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:

Agenda Changes, Additions and Deletions
None.

Oral Communications

Rhoda Fry remarked that a portion of Lehigh's quarry property was located in Palo Alto. Lehigh's proposal impacted the future expansion of the Black Mountain Trail. Lehigh was one of the state's worst polluters.

Mark Shull encouraged residents to attend the virtual meeting with San Francisco International Airport (SFO) regarding the Ground-Based Augmentation System (GBAS). It was time for the City to fight for its place on the SFO Roundtable.

Charlie Weidanz announced World Music Month began the previous weekend and continued on Saturdays and Sundays in June 2021.

Rebecca Ward urged the Council to become a member of the SFO Roundtable. Aircraft traffic was impacting the residents of Palo Alto. Membership in the SFO Roundtable was an opportunity to address the impacts of aircraft traffic.

Terry Holzemer urged the Council to support hiring an in-house Economic Development Staff member. A consultant was not going to focus on residents' concerns. The Council needed to reexamine the closure of California Avenue and University Avenue to vehicular traffic.

Eileen Richardson, Downtown Streets Team, apologized for the blemish that incidents involving employees left on the organization and its purpose. The Board and she addressed the incidents with training and implementation of best practices and compiled a number of documents that demonstrated the organization's evolution and dedication to improvement. The documents were available upon request.
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Winter Dellenbach questioned the Veterans Administration's May 7, 2021 statement regarding the fuel spill when containment booms were installed in the Boulware Park segment of the creek. Water testing data was made available; however, it raised many questions. The Parks and Recreation Commission and the Storm Water Management Oversight Committee needed to be involved in the matter.

John Norman stated Black people were getting an advantage over Asians and White people. Segregation was needed so it was not equal.

Minutes Approval

1. Approval of Action Minutes for the May 24, 2021 City Council Meeting.

**MOTION:** Vice Mayor Burt moved, seconded by Mayor DuBois to approve the Action Minutes for the May 24, 2021 City Council Meeting.

**MOTION PASSED:** 7-0

Consent Calendar

Council Member Kou registered no votes on Agenda Item Numbers 3, 9 and 10.

Council Member Tanaka registered a no vote on Agenda Item Number 3.

Mayor DuBois registered a no vote on Agenda Item Number 9.

Roland Lebrun requested someone disable closed captioning in Zoom.

Jeremy Erman, addressing Agenda Item Number 7, felt the Agenda Item was hypocritical in light of the City’s attempt to evict Cubberley tenants in 2020 while retaining control of one building, the gym, and the theatre.

Angie Evans, addressing Agenda Item Number 9 on behalf of Palo Alto Forward, hoped the Council extended the closure of California Avenue and University Avenue to vehicular traffic indefinitely to preserve the vibrancy of the business districts. Families with children under age 12, for whom there was not a COVID-19 vaccination, needed a public space that was safe for children.

Carol Scott, addressing Agenda Item Number 9, objected to the City Manager meeting with the business community only. The proposal affected traffic, safety, and air pollution, all of which impacted residents living adjacent to California Avenue.
MOTION: Mayor DuBois moved, seconded by Council Member Cormack to approve Agenda Item Numbers 2-10.

2. Approval of an Effluent Transfer Agreement Between the City of Palo Alto and the City of Los Altos.

3. Approval of Contract Number C21179800A With Pacific International Electric Company, Inc. in the Amount of $943,639 for the Underground District 46 Completion Project; and Authorization to Execute and Negotiate Related Change Orders in the Amount of $188,728 for a Total Not-to-Exceed Amount of $1,132,367; and Approval of a Budget Amendment in the Electric Fund.

4. Recommendation to Authorize the City Manager or Designee to Execute a Five-year General Services Agreement With Western Machinery Electric Inc. for Repair and Maintenance of Electricity Generators at the Municipal Service Center in an Amount Not-to-Exceed $592,248; and to Negotiate and Execute one or More Task Orders for Additional Services as Needed in an Amount Not-to-Exceed $300,000, for a Total Not-to-Exceed Amount of $892,248; and Approve a Budget Amendment in the Electric Fund.

5. Approval of a Design-build Contract With Johnson Controls Fire Protection, LP in the Amount of $517,280, and Authorization for the City Manager to Negotiate and Execute Related Change Orders for a Not-to-Exceed Amount of $51,728, for a Total Not-to-Exceed Amount of $569,008 for the Civic Center Fire Life Safety Upgrades, Capital Improvement Program Project (PE-18016).

6. Approval of Amendment Number 1 to Contract Number S20176879 With Johnson Controls Fire Protection, LP to Increase the Contract Amount by $86,847 for a Revised Three-year Contract in a Total Amount Not-to-Exceed $265,584 for the Provision of Fire Sprinkler System Inspections and Repair Services.

7. Policy and Services Committee Recommends Approval of a Rent Forgiveness Program for Tenants in City Buildings and Approve a Budget Amendment in the General Fund.


9. Adoption of an Ordinance and Resolution 9962 Temporarily Continuing: 1) Uses of Public and Private Property for Outdoor Dining, Retail, and
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Personal Services; and 2) the Pilot Parklet Program Past the end of the Local Emergency.


MOTION PASSED FOR AGENDA ITEM NUMBERS 2, 4-8: 7-0

MOTION PASSED FOR AGENDA ITEM NUMBER 3: 5-2 Kou, Tanaka no

MOTION PASSED FOR AGENDA ITEM NUMBER 9: 5-2 DuBois, Kou no

MOTION PASSED FOR AGENDA ITEM NUMBER 10: 6-1 Kou no

Council Member Kou felt the Council needed to defer the project noted in Agenda Item Number 3. October 2021 was an appropriate sunset date for Agenda Item Number 9. Engagement with the neighbors was problematic. With regard to Agenda Item Number 10, health orders allowed development to resume early in the pandemic. Therefore, extending the expiration of permits was not necessary.

Council Member Tanaka indicated deferring the undergrounding project did not affect residents but reduced Operating Reserves by $500,000.

Mayor DuBois related that the Council did not make required findings that roadways were not needed. He expressed concern regarding the use of public rights-of-way and business locations in other cities recovering faster than Palo Alto locations.

City Manager Comments

Ed Shikada, City Manager, reported free COVID-19 vaccinations were available throughout Santa Clara County. Free COVID-19 testing was available at the Cubberley Pavilion. Staff was reviewing new protocols released by Cal/OSHA. The Governor's Executive Order was probably not going to be lifted on June 15, 2021, which meant public meetings were going to continue in the virtual format. The Summit on Women and Girls was scheduled for June 12, 2021. The City was hosting a community meeting with San Francisco International Airport (SFO) regarding the Ground-Based Augmentation System (GBAS) on June 9, 2021. World Music Month was going to be celebrated on Saturdays and Sundays in June 2021. The center segment of the Bike Bridge over Highway 101 was delayed in reaching Palo Alto. Currently, installation of the center segment was scheduled overnight on June
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12-13, 2021. The City was designated a Gold-Level Bicycle Friendly Community. Upcoming Agenda Items for the Council included the North Ventura Coordinated Area Plan (NVCAP), the Budget, changes to the City's Local Emergency Proclamation, and installation of electric vehicle (EV) superchargers at the Bryant Street Garage.

Action Items

11. PUBLIC HEARING: Resolution 9963 Entitled, “Resolution of the Council of the City of Palo Alto to Suspend Assessments for Fiscal Year 2022 for the Downtown Business Improvement District (BID) (CONTINUED FROM JUNE 1, 2021).”

David Ramberg, Administrative Services Assistant Director, reported the Council preliminarily approved suspension of Fiscal Year (FY) 2022 assessments for the Downtown Business Improvement District (BID) on May 17, 2021. In June 2021, the Council suspended BID assessments for FY 2021.

Public Hearing opened and closed without public speakers at 5:45 P.M.

MOTION: Council Member Cormack moved, seconded by Mayor DuBois to adopt a Resolution temporarily suspending the levy of assessments in Fiscal Year 2022 in connection with the Downtown Palo Alto Business Improvement District (BID).

Council Member Cormack noted that funding was sufficient for the remaining expenses and that data was going to be collected.

Mayor DuBois asked if Business Registry fees were suspended for businesses registering on time but remained in effect for businesses not registering timely.

Mr. Ramberg replied yes. At the Council’s direction, Staff extended the deadline to July 15, 2021.

Vice Mayor Burt inquired regarding the possibility of continuing the Summer Concert Series without the BID’s support.

Mr. Ramberg agreed to provide information at a later time.

MOTION PASSED: 7-0

Council took a break at 5:50 P.M. and returned at 6:05 P.M

12. 855 El Camino Real (20PLN-00252): Adoption of an Ordinance Amending Chapters 18.04 and 18.16 of the Municipal Code to Allow
Some Ground Floor Medical Office (“Retail Health”) Uses With a Commensurate Increase in the Overall Office use Allowed at the Site Subject to Limitations. Environmental Assessment: Exempt From the Provisions of the California Environmental Quality Act (CEQA) in Accordance With Guideline Section 15301 (Existing Facilities). Zoning District: CC (Community Commercial).

Rachel Tanner, Planning and Development Services Assistant Director, reported the Applicant’s request was to replace ground-floor retail and retail-like uses with medical uses within Town & Country Village. On March 22, 2021, the Council declined medical office uses but supported the concept of a retail health use. The Planning and Transportation Commission (PTC) recommended the definition of retail health exclude convalescence, use of general anesthesia, emergency services, and urgent care; limiting retail health uses to 10 percent of the existing ground-floor area of Town & Country Village; not allowing retail health uses to occupy spaces directly facing El Camino Real and Embarcadero Road; a retail health use provide 750 square feet or 20 percent of total space, whichever was less, for retail sales and displays; a requirement for transparent storefront glazing or retail displays to extend a minimum depth of 3 feet; a requirement for tenant leases to be established by December 31, 2023; and further study of extending retail health uses to other areas of the City. The PTC split 4-3 regarding the recommendations, with opposition noting retail may recover, retail and retail-like uses needed to be preserved, uncertainty about uses allowed as a retail health use, retail health uses may harm the overall retail environment, and a desire to refine the definition of a retail health use. The Applicant proposed modifying the definition to allow urgent care if it was associated with a primary care use.

Dean Rubinson, Ellis Partners, reviewed the history of the application and comments from four tenant representatives provided on May 12, 2021. In 2017, retail sales began decreasing while the average retail vacancy began increasing in Town & Country Village. Based on the national increase in online retail sales from 2018 to 2020, e-commerce was the primary cause of declining sales in Town & Country Village. Health retail tenants were thriving and invented for synergy with retail centers. The Council's and PTC's changes were acceptable, and the Applicant requested the Council allow urgent care services associated with a primary care use. In a worst case scenario, health retail uses reduced Sales Tax revenue by $39,000. However, health retail uses were likely to increase retail sales at other uses in Town & Country Village, prevent additional tenant failures, and increase overall Sales Tax revenues.

Hamilton Hitchings believed the financial viability of Town & Country Village was important. Limiting health retail uses to the second floor was less
intrusive than ground-floor. He opposed the Applicant's proposed change to allow urgent care associated with a primary care use.

Terry Holzemer opposed the proposed Ordinance because recovery from the pandemic was just beginning.

Jeff Levinsky noted that Town & Country Village was crowded over the past few weeks. He questioned whether rents were appropriate to attract businesses. The proposed Ordinance created a monopoly.

Rebecca Sanders preferred to retain all retail uses. Ventura residents were concerned about the proposal.

Vice Mayor Burt asked if the vacancy rate included the three new restaurants. Mr. Rubinson answered no. If they were included, the vacancy rate dropped from 21 percent to around 18 percent.

Vice Mayor Burt indicated that the proposed definition categorized health retail as a form of medical office rather than retail.

Ms. Tanner explained that in the Municipal Code, retail health was going to be placed under medical office to reflect retail health's relationship to medical office. However, the definition distinguished retail health from medical office.

Vice Mayor Burt suggested retail health may need to be defined as a form of retail rather than medical office. Under the proposed language, a retail health use needed to provide a storefront or a sales area, but the sales area was not required to be located at the very front of the space. He inquired whether Staff discussed a requirement for drop-in services.

Ms. Tanner indicated the PTC did not discuss specific operations but discussed a retail sales area.

Vice Mayor Burt suggested walk-in services made the use more retail-like but did not preclude services by appointment.

Ms. Tanner advised that neither the PTC nor Staff considered operational standards.

Vice Mayor Burt inquired regarding consideration of extended hours of operation to align with the retail environment.

Ms. Tanner indicated hours of operation were not proposed.
Vice Mayor Burt asked if the size of 5,000 square feet was considered in the context of existing retail spaces in Town & Country Village.

Ms. Tanner noted the average size of spaces was approximately 2,000 square feet. A maximum size of 5,000 square feet allowed one use to occupy two spaces.

Vice Mayor Burt expressed concern that 5,000 square feet placed a retail health use as one of the largest tenants in Town & Country Village.

Mr. Rubinson clarified that Trader Joe's occupied approximately 12,000 square feet while CVS occupied approximately 18,000 square feet. Several other tenants occupied spaces of 5,000 square feet. Medical office and retail health uses were not allowed to occupy space on the second floor because there were no elevators to provide access to the second floor as required by the Americans With Disabilities Act (ADA).

Council Member Stone asked if vacancy rates for retail spaces across the City were beginning to fall.

Ms. Tanner reported Town & Country Village's vacancy rate was higher than other areas of the City, which reported vacancy rates of 10 percent and 15 percent. A vacancy rate of 10 percent or higher was not good for a retail area. Determining a trend was premature at the current time.

Council Member Stone stated the definition of retail health use appeared very broad. He requested examples of retail health uses under the proposed definition.

Ms. Tanner explained that the PTC did not want to exclude types of retail health simply because Commissioners and Staff were not aware of them. The definition attempted to discourage certain types of medical uses and encourage uses with a strong retail component. An optometrist was an example of a retail health use that provided shopping and services with or without an appointment.

Council Member Stone preferred a retail use with a medical component. The proposed definition was a medical use with a slight retail component.

Council Member Filseth remarked that the growth drivers for Sales Tax were business-to-business and to some extent restaurants and food over the past decade. Sales Tax from general retail uses appeared to be essentially flat. The proposed definition of retail health appeared to be a medical office.
Council Member Cormack requested an example of an urgent care associated with a primary care use.

Ms. Tanner understood some medical uses provided urgent care services to their patients or to the public.

Mr. Rubinson explained that primary care services were a significant component of some medical office uses, but the uses also offered urgent care services. Precluding urgent care services could exclude some medical uses from becoming tenants at Town & Country Village.

Council Member Cormack inquired whether small labs performing basic tests were potential tenants.

Ms. Tanner suggested the PTC struggled with separating retail and medical components to draft a definition of retail health use.

Council Member Cormack understood that retail health was a medical office use with a retail component. She supported the Staff recommendation.

Mayor DuBois inquired regarding application of the California Environmental Quality Act's (CEQA) substantial change in use standard to retail health.

Ms. Tanner explained that the environmental impacts for a retail health use were similar to those generated by allowed retail and retail-like uses.

Mayor DuBois asked if ambulances were likely to take patients to a retail health use with urgent care services.

Ms. Tanner did not believe urgent care services were equivalent to emergency room services.

Samuel Gutierrez clarified that the PTC discussed urgent care and emergency services and determined that ambulances and incapacitated patients were not compatible with a retail environment. Urgent care services were more for stitching cuts. A retail health use did not significantly alter the shopping center's function. The parameters for retail health limited the types of uses. The applicant requested a text change, not a redevelopment of the shopping center.

Mayor DuBois noted the expanded scope of a retail health use. Adopting an Ordinance for one parcel was not a good process. This issue was not a priority in relation to other items on the work plan.

Council Member Tanaka asked if the Applicant lowered rents to attract tenants.
Jim Ellison, Ellis Partners, reported rents were down about 20 to 25 percent.

Council Member Tanaka related that his investigation into vacancies and rents revealed landlords were reducing rents and offering to pay for tenant improvements to attract tenants. The retail health concept was intended to generate foot traffic for shopping centers. The situation was dire, and the Council needed to move quickly.

**MOTION:** Council Member Tanaka moved, seconded by Council Member Cormack to:

A. Find the attached Ordinance exempt from the California Environmental Quality Act (CEQA) in accordance with CEQA Guidelines Section 15301 (existing facilities);

B. Adopt the attached Ordinance creating a “retail health” definition allowing a limited amount of retail health uses on the ground floor at Town and Country Shopping Center; and

C. Provide direction to Staff on whether to study expansion of retail health uses to other shopping centers or commercial districts.

Council Member Cormack related that retail health was limited to 10 percent of ground-floor space. People were likely to patronize these uses, and they were likely to be attractive.

**SUBSTITUTE MOTION:** Council Member Kou moved, seconded by Council Member Filseth to deny the application.

Council Member Kou suggested other shopping centers were going to want retail health uses. Retail health uses did not serve residents' needs and did not generate Sales Tax revenue. After June 20, 2022, a retail health use required a Conditional Use Permit, which was in effect permanent.

Council Member Filseth commented that a lot of time was being spent on a project with a small impact. The PTC had difficulty defining retail health.

Council Member Stone noted other shopping centers in the City were doing well. The Applicant needed to demonstrate its efforts to attract tenants before the City amended the Municipal Code. The prospect of economic recovery improved significantly since the Council considered the proposed Ordinance in March 2021.

Vice Mayor Burt wanted the PTC to provide a nuanced definition of health retail. The PTC provided guidance that reflected their values rather than Council direction. The definition was too broad, and someone was going to
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use it to provide services that were not intended. The Council needed to reexamine the need for adjustments in the fall of 2021.

Council Member Cormack inquired whether Director Lait remarked during the Council's last discussion of this project that the Council should not refer the item to the PTC if it was not going to adopt the Ordinance.

Jonathan Lait, Planning and Development Services Director, answered yes.

Council Member Cormack asked if Staff anticipated the economic development consultant's work including retail health.

Ed Shikada, City Manager, reported the Council direction was not specific to retail health. The broader function of exploring the applicability of retail health as an area of growth was appropriate for the general topic.

Council Member Cormack proposed amending the Substitute Motion to direct Staff to study the expansion of retail health uses to shopping centers and commercial districts as part of the Request for Proposals (RFP) for economic development assistance.

Council Member Filseth did not accept the proposed Amendment.

SUBSTITUTE MOTION PASSED: 5-2 Cormack, Tanaka no


Dean Batchelor, Utilities Director, reported every agency in California was required to submit an Urban Water Management Plan (UWMP) and a Water Shortage Contingency Plan (WSCP) every five years.

Karla Dailey, Senior Resource Planner, advised that the deadline to submit the two plans was June 30, 2021. The plans demonstrated the adequacy of the City's water supply to meet its needs. The plans were revised to reflect updated population and employment projections, impacts of the 2015 drought and resulting conservation, the Northwest County Recycled Water Strategic Plan, and the agreement with Valley Water and Mountain View. Due to drought conditions, Staff was going to increase education and community outreach regarding water conservation programs. The UWMP analysis assumed the State implemented the Bay Delta Plan by 2023. The five-year drought risk assessment projected water demand was going to exceed supply beginning in 2023. The WSCP described actions the City planned to take for six levels of water supply shortages. The City was not restricted to
implementing only the actions listed in the WSCP. The City was allowed to amend the WSCP at any time.

Greg Scharff, Utilities Advisory Commissioner, advised that the Utilities Advisory Commission (UAC) unanimously recommended the Council support the UWMP and WSCP. If the plans were not submitted by the deadline, the City may not be eligible for State funding, which the City was seeking. The UAC expressed concern regarding the drastic water reductions, but recommending approval of the plans did not seem to commit the City to anything.

Public Hearing opened at 7:44 P.M.

Dave Warner remarked that the City continued to overestimate its water demand by as much as one-third for 2045. Overestimating demand was financially and environmentally costly and led to water rationing.

Peter Drekmeier, Tuolumne River Trust Policy Director, commented that water demand projections were almost always inflated. The San Francisco Public Utilities Commission (SFPUC) was able to manage a six-year drought with the Bay Delta Plan in effect, without rationing, and without developing new water sources.

Stephen Rosenblum stated that the SFPUC consistently utilized the designed drought to scare people into opposing the Bay Delta Plan, which the Council supported several years ago. He urged the Council to consider amending the UWMP to include realistic water demand projections.

Public Hearing closed at 7:51 P.M.

Vice Mayor Burt expressed concern regarding the disconnect between projections for increased water use and the actual decrease in water use. It was possible the projections were going to impact the City’s water allocation during a drought. He requested Staff comment regarding the reason for projecting an increase in purchases and the unintended impact that may have on drought allocations.

Ms. Dailey related that all demand projections were wrong, but Staff was comfortable with the projection because it was consistent with the trend for decreasing per capita water use. The need to be consistent with the Comprehensive Plan and the enormous pressure to increase housing production overwhelmed an overall decrease in water use slightly.

Vice Mayor Burt asked if Staff factored in the type of housing. Single-family homes consumed more water per capita than multifamily units. The City's
housing growth was projected to be overwhelmingly multifamily units. The additional residents were likely to consume less water per capita than existing residents.

Ms. Dailey concurred. Models showed per capita water use was decreasing. The model was very robust and data driven.

Vice Mayor Burt asked why this model was going to be more accurate than previous models.

Ms. Dailey explained that discussion of supply projects included a range of possible demands rather than only the demand contained in the UWMP.

Council Member Filseth inquired whether lowering the demand forecast meant the City was likely to implement less stringent rationing in the event of a drought and whether the City was able to utilize a less conservative demand forecast in order to lessen rationing.

Ms. Dailey indicated the percentage cutbacks contained in the UWMP were based on system-wide demand projections and SFPUC's predictions for cutbacks. If Palo Alto lowered its demand forecast, the percentage cutbacks were not going to change. SFPUC provided the percentage numbers based on a regional view of the system. If SFPUC redid its analysis, all agencies needed to lower their demand projections. If a water supply shortage was at or below 20 percent, one formula determined the division of water between SFPUC and wholesale customers, and another formula determined the division of water among the 26 Bay Area Water Supply and Conservation Agency (BAWSCA) agencies. If the shortage was greater than 20 percent, the partners negotiated the division of water.

Council Member Cormack requested the anticipated completion date of the study and anticipated outcomes.

Nicole Sandkulla, Chief Executive Officer/General Manager of BAWSCA, understood that the multiyear climate change risk vulnerability assessment was scheduled for publication in the summer. SFPUC was going to utilize the study to inform policy discussions.

Council Member Cormack noted the importance of understanding the science for the future as well as the past. She asked if the City implemented drought rate structures in the past.

Lisa Bilir, Resource Planner, indicated drought rate structures were implemented in 2016 and 2017. If necessary, the Council activated and
imposed the drought surcharge. The rate structures depended on the cutback published by SFPUC and primarily affected Palo Alto's higher tier usages.

Council Member Cormack noted the 2015 drought damaged the City's canopy.

Council Member Tanaka asked if residents were really expected to cut back water usage by 40 percent.

Ms. Dailey advised that the State imposed a target cutback of 23 percent in 2015, and the Palo Alto community reduced water usage by almost 30 percent. The 40 percent cutback was higher than anything previously required.

Council Member Tanaka inquired about the consequences of not meeting cutback requirements in a drought.

Ms. Sandkulla reported in the event of mandatory rationing, SFPUC was allowed to levy fines on member agencies that did not achieve the desired reduction. Fines were determined when mandatory rationing was declared, but 10 to 15 times the current water rate was discussed as a potential fine.

Council Member Tanaka inquired regarding the likelihood that the five-year drought assessment was accurate.

Ms. Sandkulla explained that the Bay Delta Plan was a significant impact to water supply and water supply reliability. BAWSCA was working to remove the region from this type of impact by locating an alternative water source that met the Bay Delta Plan's objectives without the water supply cost.

Council Member Tanaka asked about the impacts of the City releasing some of its water rights.

Ms. Dailey answered almost none.

Council Member Stone inquired whether COVID-19 and telecommuting were likely to materially affect projections for job growth and population.

Ms. Sandkulla advised that the impacts of COVID-19 and the lack of a rebound from the 2015 drought were going to be included in sensitivity scenarios for models. If SFPUC altered their design drought and it materially impacted the assessment for reliability, SFPUC provided that to all partner agencies who used the information to update their UWMPs.

Council Member Stone requested clarification of a "normal year."
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Ms. Dailey indicated average year was a better term. In non-drought years, the City did not have a water supply shortage.

Mayor DuBois asked if the model was the same one that the Association of Bay Governments (ABAG) used to forecast housing units.

Ms. Dailey stated Staff utilized Comprehensive Plan employment and population numbers, which ABAG provided, and compared those to the Housing Work Plan, which assumed the addition of 300 housing units or 500 people per year. Unfortunately, the Housing Work Plan numbers were lower than the Regional Housing Needs Allocation (RHNA).

Mayor DuBois inquired regarding the Staff Report not mentioning the large potable recyclable water plant.

Ms. Dailey advised that the large plant was not going to serve Palo Alto. The UWMP discussed the large plant in broad terms.

Mayor DuBois advised that the Valley Water Board was scheduled to consider declaring a water shortage for Santa Clara County on June 9, 2021.

MOTION: Mayor DuBois moved, seconded by Council Member Cormack to adopt a Resolution adopting the 2020 Urban Water Management Plan and a Resolution adopting the Water Shortage Contingency Plan.

Mayor DuBois preferred to approve the plans and amend them when information was available.

Vice Mayor Burt requested Staff comment regarding an appendix that analyzed the impact of SFPUC reducing the length of the design drought by a year.

Ms. Dailey commented that there was not a disadvantage to preparing an appendix.

AMENDMENT: Vice Mayor Burt moved, seconded by Council Member Stone to direct the City to send a letter to the San Francisco Public Utilities Commission (SFPUC) that includes an appendix in the plan that would analyze the impact of the SFPUC reducing the design drought by one year.

Vice Mayor Burt related that the SFPUC's adoption of the appendix allowed the City to favorably modify its UWMP.

Council Member Cormack saw no point to directing Staff to send a letter when the Board was meeting the following day at 1:30 P.M. She encouraged colleagues to consider that the model could go either way.
Ed Shikada, City Manager, noted the Council's practice to draft letters and requested Council direction.

Vice Mayor Burt felt the Council's practice of authorizing Staff to write the letter and the Mayor to approve it was appropriate. He inquired whether the SFPUC was allowed to add an appendix after approving its UWMP.

Ms. Sandkulla explained that an amendment to the UWMP required publication, a review period, a public hearing, and submitting the amended UWMP to the State.

Vice Mayor Burt requested Mr. Drekmeier's opinion of the utility of sending a letter given that the Board was meeting the following day.

Mr. Drekmeier advised that, if the Council approved sending a letter, he was going to refer to it during the SFPUC Board meeting. A letter was likely to have some influence with the Board.

Council Member Tanaka requested Commissioner Scharff's opinion of sending a letter.

Mr. Scharff advised that the UAC did not discuss the issue, and he preferred not to provide his personal opinion.

**INCORPORATED INTO THE AMENDMENT WITH THE CONSENT OF THE MAKER AND SECONDER** to change the Amendment to read, "to request Staff provide a letter for the Mayor’s approval to the San Francisco Public Utilities Commission... .”

Council Member Tanaka asked if reducing the design drought by one year meant reducing the drought forecast by one year.

Vice Mayor Burt answered yes. Doing that improved the City's water allocation.

Ms. Dailey clarified that reducing the design drought changed the projected water supply shortfall.

Ms. Sandkulla explained that the SFPUC utilized a design drought to determine the system's performance during a future drought scenario. The design drought was 8.5 years long. The long-term forecasting provided projected demand. Projected demand analyzed with the design drought determined the projected shortfall. Rerunning the model with a 7.5-year design drought assumed future cutbacks were reduced in a drought scenario. If the information was contained in an appendix to the SFPUC UWMP, one was able
to refer to the information if the SFPUC adopted that change to the design drought as a policy in the fall.

Council Member Filseth suggested Staff utilize Menlo Park’s letter as a template.

**AMENDMENT AS AMENDED:** Vice Mayor Burt moved, seconded by Council Member Stone to request Staff provide a letter for the Mayor’s approval to the San Francisco Public Utilities Commission (SFPUC) that includes an appendix in the plan that would analyze the impact of the SFPUC reducing the design drought by one year.

**AMENDMENT AS AMENDED PASSED:** 5-2 Cormack, Tanaka no

Council Member Cormack requested the Mayor split the Motion.

Mayor DuBois agreed to do so.

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

A. Adopt a Resolution adopting the 2020 Urban Water Management Plan and a Resolution adopting the Water Shortage Contingency Plan; and

B. Request Staff provide a letter for the Mayor's approval to the San Francisco Public Utilities Commission (SFPUC) that includes an appendix in the plan that would analyze the impact of the SFPUC reducing the design drought by one year.

**MOTION SPLIT FOR THE PURPOSE OF VOTING**

**MOTION AS AMENDED PASSED FOR MOTION, PART A:** 7-0

**MOTION AS AMENDED PASSED FOR MOTION, PART B:** 5-2 Cormack, Tanaka no

14. City Council Review of the Finance Committee's Recommended Fiscal Year (FY) 2022 Operating & Capital Budgets and Municipal Fee Schedule; Direction to Staff Regarding Preparation of the Final Budget for Council Adoption on June 21, 2021.

Kiely Nose, Administrative Services Director/Interim Assistant City Manager, reported the Agenda Item allowed the Council to adjust the Fiscal Year (FY) 2022 Proposed Budget following the Finance Committee's final review.
Christine Paras, Assistant Director of Administrative Services, advised that Staff had not reached agreements with labor groups regarding a zero wage increase for FY 2022. The Finance Committee recommended the Council approve the FY 2022 Operating and Capital Budgets, Municipal Fee Schedule, and FY 2022-2026 Capital Improvement Plan (CIP) with amendments outlined in the Staff Report and an amendment to utilize unallocated funds of $1.7 million for salary expenses if agreements with labor groups were not reached or to place the $1.7 million in the Budget Stabilization Reserve (BSR) and rename the BSR as the Council Recovery Reserve if agreements with labor groups were reached. The Finance Committee also directed Staff to prepare two scenarios for refurbishing the Roth Building. Current adjustments included a 60/40 split of American Rescue Plan Act (ARPA) funds, a $2.5 million draw from the BSR, a $25,000 reduction of the Council Contingency, and funding restored to various programs as outlined in the Staff Report. Additional adjustments affected the Capital Improvement Fund and SUMC funds, the Gas Operating Funding, the University Avenue Parking Permit Fund, the Community Development Block Grant (CDBG) Fund, the State Gas Tax Fund and the Capital Improvement Fund, and Utilities Funds. The first scenario for refurbishing the Roth Building was a $4 million loan from the Fiber Optics Fund at 0 percent interest. Scenario 1 included repayment of the loan if the Palo Alto History Museum (PAHM) received a federal community project grant. Propositions 26 and 218 did not regulate the use of monies in the Fiber Optics Fund. The soonest that grants were going to be awarded was October 2021. The Fiber Optics Fund needed to maintain a balance sufficient to fund ongoing maintenance and operations as well as unexpected expenditures. The second scenario proposed the use of $2 million in Stanford University Medical Center (SUMC) Development Agreement funds. Funds in the SUMC category of Infrastructure and Affordable Housing were eligible for the Roth Building. However, $8.9 million of Infrastructure and Affordable Housing funds was designated for Fire Station Number 4. Currently, community center impact fees were allocated to the Rinconada Park Improvements Project. Staff was researching the ability to allocate park impact fees to the Rinconada Park Improvements Project and reallocate community center impact fees from the Rinconada Park Project to the Roth Building. Third quarter financial information indicated departments and funds were trending as expected. The May 2021 projection for a $2 million to $3.5 million surplus may increase by year end. The first ARPA distribution of $6.85 million was received.

Council Member Cormack stated she implemented the Council’s instructions for adjusting the Budget; however, she was unable to support the Budget as revised.

Council took a break at 9:06 P.M. and returned at 9:15 P.M.
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John Northway, PAHM Board Member, described the Roth Building's structural issues and construction costs. The City needed to contribute funds to rehabilitate a City asset.

Colleen Braff, Palo Alto Historical Association (PAHA) Board Member, shared her family's history in Palo Alto. PAHA's archives needed a safe new home in Birge Clark's Roth Building.

Margaret Chai Maloney, speaking on behalf of ten Palo Alto families, implored the Council to approve and fund the Roth Building. Easy access to local history archives was important for students.

Deborah Shepherd, speaking as an individual, advised that the County of Santa Clara (County) awarded three grants for work on the Roth Building. She encouraged the Council to support PAHM and preservation of the Roth Building.

Georgie Gleim, PAHA President, indicated one climate-controlled location was needed to store the City's archives. Plans for the Roth Building included archival space, public restrooms, and community meeting rooms.

Kimberley Wong asked the Council to fund the Roth Building refurbishment project. Learning about the history of their cultures provided children with a sense of belonging in the community.

Jeremy Erman thanked the Council for restoring funding to many programs and hoped the Council negotiated a wage reduction with labor groups.

Terry Holzemer hoped the Council funded the Roth Building with impact fees and SUMC funds.

Amanda Brown remarked that Palo Alto was losing its iconic businesses and needed a history museum to preserve memories of the businesses.

Carol Scott supported the effort to price residential parking permit fees higher than parking garage fees to encourage parking in garages. She questioned the City selling employee parking permits for the Evergreen Park Residential Permit Parking Program (RPP) when garages and lots were not filled during the weekday noon hour.

Karen Kwan, Palo Alto Art Center Foundation, requested the partial restoration of FY 2021 funding for the Palo Alto Art Center with unallocated funds and federal funds.

Jonathan Erman suggested the Council consider the consequences of eliminating services, programs, and Staff positions.
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Rich Greene, PAHM Board President, speaking for Karen Holman, Laura Bajuk, Nelson Ng, Hal Michelson, Doug Kreitz, stated the Roth Building was listed on the National Register of Historic Places and intended to provide a public restroom, a permanent home for City archives, access to local history, and meeting rooms. PAHM invested more than $1.8 million in the project. He urged the Council to approve funding for the Roth Building.

Mayor DuBois asked about the differences among the contingency funds, their uses, and the reason for renaming the BSR.

Ms. Nose explained that the Municipal Code provided for the Council Contingency Fund, and it was utilized for unfunded Council mandates during the year. The City Manager with the Mayor's digital signature was allowed to allocate funds from the Council Contingency Fund to a specific project account. The $500,000 reserve that the Finance Committee set aside was going to be appropriated into a reserve fund. A majority vote of the Council was needed to appropriate funds from the reserve during the fiscal year. It was possible to deposit the $500,000 into the BSR, but a two-thirds vote of the Council was needed to appropriate funds from the BSR.

Mayor DuBois preferred to deposit the $500,000 into the BSR without designating the funds for a particular purpose so that the Council was able to utilize the funds wherever needed. He inquired regarding the $5.3 million that the Council committed to the Junior Museum and Zoo (JMZ) and the $9.3 million mentioned in the Staff Report.

Ms. Nose advised that the $9.3 million amount was the total of Rinconada Park improvements and funding for the JMZ. The Rinconada Park Project was in existence prior to the JMZ commitment, and the two were combined.

Mayor DuBois asked if the $4 million difference was the total for the Rinconada Park Project.

Brad Eggleston, Public Works Director, reported the total for the Rinconada Park Project was approximately $2 million. Funding for the JMZ was composed of the initial amount, an additional $1 million, funding for exhibits, and funding for the temporary accommodation of the JMZ at Cubberley Community Center.

Mayor DuBois requested the intended expenditure of the $300,000 ramp-up fees.

Ms. Nose was not sure where the funds were going to be spent. With the Budget cuts for FY 2021 and the Council recommending restoration of funding for vacant positions, there were no Staff or contractors to provide the services
for which the Council restored funding for FY 2022. The funds were going to be spent so that Staff expeditiously ramped up to provide services.

Council Member Cormack understood that fully funding the Roth Building rehabilitation was going to greatly reduce the chances of the project receiving federal funding.

Ms. Nose clarified three options: a loan from the Fiber Optics Fund that was repaid, a loan from the Fiber Optics Fund that was forgiven, and a grant from the Fiber Optics Fund.

Council Member Cormack asked if the Council was able to indicate in the FY 2022 Budget that it was going to provide a forgivable loan to the Roth Building in January 2022 so that the Council continued to advocate for grant funding.

Ms. Nose replied yes, if the Council and PAHM entered a loan agreement and the Council appropriated funds in FY 2022.

Council Member Cormack inquired whether utilizing all parkland dedication fees eliminated the opportunity to improve Boulware Park.

Ms. Nose did not believe so.

Council Member Cormack indicated her fundamental concern was utilizing more than half of the ARPA funds. She was not comfortable utilizing park and community center fees for the Roth Building because the community valued parks, public safety, and libraries. She was willing to support a loan or grant from the Fiber Optics Fund.

Vice Mayor Burt inquired whether Staff's forecast of a surplus was optimistic or confident.

Ms. Paras clarified that Staff was confidently optimistic that the surplus was going to exceed $3.3 million.

Vice Mayor Burt indicated that the Finance Committee utilized $2 million for the anticipated surplus when it was potentially going to exceed $3.5 million. The Council had a modestly higher amount to work with, even if labor groups did not agree to wage concessions. There was $500,000 in the COVID-19 Recovery Reserve and $100,000 in the Council Contingency Fund.

Ms. Nose concurred.

Vice Mayor Burt remarked that a COVID-19 Recovery Fund balance of $700,000 was reasonable. With a greater anticipated surplus for FY 2021, the
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Council was able to restore additional funding. He requested the incremental cost of opening Children's Library five days rather than three days.

Gayathri Kanth, Interim Library Director, advised that opening seven days was a total of $766,000.

Vice Mayor Burt suggested a rough estimate of the cost was $110,000 per day. The Council had some funding to restore additional programs for children who were denied a normal childhood for the past year.

Council Member Kou inquired whether Staff contacted Palo Alto Unified School District (PAUSD) Staff regarding cost sharing for certain program.

Ed Shikada, City Manager, reported the City/School Liaison Committee discussed the matter at its last meeting and recognized next steps of identifying programs with some overlap of interests.

Council Member Kou requested the purpose of the line item to restore Police Administration programming.

Ms. Nose indicated the purpose was travel supplies, general expenses, support for programs such as National Night Out, Municipal Court fees, FBI Academy, and additional activities.

Council Member Kou requested an explanation of the note to recommend using the $125 one-time funding. It was related to the note to eliminate Finance Committee.

Ms. Nose explained that the Finance Committee set aside $145,000 to be allocated at a later date. On May 17, 2021, the Council allocated funding for the hot dog series. Staff offset the two amounts.

Council Member Filseth inquired regarding the driver of the projected surplus.

Ms. Nose related that Staff was seeing positive signs for Sales Tax due to improved economic activity. Unfortunately, there was no data to support the positive outlook. In addition, there were one-time savings from holding Staff positions vacant.

Council Member Filseth referred to the updated Long Range Financial Forecast (LRFF), which indicated in FY 2023-2026 structural expenses exceeded structural revenues when one-time items were deducted. The LRFF covered funding gaps with ARPA funding and the BSR. In FY 2024, both resources were going to be depleted. The cumulative Budget shortfall was projected at approximately $50 million. Even though the City reduced expenses, expenses continued to grow during the recovery period. The Green verdict was likely
to result in a one-time $15 million to $20 million expense followed by a permanent reduction in revenues of $4 million annually. The Council had not yet reduced the CIP. Part of the Finance Committee found the LRFF quite sobering. Another part of the Finance Committee felt revenue projections were excessively conservative and revenues were going to grow much faster than projected. If significant new revenue sources were not found in the next 24 months, many of the programs funded in the FY 2022 Budget were going to be defunded once ARPA funds were spent.

Council Member Stone inquired whether Staff analyzed PAHM's proposed funding model for the Roth Building.

Ms. Nose reported Staff, at the Finance Committee's direction, provided PAHM with information to develop the proposal.

Council Member Stone asked if Scenario B for the Roth Building resulted in some projects being defunded.

Ms. Nose clarified that Scenario B identified that if community center impact fees were not an eligible use, Staff was going to explore defunding a project. PAHM believed Rinconada Park improvements were a better use of parkland dedication fees or park impact fees and recommended reallocation of community center fees from Rinconada Park improvements to the Roth Building.

Council Member Stone requested the amount of uncommitted Community and Infrastructure funds needed to offset negative balances in other categories.

Ms. Nose was aware of $200,000.

Council Member Stone inquired regarding the consequences of Council Member Cormack's proposal to provide a loan to PAHM in January 2022.

Mr. Green reported delaying funding to January potentially allowed the building permit and County grants to expire. Construction needed to begin in the summer of 2021.

Council Member Stone supported funding the Roth Building.

Mr. Shikada indicated that Staff identified a significant body of work related to negotiating and drafting a construction agreement that specified the responsibilities of the City, PAHM, and construction contractors.

Council Member Tanaka encouraged Council Members to remember that funding was limited. Otherwise, there were going to be dramatic emergencies in the next few years. If Management Staff were willing to forego salary
increases, labor groups may be willing to do the same. The Council needed to look at and improve span of control. He questioned whether a history museum was essential at the current time and whether the community valued a history museum more than good internet service, crossing guards, or parks.

Vice Mayor Burt remarked that the Roth Building was competing with other CIP projects for funding. In the five-year CIP, cost estimates for projects were less accurate in each successive year. Projects budgeted in Years 4 and 5 did not have to be implemented when planned. Over the past ten years, average revenue growth was higher than projected. He requested the City's organic revenue growth over the previous five or ten years.

Ms. Nose reported the Finance Committee asked Staff to provide the average growth in General Fund revenues over a decade. Staff identified 5 percent growth that included two voter-approved increases in the Transient Occupancy Tax (TOT) rate.

Ms. Paras added that average growth was 4 percent when the TOT increases were deducted.

Vice Mayor Burt requested the effect of 4 percent revenue growth on the projected deficit.

Ms. Paras indicated Scenario A assumed a three-year recovery and identified 3.7 percent average growth for the next five years.

Ms. Nose clarified that there was an ongoing funding gap in the fifth year.

Vice Mayor Burt commented that past patterns indicated recovery was going to be more rapid, and the deficit was going to be less than projected. The projection assumed no business tax and no increase in the Utility User's Tax to offset the Green verdict. Most Council Members believed there was strong community support for a business tax. A tax of $0.20 per square foot generated approximately $30 million annually. He believed recovery and revenue sources were going to meet funding challenges.

Council Member Kou asked Mr. Green to identify community benefits that the PAHM was likely to provide.

Mr. Green reported the PAHM was going to provide community meeting rooms, space for community events, and a schoolroom for elementary students to work with local history.

Council Member Kou asked if the Roth Building was located on parkland.
Mr. Green replied yes, even though it was not dedicated parkland. The agreement between the City and the County stated the Roth Building was located on parkland for at least the next 20 years.

Council Member Cormack stated Palo Alto's recovery was not going to align with the national recovery because Palo Alto relied on travel, especially international travel. She inquired about the date on which the City was likely to receive revenue from a future business tax.

Ms. Nose suggested a measure was likely to be placed on the November 2022 ballot. Depending on the complexity and structure of the ballot measure, implementing the tax required 12 to 18 months.

Council Member Cormack recalled that the Council eliminated many vacant positions in FY 2021. Future cuts had the potential to be more significant if the Council over-corrected at the current time. The Green verdict contained some risk. Council Members restored funding to many programs that the community wanted. Some funds needed to be saved for future needs.

Mayor DuBois requested the assumptions that Magellan made regarding use of the Fiber Fund and future fund revenue for the network buildout.

Dean Batchelor, Utilities Director, advised that a decrease of approximately $500,000 was expected in FY 2023 due to rate changes. The forecast was based on a $30 million Budget. The funds were always going to be used. The debt depended on how much the City wanted to take on.

Mayor DuBois noted the primary Budget impact was the Legal Reserve Fund where transfers from Utilities were deposited rather than in the General Fund. The community needed to understand the importance of the transfer from Utilities to the General Fund. He supported funding the Roth Building with impact fees, crafting a lease option, and beginning construction. He inquired regarding the amount of the long-term deficit caused by the current CIP.

Ms. Nose related that the amount was dependent on how the Council prioritized projects. The five-year forecast assumed a return to the base level of catch-up/keep-up funding for the CIP. In FY 2022, the base transfer was approximately $2.5 million, which increased to approximately $17 million in FY 2026. The five-year CIP before the Council assumed that five-year ramp-up. If the Council chose to reduce ramp-up funding in future years, there were going to be impacts to the five-year CIP.

Mayor DuBois did not want to choose the most optimistic scenario across the board. He was not comfortable with restoring additional funding.
MOTION: Mayor DuBois moved, seconded by Council Member Kou to:

A. Direct Staff to return on June 21, 2021 for adoption of the Fiscal Year 2022 Proposed Operating and Capital Budgets and Municipal Fee Schedule in alignment with the work completed by the Committee and Council during the month of May 2021 and provide direction on any final adjustments in preparation for City Council Adoption;

B. Review and accept final FY 2022-2025 Capital Improvement Plan as amended by the actions outlined in this report (as recommended by the Finance Committee and Council);

C. Review and accept the alternative balancing strategy in the event the City does not reach agreement with labor groups on concessions in the General Fund, that the City Council utilize current unallocated funds of $1.7 million in the General Fund to offset the additional expense or be placed in the Budget Stabilization Reserve if remain unallocated; and

D. Recommend Option B.ii. for funding of the ROTH building rehabilitation project as outlined by the Finance Committee on May 25, 2021.

Vice Mayor Burt requested a potential timeframe for the Council to review financial information for the first quarter of FY 2022.

Ms. Nose replied the end of October 2021.

INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER “Direct Staff to return by the end of October 2021 with preliminary Q1 financial results so the Council can consider budget amendments.” (New Part E).

Council Member Stone inquired whether the Council was going to review the CIP and alternative balancing strategy again on June 21, 2021.

Ms. Nose answered no.

INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER to add to the beginning of Motion, Parts A, B and C, “Direct Staff to return on June 21, 2021 ... .”

Council Member Cormack requested the consequences of selecting Option B in Part D of the Motion.

Ms. Nose reported Staff was going to allocate $2 million of SUMC funds, utilize $350,000 of impact fees, and look at use of community center fees as the first order of finding available funding for the Roth Building.
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Council Member Cormack remarked that reallocating fees to the Roth Building may result in projects for Fire Station Number 4 and Rinconada Park being defunded.

Ms. Nose related that Staff was going to present options for the Council's consideration.

Council Member Kou asked if Staff proposed returning to Stanford University to clarify use of SUMC funds if funds were not found for the Roth Building.

Ms. Nose answered yes, if the Council wished to renegotiate the terms of the Development Agreement with Stanford University.

Council Member Kou asked how quickly Staff was able to work with Stanford University.

Ms. Nose indicated Staff was not able to accomplish that prior to June 21, 2021.

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

A. Direct Staff to return on June 21, 2021 for adoption of the Fiscal Year 2022 Proposed Operating and Capital Budgets and Municipal Fee Schedule in alignment with the work completed by the Committee and Council during the month of May 2021 and provide direction on any final adjustments in preparation for City Council Adoption;

B. Direct Staff to return on June 21, 2021 to accept final FY 2022-2025 Capital Improvement Plan as amended by the actions outlined in this report (as recommended by the Finance Committee and Council);

C. Direct Staff to return on June 21, 2021 to accept the alternative balancing strategy in the event the City does not reach agreement with labor groups on concessions in the General Fund, that the City Council utilize current unallocated funds of $1.7 million in the General Fund to offset the additional expense or be placed in the Budget Stabilization Reserve if remain unallocated;

D. Recommend Option B.iii. for funding of the ROTH building rehabilitation project as outlined by the Finance Committee on May 25, 2021; and

E. Direct Staff to return by the end of October 2021 with preliminary Q1 financial results so that the Council can consider budget amendments.

MOTION AS AMENDED PASSED: 4-3 Cormack, Filseth, Tanaka no
Council Member Questions, Comments and Announcements

Council Member Cormack invited Council Members to participate in the Summit for Women and Girls. She requested the status of the Safe Gun Storage Ordinance.

Molly Stump, City Attorney, advised that Staff was probably going to present it to the Council after the summer break.

Mayor DuBois encouraged everyone to attend World Music Month. He thanked Council Member Kou for investing a tremendous amount of time in airplane noise issues.

**Adjournment:** The meeting was adjourned at 11:14 P.M.