Malone supported the project but felt it proposed too much parking.

Rebecca Eisenberg believed the project was essential to students returning to school, but teachers did not need parking.

Daniel Allen supported the project because teachers planned to leave PAUSD because of the lack of affordable housing.

Council Member Kou encouraged County Staff to engage the neighbors and asked if the tenants qualified for the Residential Preferential Parking Permit Program (RPP).

Molly Stump, City Attorney, advised that RPP eligibility was reviewed annually.

Council Member Kou inquired about San Mateo County's participation in the project.

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Mr. Simitian clarified that Facebook proposed the addition of employees of Ravenswood Elementary School, Menlo Park Elementary School District, and Menlo-Atherton High School. This project was regional and served diverse student populations.

Council Member Kou requested the maximum AMI for tenants.

Ms. Pearson answered 140 percent AMI.

Council Member Cormack was happy to support housing located on public land. Requiring a TDM plan was appropriate because Park Boulevard was a bike route. She inquired whether the courtyards were elevated.

Ms. Pearson replied yes.

Council Member Cormack emphasized points from the City's comment letter for the EIR. Stakeholders included the Evergreen Park and Ventura neighborhoods and the California Merchants Association.

Council Member Stone suggested the project include a playground. A traffic analysis was going to be important. He inquired about mitigation of construction impacts on neighbors.

Mr. Shikada reported that City Staff was aware of the need to coordinate the project with the Public Safety Building (PSB).

Mr. Simitian explained that the use of modular construction reduced the overall construction time by three or four months.

Council Member Filseth noted the expansion of Boulware Park was needed to provide outdoor space for the project.

Council Member Tanaka asked if the household income was based on total household income or only district employee income.

Ms. Pearson answered total household income.

Council Member Tanaka inquired about the consequences of a household's income changing.

Ms. Pearson advised that household income was usually certified annually.

Council Member Tanaka asked if tenants were going to have to leave if their household income exceeded the maximum.

Ms. Pearson related that that was likely, but policies were in development.

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Council Member Tanaka inquired about the AMI percentage for PAUSD teachers.

Ms. Pearson explained that salary varied based on district and tenure, but most teachers' incomes were 80-plus percent of AMI.

Vice Mayor Burt felt the project was both valuable and important. He requested the percentage of two-bedroom units.

Ms. Pearson responded 25 units or 23 percent.

Vice Mayor Burt remarked that the project was consistent with the City's height limit and surrounding buildings. The PHZ removed the cap on density. The source of the City's funding for this project was housing in-lieu fees.

Mr. Simitian advised that he heard the concerns about a TDM, bicycle safety, and a traffic study.

## **NO ACTION TAKEN**

2. 3997 Fabian Way (20PLN-00287): Request for Pre-Screening of the Applicant's Proposal to Re-Zone the Subject Property From General Manufacturing (GM) to Planned Home Zoning (PHZ) and to Redevelop the Site With a 290-Unit Residential Development. Environmental Assessment: Not a Project. Zoning District: GM (General Manufacturing).

Mayor DuBois returned at 6:26 P.M.

Jonathan Lait, Planning and Development Services Director, reported the City was approximately 950 units short of the Comprehensive Plan goal for housing. Staff spoke with a number of people interested in developing housing projects that provided approximately 1,000 units. To qualify for Planned Home Zoning (PHZ), a project must provide 20 percent affordable housing and the same or more housing units than the demand created by any net new jobs. The proposed project was located at the corner of Fabian and East Charleston. The project proposed to remove 35,000 square feet of office/research and development (R&D) space and to construct 290 net new housing units. The building height to the roofline was about 62 feet and to the parapet was about 68 feet. The project had a floor area ratio (FAR) of 2.8 and exceeded the maximum lot coverage. The project proposed 290 units with 10-percent of units designated for very-low-income households and approximately \$5 million toward in-lieu fees. To provide housing, the project sought to exceed the maximum building height, maximum FAR, and maximum lot coverage. The item before the Council was a prescreening, and no action

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was requested. Notice was sent to tenants and property owners as required for a formal application.

Jeff Farrar, Applicant, recognized the need to generate housing in Palo Alto and to locate housing near jobs to ease traffic and environmental impacts. A residential project on the site was in everyone's best interest. The project included 290 units of multifamily residential with two levels of parking. The site was located near jobs, the Highway 101 Bike Bridge, and near residential uses. Environmentally, the best parking design was one floor below grade and one floor at grade with fresh-air ventilation. Economically, five stories of rentable square footage was necessary to compete with commercial options. A building height of 67 feet was appropriate for the surrounding context. He explored higher and lower densities, taller and shorter buildings, multiple unit sizes and mixes, various parking configurations, number of spaces, and parking technology. If the Council's review was favorable, the formal design was going to incorporate massing, articulation, and detail in order to achieve high-quality architecture that was respectful of the surrounding community. The mix of units and sizes was going to be market driven. He planned to provide Code-compliant parking for vehicles and bicycles, 29 units designated for very-low-income households, and more than \$5 million in in-lieu housing fees. The project was intended to contribute to the City's Sustainability and Climate Action Plan (S/CAP) goals through all-electric buildings, proximity to employment centers, and electric vehicle (EV) charging stations.

Aram James inquired whether the applicant was amenable to setting aside 20 percent of units for low-income African-American households in perpetuity.

Veronica Tincher expressed concern about elderly pedestrians crossing Fabian at Charleston.

Elyse Gerson, Moldaw Residences Executive Director, supported the creation of housing in Palo Alto but believed the project was too large and was going to negatively impact the health and safety of Moldaw residents.

Shelley Hebert noted the project was the same scale as the existing building on the site, but setbacks were not proposed for the project.

Robert Chun indicated the project was a no-brainer because of the City's need for housing.

Rohin Ghosh supported the project and preferred larger structures.

Raayan Hohtashemi supported the project and suggested additional density and units.

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Randy Popp hoped the Council directed the Applicant to reduce and revise the project so that it was contextual with the neighborhood.

Rick Gosalvez, SV @Home, encouraged the Council to advance the project. The project demonstrated the Council's commitment to housing and the City's need for housing.

Bill Ross hoped the environmental analysis acknowledged the existing environment of inadequate fire protection services that had to be the subject of some type of mitigation. The project needed to be subject to a labor agreement to demonstrate diversity in hiring local tradespeople.

Keith Bennett, Save Palo Alto's Groundwater, expressed concern about the proposal for underground construction and wanted the Applicant to modify the depth of underground construction.

Esther Nigenda understood that underground construction for residential buildings was not allowed in the floodplain.

Rebecca Eisenberg supported the project and did not understand Moldaw Residences' objections to the project.

Winter Dellenbach advised that the project was not equivalent to 25 percent affordable housing because the in-lieu fee equaled about 8.3 units of below-market-rate (BMR) units. The \$5 million in-lieu fee was unreasonable.

Kelsey Banes remarked that many of the surrounding sites were vacant. The concerns regarding pedestrian safety were valid.

Gail Price, Palo Alto Forward, supported the project because it increased housing as a community benefit.

Raven Malone supported the project but wanted the project to provide more units and more affordable units.

Judith Krongold expressed concern about the project adversely impacting sunlight and privacy for the Moldaw Residences. Construction noise and dust were potential health risks for the elderly.

Jordan Grimes supported the project and urged the Council to streamline processes to encourage the production of housing.

Greg Zicarelli supported the project but expressed concern about underground construction on the site.



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Ryan Globus supported the project and hoped the Council improved bicycle infrastructure in that part of Palo Alto.

Council Member Filseth requested the height of the Moldaw Residences.

Mr. Lait replied approximately 59 feet.

Council Member Filseth remarked that potential projects provided the Council with some flexibility. The project was a good use for the location and converted commercial space to residential space. The proposed height was a concern.

Council Member Kou requested an explanation of the maximum height.

Mr. Lait advised that Planned Community (PC) zoning included a carve out for uses that were located within 150 feet of a residential PC or a single-family residential zone. The PC for the Jewish Community Center (JCC) was mainly commercial, and single-family residential uses were not located near the site. Consequently, the maximum height was 50 feet, which the applicant proposed to exceed.

Council Member Kou inquired regarding the locations of multifamily (RM-4, RM-5) housing.

Mr. Lait indicated RM-4 and RM-5 zoning did not correspond to current zoning standards but were consistent with RM-30 and RM-40 zoning. There was no RM-30 or RM-40 zoning in the area. A 20- or 30-foot setback was located along the narrowest portion of the two buildings, and it widened as it neared East Charleston.

Council Member Kou wanted further clarification of the height and setbacks. She inquired whether building height was measured to the roofline or the top of the parapet.

Mr. Lait explained that height was measured to the top of the parapet.

Council Member Stone felt the project site was the right location for housing. The only way to improve the jobs/housing imbalance was to convert office to residential. Concerns were building height, the daylight plane, and 10-percent of units developed as affordable housing. The housing in-lieu fee was comparable to six to ten affordable housing units. Requiring the project to provide the full amount of affordable housing resulted in 30 or more additional units. He inquired about the mix and location of affordable units.

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John Favreau, Applicant, related that the affordable housing units were going to be dispersed throughout the project, and the project was going to have a proportional number of studio, one-bedroom, and two-bedroom units.

Council Member Stone requested the factors that determined whether a household obtained a studio, one-bedroom, or two-bedroom unit.

Mr. Favreau indicated income and family size were the factors.

Council Member Cormack remarked that the 50-foot height limit was a 34-percent increase in height. She requested the height of the JCC building.

Sheldon Au Sing, Planner, answered 55 to 58 feet. The variance for the building allowed a maximum height of 59 feet.

Council Member Cormack requested clarification of the value of very-low-income units.

Mr. Lait reported only nonprofit organizations produced units at the very-low-income level. The City's requirement was one-third of units for households earning 80-100 percent area median income (AMI) and two-thirds of units for households earning 100-120 percent AMI. The requirement ensured developments provided lower-income housing units onsite and developments met standards for inclusionary requirements.

Council Member Cormack inquired whether the selection of a different option resulted in more affordable units at the higher income levels.

Mr. Lait replied yes.

Council Member Cormack remarked that there were a lot of factors to consider for this project.

Vice Mayor Burt recalled the development of a concept plan for Fabian Way and East Meadow in 2011 or 2012. Any project at this site needed some ground-floor retail. The Housing Incentive Plan (HIP) allowed an FAR of 1.5 for market-rate projects. The PHZ allowed the Council to consider a modest increase in the FAR. The proposed FAR increase was significant. Significantly, the project proposed all housing uses. He preferred projects integrate affordable and workforce units.

Council Member Tanaka asked if a toxic plume was located on the site.

Mr. Lait replied yes.

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Council Member Tanaka inquired whether the building had to be constructed above grade because of the toxic plume.

Mr. Au Sing advised that that aspect had not been studied because the applicant presented a concept plan only.

Council Member Tanaka suggested placing all parking underground, if feasible, was one way to alleviate concerns about building height. Outreach for the project was critical. The payment of housing in-lieu fees was acceptable, but the proposed amount seemed low.

Council Member Kou expressed concern about the building height, FAR, and number of affordable units and appreciated an all-housing project. She preferred the applicant provide all affordable housing units rather than pay an in-lieu fee.

Mayor DuBois related that some aspects of the project were positive. The PHZ was presented to the Council as a way to make modest changes to development standards, but the project went too far. Scaling the project back was likely to result in fewer housing units and a different mix of affordability.

## **NO ACTION TAKEN**

Council took a break at 7:49 P.M. and returned at 8:00 P.M.

### Agenda Changes, Additions and Deletions

None.

### Oral Communications

Aram James expressed interest in obtaining the racial makeup and associations with the Ku Klux Klan and other white nationalist organizations of Police Department personnel. Perhaps the City Manager was willing to name a portion of Foothills Nature Preserve for LaDoris Cordell.

Anupa Bajwa commented that the Council appeared to be piecemealing single-family residential (R-1) zoning to accommodate private builders. The Council needed to consider zoning holistically.

Terry Holzemer remarked that transparency around a market at College Terrace Center was poor and requested information regarding the penalties charged and collected when there was not a market. Limiting public speakers to one minute was ineffective.

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Andie Reed objected to the unsolicited Castilleja questionnaire emailed to residents because it provided false choices and biased and misleading statements. Castilleja's project was incompatible with the neighborhood and impactful to the entire City of Palo Alto.

Rebecca Ward noted the San Francisco International Airport (SFO) Roundtable discussed Palo Alto's participation on the Roundtable and surveyed members in a closed meeting. Palo Alto needed a seat on the Roundtable to address airplane noise.

Rebecca Eisenberg reiterated prior comments regarding Vice Mayor Burt's environmental record and Police Officers participating in the Washington, D.C., riots. Castilleja's application for a Conditional Use Permit (CUP) provided no public benefit, and the Council was not allowed to grant it.

Mark Shull shared the reason for the SFO Roundtable being limited to jurisdictions in San Mateo County. Joining the Roundtable was critical to achieving any progress on airplane noise.

Chris Robell proposed the Council not impose additional taxes on residents and small local businesses. He proposed the Council request an organization chart for the City

## Minutes Approval

### 3. Approval of Action Minutes for the January 25, 2021 City Council Meeting

Council Member Cormack requested the removal of Page 6 from the Minutes as it did not contain any meeting information.

**MOTION:** Council Member Kou moved, seconded by Council Member Cormack to approve the Action Minutes for the January 25, 2021 City Council meeting, with removal of Page 6.

**MOTION PASSED:** 7-0

## Consent Calendar

Aram James, addressing Agenda Item Numbers 4-6 and 8-9, recommended Council Member Tanaka and Vice Mayor Burt thoroughly review contracts to ensure there were no issues with expenditures.

Rebecca Eisenberg, addressing Agenda Item Number 4-6 and 9, remarked that the contracts were not presented to the Council. She opposed the appointment of Peter Drekmeier to the Emergency Standby Council.

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Council Member Tanaka registered a no vote on Agenda Item Numbers 4 and 6.

**MOTION:** Council Member Cormack moved, seconded by Council Member Filseth to approve Agenda Item Numbers 4-10.

4. Approval of Contract Number C21180550A With TJKM for a Four-year Term Not-to-Exceed \$800,000, and Contract Number C21180550B With Fehr and Peers for a Four-year Term Not-to-Exceed \$800,000, for On-call Transportation Engineering and Planning Project Support Services.
5. Approval of Contract Number C21180050 With Clean Harbors Environmental Services, Inc. for Household Hazardous Waste Management and Emergency Response Services for a Five-year Term for a Total Amount Not-to-Exceed \$1,650,000.
6. Approval of Change Order Number 1 to Contract Number C20174826 With Monterey Mechanical Co. Adding \$300,000 for a Total Not-to-Exceed Amount of \$750,000 for the On-call Emergency Construction Services Project Funded in Wastewater Treatment Enterprise Fund Capital Improvement Program (Project WQ-19002) at the Regional Water Quality Control Plant.
7. Adoption of a Park Improvement Ordinance for Renovations at Cameron Park.
8. Appointment of the 2021 Emergency Standby Council.
9. Approval of Construction Contract C21180619 With Cratus, Inc. in the Amount of \$1,682,000 for Phase III of the Cross-bore Verification, Inspection, and Assessment Program; and Authorization to Execute and Negotiate Related Change Orders in the Amount of \$168,200 for a Total Not-to-Exceed Amount of \$1,850,200.
10. Selection of Applicants to Interview for the Historic Resources Board and the Planning and Transportation Commission.

**MOTION PASSED FOR AGENDA ITEM NUMBERS 4 AND 6:** 6-1 Tanaka  
no

**MOTION PASSED FOR AGENDA ITEM NUMBERS 5, 7-10:** 7-0

Council Member Tanaka related that contracts on the Consent Calendar were worth several million dollars, and the Public Safety Building (PSB) project was going to add more than \$5 million to capital expenses. The Staff Report for Agenda Item Number 4 did not provide the amounts of all bids or indicate if

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there was a rate increase. In Agenda Item Number 6, the change order provided a 66 percent increase. The Staff Report did not indicate the source of funding for the change order.

## City Manager Comments

Ed Shikada, City Manager, reported Agenda Item Number 6 was funded through Wastewater Treatment Enterprise Funds, and commingling those funds with other funds was not possible. The contract pertained to emergency construction services, leak repairs, and line replacements. Additional dates for COVID-19 testing were available at Mitchell Park Community Center and the parking lot. California Avenue was closed to vehicles and open to pedestrian access only. Three blocks of University Avenue were going to be closed to vehicles and open to pedestrians only. Staff was working with businesses on the closures of University Avenue. The next Community Check-In meeting was scheduled for February 19, 2021. Public art murals were coming to business districts in mid-February 2021. The Race & Equity Challenge was underway. The online Community Survey was scheduled to close on February 10, 2021. The beta version of the new City website was scheduled to go live on February 11, 2021. Caltrans was going to close Highway 101 lanes for construction of the Highway 101 Bike Bridge on February 13-14, 2021.

Council Member Kou noted the Community Check-in meeting was scheduled for February 16, 2021 rather than February 19.

## Action Items

11. Review the Potential Financial Scenarios and Direction to Staff on Development of the Fiscal Year (FY) 2022 Budget; Review and Accept the FY 2022 Budget Development Guidelines; and Review and Accept the FY 2022 – 2031 Long Range Financial Forecast.

Kiely Nose, Administrative Services Department Director/Chief Financial Officer, reported the Long Range Financial Forecast (LRFF) was based on the Council's decisions of May and June 2021. Staff attempted to prepare information that allowed the Council to continue taking measured steps forward.

Christine Paras, Administrative Services Department Assistant Director, advised that this was one of the touchpoints for the fiscal year (FY) 2022 Budget process. Staff anticipated returning to the Finance Committee with Proposed Operating and Capital Budgets in April 2021. Staff prepared three FY 2022 financial balancing scenarios. The options that Council selected were going to guide the FY 2022 Budget process and build on service reductions.

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In preparing the balancing scenarios and LRFF, Staff considered fiscal pressures and the economy. Scenario A assumed a two-to-three-year economic recovery with tax revenues rebounding to pre-COVID-19 levels and resulted in a \$9.2 million cumulative net operating gap. Scenario B assumed a three-to-five-year recovery with slow growth and resulted in a \$17.6 million cumulative net operating gap. Scenario C assumed a seven-to-ten-year recovery period with tax revenues falling \$7 million short of pre-COVID-19 levels in the fifth year and resulted in a \$26 million cumulative net operating gap. The LRFF for the base case reflected revenues and expenditures balancing in FY 2027. In December 2020, the Finance Committee requested an alternative scenario for salaries remaining at the same level in FY 2021 and FY 2022. The alternative scenario reflected a \$3.1 million gap in FY 2022. Over the ten-year period, the cumulative operating margin was \$10.4 million. Staff recommended the Council select a financial scenario for Staff to use in planning and issuance of the FY 2022 Proposed Budget.

Council Member Cormack requested a compound annual growth rate for the spreadsheet shown on Page 308. She inquired whether workers' compensation increases were the result of more claims, higher amounts, or both. The Staff Report did not mention potential medium-term changes to Stanford University operations.

Vice Mayor Burt requested clarification of the combined base and Transient Occupancy Tax (TOT) transfer amounts in the outlying five years projected for infrastructure funds, non-utility.

Ms. Nose indicated the base transfer to infrastructure was \$6.9 million in 2021 and \$7 million in 2022. The projected TOT transfer in 2021 was approximately \$2 million.

Council Member Filseth inquired about the possibility of receiving good estimates for Educational Revenue Augmentation Fund (ERAF) distributions and action by the County of Santa Clara (County) on Proposition 8 in March 2021.

Ms. Nose related that the residential ERAF was likely to be available in March, but the commercial and industrial estimates were due in the April to June timeframe.

Council Member Tanaka inquired about the causes for the LRFF showing a 7.1 percent increase in expenditures in FY 2023.

Ms. Paras explained that the increase was attributable to pension increases and restoration of the base transfer to capital.

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Council Member Tanaka requested the modeling used to develop the revenue forecasts.

Ms. Nose advised that Staff worked with consultants and researched trends and projections. She suggested Council Members focus on the overall trend rather than individual estimates.

Council Member Tanaka asked if Staff sought the opinions of local business owners and managers.

Ms. Nose noted Staff met with local businesses every few weeks.

Council Member Stone asked if Staff considered business travel into Palo Alto never returning to pre-COVID-19 levels.

Ms. Nose explained that none of the scenarios predicted a return to pre-COVID-19 levels in the five-year period. The long-term impacts were unknown.

Council Member Stone requested the cause for the significant increase in the cost of services.

Ms. Nose indicated a significant driver for that growth in FY 2023 was a 50-percent increase in the transfer to infrastructure.

Mayor DuBois asked if the Council needed to reduce expenses by \$10 million in the first year or every year of the base case.

Ms. Nose related that the reduction was \$17.6 million in addition to the reductions made in FY 2021.

Ed Shikada, City Manager, clarified that the cuts needed to be ongoing rather than one-time.

Mayor DuBois inquired whether the Council needed to consider using reserve funds.

Ms. Nose cautioned the Council to utilize one-time funds for one-time needs. Reserve funds were designed to bridge a period of uncertainty.

Aram James believed the process for the Public Safety Building (PSB) was not fair.

Rebecca Eisenberg advocated for a business tax.

Council Member Kou inquired about service cuts.



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Ms. Nose stated reductions were part of the budget process, but they were likely to affect the organization as a whole.

Council Member Kou asked when the Proposed Budget was going to be published.

Ms. Nose answered the end of April.

Council Member Tanaka felt the FY 2020 LRFF was no longer accurate or possible. The Scenario A and B projections for Sales Tax were probably wishful thinking. Local business owners did not believe Sales Tax and TOT were going to return to pre-COVID-19 levels for many years. Scenario C was optimistic but the most realistic projection of the three.

Vice Mayor Burt recalled City finances in 2008 and 2009 when the Great Recession occurred. Property tax continued to grow through the Proposition 13 reappraisal of property at the time of sale. The TOT was the dedicated revenue stream for the capital plan, and that revenue stream was virtually gone. The capital plan had to be adjusted.

Council Member Cormack indicated Scenario B was conservative and plausible. The cuts made in 2020 likely had not impacted the community yet. She suggested Staff consider Stanford University operations in the projections.

Mr. Shikada reported Stanford University was planning to bring undergraduate students back to campus for the spring quarter. Plans had not been made for sports.

Mayor DuBois stated starting with Scenario B and adjusting the projections as data became available was the appropriate action. Decisions had to be based on data. The Council needed to take a position on utilizing reserve funds for a year or two.

Council Member Filseth felt Property Tax may be more promising than projected. The temptation was to utilize Scenario C. The transfer to capital was a way to modulate the capital plan.

**MOTION:** Council Member Filseth moved, seconded by Mayor DuBois to:

- A. Build a FY 2022 proposed budget assuming Scenario B and direct Staff to reassess Scenarios A, B, and C in the Fall of 2021 with the Finance Committee for any changes in economic conditions; and
- B. Accept the FY 2022 to 2031 General Fund Long Range Financial Forecast and the three annual Budget Development Guidelines.

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Vice Mayor Burt proposed an Amendment altering the capital plan.

**INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER** to forward the following to the Finance Committee for discussion prior to the Budget process:

- A. Direct Staff to return with versions of Scenario B whereby Council reviews extending and or dropping certain portions of the five-year capital plan;
- B. Evaluate whether to finance any elements of the capital plan;
- C. Explore one-time modest reductions in the Budget Stabilization Reserve to provide a bridge, while we address strategic changes to our operating expenses.

Mayor DuBois questioned whether the Council needed to review adjustments as part of the budget process.

Vice Mayor Burt inquired whether the Council needed to review the scenarios in April or May in order to incorporate them into the budget.

Ms. Nose interpreted the Amendment as Staff preparing a budget for each scenario in addition to the Proposed Operating and Capital Budgets. There was not sufficient time for Staff to go through those machinations.

Vice Mayor Burt clarified that Staff was to adjust the information provided in the Staff Report for each scenario and identify the implications.

Ms. Nose asked if the Council wanted to see the bottom-line effects on the operating margin and the effects on infrastructure projects.

Council Member Filseth envisioned Staff prioritizing the Capital Plan.

Vice Mayor Burt suggested the Capital adjustments fell into two categories, projects extended on the time horizon and projects not included in the seven-year plan.

Mr. Shikada reported the resulting information was likely to be a package of project deferrals based on dollar amounts. The challenge was one-time funding. Deferrals might provide cash for use in FY 2022, but it was one-time funding.

Vice Mayor Burt did not agree that it was one-time funding. Dropping projects from the Capital Plan did not provide one-time funding. Extending the time horizon to seven years was going to move all the numbers through a recovery

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period. The City provided services, and the Council was talking about cutting services. The community had not yet experienced the impacts of the cuts already made. The Council needed to review the aggressive nature of the Capital Plan in the midst of an economic crisis

Council Member Filseth explained that delaying a project for a year provided a one-time savings in capital costs. Delaying a project outside the seven-year window was the same as killing the project. If the Council used precise wording for delaying and killing projects, one-time versus recurring funding was not an issue.

Vice Mayor Burt believed financing Capital projects over a 20-year period spread out the expense because of the low interest and inflation rates.

Council Member Filseth accepted the Amendment as long as the Council used caution in considering financing projects.

Mr. Shikada clarified that between the present time and April, Staff was going to use a detailed review of the Capital Improvement Plan (CIP) as potential mitigation for the Operating Budget.

Ms. Nose stated the timing was problematic for Staff capacity. Preparing the Proposed Budgets and balancing scenarios and compiling all the details required a few weeks. Staff was already working seven days a week. She proposed Staff include the options in the Proposed Budgets and present everything to the Finance Committee for review.

Council Member Filseth noted the base and TOT transfers to capital in FY 2022 totaled approximately \$15 million. He inquired whether the process Ms. Nose outlined allowed the Council to make intelligent decisions for making cuts.

Ms. Nose answered yes. During the Budget process for FY 2021, Staff adjusted the CIP based on direction from the Council.

Mr. Shikada suspected Staff was going to need to return to the Council to develop criteria for dropping portions of the five-year capital plan.

Mayor DuBois indicated the Council needed to review the Infrastructure Plan and options.

**AMENDED INCORPORATION INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER** to forward the following to the Finance Committee for discussion as part of the Budget process:

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- A. Direct Staff to return with versions of Scenario B whereby Council reviews extending and/or dropping certain portions of the five-year capital plan;
- B. Evaluate whether to finance any elements of the capital plan; and
- C. Explore one-time modest reductions in the Budget Stabilization Reserve to provide a bridge while Council addresses strategic changes to operating expenses.

Council Member Stone looked forward to reviewing the capital plan.

Council Member Cormack did not understand the rationale for including Scenario A in Subpart A of the Motion.

Council Member Filseth noted the intent of Subpart A was for Staff to reassess in the fall of 2021 with the Finance Committee for any changes in economic conditions.

**INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER** to change Motion Part A to state "... and direct Staff to reassess in Fall 2021 ... ."

Council Member Cormack related that Subpart C.i pertained to prioritization of the Infrastructure Plan. She disagreed with Subpart C.iii because the Budget Stabilization Reserve was used to pay Staff in the early days of the pandemic. Previously, the strategic changes were outsourcing work.

Council Member Kou asked if the capital plan included repairs and replacement for maintenance of facilities.

Mayor DuBois answered yes.

Council Member Kou requested an estimate of the amount needed for City Council's existing Priorities.

Ms. Nose did not have an estimate at the current time. Staff intended to highlight Council Priorities in discussions of the Community and Economic Recovery Workplan and Proposed Budgets.

Council Member Tanaka requested the line on the chart that was associated with Subpart B of the Motion.

Ms. Paras replied Scenario B.

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Council Member Tanaka requested the actions needed if actual revenues did not support Scenario B.

Mr. Shikada advised that Council was providing the input for development of the FY 2022 Budget. In the fall of 2021, Staff intended to present the data and confirm assumptions with the Council. At that time, additional adjustments based on the data were possible.

Council Member Tanaka expressed concern that Scenario B was slightly too optimistic and that the Council was going to have to make emergency rather than planned reductions in the fall. He requested the Mayor split the Motion.

Mayor DuBois did not agree to split the Motion.

Ms. Nose advised that Subpart C contemplated everything stemming from Scenario B.

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

- A. Build a FY 2022 proposed budget assuming Scenario B and direct Staff to reassess in Fall of 2021 with the Finance Committee for any changes in economic conditions; and
- B. Accept the FY 2022 to 2031 General Fund Long Range Financial Forecast and the three annual Budget Development Guidelines; and
- C. Forward the following to the Finance Committee for discussion as part of the Budget process:
  - i. Direct Staff to return with versions of Scenario B whereby Council reviews extending and/or dropping certain portions of the five-year capital plan;
  - ii. Evaluate whether to finance any elements of the capital plan;
  - iii. Explore one-time modest reductions in the Budget Stabilization Reserve to provide a bridge, while we address strategic changes to our operating expenses.

**MOTION AS AMENDED PASSED:** 6-1 Tanaka no

Council took a break at 10:22 P.M. and returned at 10:30 P.M.

12. Policy and Services Committee Recommends the City Council Approve the 2021 Legislative Guidelines; Utilities Advisory Commission

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Recommends the City Council Approve the 2021 Utilities Legislative Guidelines; and Discussion and Direction on Pending State Legislation.

Chantal Cotton Gaines, Deputy City Manager, reported the categories for the Legislative Guidelines remained the same. Adoption of the Guidelines was typically placed on the Consent Calendar. The Utilities Legislative Guidelines were similar to the Legislative Guidelines, and the Utilities Advisory Commission approved them in November 2020.

Niccolo De Luca, Townsend Public Affairs, advised that the deadline to introduce bills was February 19, 2021. COVID-19 relief and response, climate resiliency, housing, homelessness, social equity, and police reform were expected to dominate legislative topics. Approximately 625 bills were introduced in January, and another 2,000 were anticipated prior to the deadline. The Governor and his Administration were focused on the COVID-19 vaccine and reopening schools and the economy.

Ms. Cotton Gaines shared the format of information about legislation.

Mayor DuBois announced direction to Staff regarding legislation was continued to a future meeting.

Aram James inquired about legislation for encryption of Police Department communications, police reform, and local reparation commissions.

Rebecca Eisenberg remarked that the Council needed to accept laws as laws rather than guidelines and to remember that approximately half of the community rented their homes.

Council Member Kou related that she did not support the Policy and Services Committee's (P&S) recommendation because she wanted a stronger legislative guideline.

Council Member Filseth requested the importance of wordsmithing the Legislative Guidelines.

Mr. De Luca advised that the document was perfect as written. It provided him with direction and flexibility to advocate on behalf of the City.

Council Member Filseth asked about plans for the latest budget windfall.

Mr. De Luca noted Assembly and Senate leadership were focused on homelessness, small business support, and COVID-19 vaccine distribution.

Council Member Filseth inquired about the likelihood of the City receiving funding for homelessness.

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Mr. De Luca indicated the possibility was real.

Vice Mayor Burt noted the Legislative Guidelines did not address renter protections and encryption of Police Department communications. He inquired whether the Legislative Guidelines allowed the Council to respond in real-time and in a focused way.

Ms. Cotton Gaines reported housing and police reform were appropriate categories for renter protections and encryption of communications.

Mr. De Luca recommended separating legislation into buckets of priority bills and bills to watch and holding monthly discussions with P&S about legislation.

Vice Mayor Burt added a third bucket of legislation for local Legislators to sponsor.

Council Member Cormack commented on the similarity of the Legislature's focus and the Council Priorities. She asked Council Members to think about adding health and Sales Tax reform.

Council Member Kou believed Senate Bill (SB) 731, 776 and 1550 were going to return.

Mr. De Luca advised that SB 731 and 776 were re-introduced.

**MOTION:** Council Member Kou moved, seconded by Mayor DuBois to:

- A. Approve the City's 2021 Legislative Guidelines as recommended by the Policy and Services Committee on December 8, 2020;
- B. Approve the 2021 Utilities Legislative Policy Guidelines as recommended by the Utilities Advisory Committee on November 4, 2020; and
- C. Direct Policy and Services Committee to continue to discuss the Legislative Guidelines on a regular basis for possible refinement.

Council Member Kou indicated SB 731 and 776 and SB 1550 could be added to the police reform category and the social justice category respectively. Tracking the numerous bills was overwhelming, but legislation impacted the City in so many ways.

Mr. De Luca explained that the Legislative Guidelines provided him with a mission to seek bills on the various topics. He needed a deep forensic dive with Staff into City policy to provide the exact impact of legislation on Palo Alto. In his suggestion, P&S acted as a clearinghouse.

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Council Member Stone appreciated the list of topics and looked forward to a discussion before P&S. He inquired whether there was ever an opportunity to attach a list of specific items to the Legislative Guidelines.

Mr. De Luca was not aware of a list being attached to the Legislative Guidelines in years past.

Mr. Shikada added that previous Legislative Guidelines were voluminous, difficult to work with, and difficult to apply to specific bills.

Vice Mayor Burt noted a disconnect between the number of bills and Staff's capacity to analyze and track them all.

Council Member Stone appreciated Mr. De Luca's suggestion for the City to propose changes to legislation rather than to oppose legislation. He asked if the City had done that previously.

Mr. De Luca reported a few years ago he worked with a Legislator's office and City Staff to draft useful verbiage.

**INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER** to add to the Motion a new Part D "Continue to a date uncertain discussion of specific bills pending in the state."

Mayor DuBois hoped the Council supported funding for unhoused programs, renter protections, access to police departments' encrypted communications, and Sales Tax reform.

**MOTION AS AMENDED:** Council Member Kou moved, seconded by Mayor DuBois to:

- A. Approve the City's 2021 Legislative Guidelines as recommended by the Policy and Services Committee on December 8, 2020;
- B. Approve the 2021 Utilities Legislative Policy Guidelines as recommended by the Utilities Advisory Committee on November 4, 2020;
- C. Direct Policy and Services Committee to continue to discuss the Legislative Guidelines on a regular basis for possible refinement; and
- D. Continue to a date uncertain discussion of specific bills pending in the state.

**MOTION AS AMENDED PASSED:** 7-0



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13. Provide Direction on the Recruitment for an Unfinished Term on the Planning and Transportation Commission due to a Resignation.

Beth Minor, City Clerk, reported recruitments closed recently, and appointments were scheduled for February 22, 2021. Staff sought direction regarding a two-week recruitment or a six-week recruitment for the vacant seat on the Planning and Transportation Commission (PTC).

Molly Stump, City Attorney, advised that Staff planned to return to Council with an Ordinance that changed appointments to the spring. If the change was approved, the Council had an option to extend appointments to the following May or proceed with appointments in December.

Aram James related that Ms. Eisenberg was interested in serving on the PTC and was an incredible resource.

Mayor DuBois asked the Council to focus on the vacant seat on the PTC.

**MOTION:** Vice Mayor Burt moved, seconded by Mayor DuBois to:

- A. Proceed with a special recruitment period for the vacant position, which will run for 2 weeks with a proposed application deadline of February 23, 2021;
- B. Include current Planning and Transportation Commission applications in the special recruitment, if the applicant agrees; and
- C. Applicants who participated in the current round of interviews will not be interviewed during the special recruitment.

Mayor DuBois supported a separate recruitment because most people did not realize there was a third open seat on the PTC.

Council Member Cormack noted the Council was going to impose term limits for Boards and Commissions and asked if a partial term counted toward term limits.

Ms. Stump advised that the issue was not decided.

Council Member Cormack encouraged the City Clerk to clearly notify applicants of the terms, application deadlines, and appointment dates.

**MOTION PASSED:** 7-0

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## Council Member Questions, Comments and Announcements

Mayor DuBois reported the Palo Alto Players were offering a virtual production, and he toured the new Junior Museum and Zoo. He encouraged the public to continue with COVID-19 tests.

Adjournment: The meeting was adjourned in honor of George Schultz at 11:45 P.M.