



# POLICY AND SERVICES COMMITTEE TRANSCRIPT

Special Meeting  
December 15, 2015

Chairperson Burt called the meeting to order at 7:03 P.M. in the Council Chambers, 250 Hamilton Avenue, Palo Alto, California.

Present: Berman, Burt (Chair), DuBois, Wolbach

Absent:

## Agenda Items

### 3. Audit of Parking Funds.

Chair Burt: Our next item is the audit of Parking Funds.

Council Member Berman: I know we're all doing this, but if we can just keep an eye on the clock. These are two meaty items that are coming up.

Council Member DuBois: I think we could all assume we all read this item. I don't know if we need to ...

Chair Burt: I'm sorry?

Council Member DuBois: Can we assume we all read this item on the parking?

Chair Burt: Harriet, go ahead and assume that the Committee has read the item.

Harriet Richardson, City Auditor: (inaudible) you have it there in front of you. Do you want us to go through it? It's 9:00. I'm not sure what you're thinking as far as time. It would just summarize the information that's in the audit.

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Chair Burt: Maybe with an emphasis on any Committee input that you're seeking.

Ms. Richardson: Good evening, Harriet Richardson, City Auditor. With me is Yuki Matsuura, Senior Performance Auditor, who conducted this audit. I think primarily while we would want a motion at the end, primarily we'd want to go over some of the reasons the Parking In-Lieu Fee—that's the major finding in here—was miscalculated and really kind of summarizing that you've got multiple departments involved. Planning is the one who tells the developer, "You need to pay a parking in-lieu fee based on the number of spaces that you are required to provide and the number of spaces you can provide based on the site conditions." Public Works is responsible for constructing the garages. They have the records as far as the contract, what records are being kept during the time of construction. When the final payment is made, the fee is supposed to be recalculated. At that point it's supposed to go back to Planning to calculate the fee. In this particular instance, there were bonds. ASD tracked the bond draw downs as they were made. That ended up becoming the primary source of our information for what did the garages cost. I think the main issue here is really you've got multiple departments involved. It's a complex process. You don't necessarily have a good coordination process. There was turnover in Planning that affected the issue. Turnover in Public Works that affected the issue. Our recommendation really—there were four projects that were overcharged, one project that was undercharged. Planning has corrected two of those already. One of them, they want to look at to see—101 Lytton, they want to have the City Attorney look at it to see was that part of the parking or the public benefits that the developer was supposed to pay. I think our real focus for this particular finding would be resolving the issue about what to do with the overpaid bond—unused bond proceeds. Also how to in the future make sure, especially because there's some discussion in the works about new garages, to make sure that the fee is calculated correctly throughout the life of a project and beyond. For the College Terrace RPP and Crescent Park no overnight parking programs, the main issue on that one is really segregating the costs so that you know the cost of each program and really know are you setting the fee at a reasonable amount. In a nutshell, that summarizes what we have in all the slides.

Chair Burt: Thank you. It was a very informative report. Anyone like to follow up with questions or comments? I guess one that I would have is I think there was a concern that we were perhaps undercharging. What we found is a higher pattern of overcharging than undercharging. This other big one that we basically double billed on this cost paid with transferred parking in lieu fees were also reimbursed by the bond?

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Ms. Richardson: Correct.

Chair Burt: That's pretty interesting. Do you feel like we have the corrective mechanisms to get this operating (crosstalk).

Ms. Richardson: I think the City Manager's response to the recommendations will fix the problems. I don't think it's a simple overnight fix. There's definitely some work that needs to be done in correcting the Muni Code, and then some decisions be made about who's really responsible for what and getting a good mechanism in place for tracking costs as you're constructing a project.

Chair Burt: Ed.

Ed Shikada, Assistant City Manager: To that point, I would note that having experience with impact fees in a number of other contexts, this is the most complex system I've ever encountered. The requirement for both the pre-estimate, the payment and the reconciliation on the tail end is a very labor intensive system. As a result, part of the recommendation coming out of Planning is the necessity of some Staff to track this on an ongoing basis and do reconciliations as is necessary. Unfortunately, that's the system we've got in place, so we will have ensure that the resources are provided on an ongoing basis including some of the historical knowledge that will be necessary in order to track projects over the course of years. Again, that's the system as it's designed. Following through on the administrative requirements will involve those next steps.

Ms. Richardson: One more thing I think is worth mentioning. One of the reasons we had difficulty in making sure that the costs we capture were accurate was that there was a system change from the old IFIS system to SAP at some point in time. As we look at in the future moving to a new ERP system, making sure that information transitions in a way or that the legacy system stays available where, if necessary, people can go back and get those costs. We were not able to go into the old system and get the costs.

Chair Burt: Marc, did you have something?

Council Member Berman: Yeah, just a quick question. I guess two quick questions now. Ed, I don't know if this possible given the complexity. Is there a time when we could shift from our current complex setup to a more streamlined, simple approach? I'm sure that's complicated with previous obligations.

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Mr. Shikada: Right. I suspect it would be difficult to unwind the complexity that exists. To a certain extent perhaps thinking big picture, that the—in the longer term perhaps transitioning to one that does not necessarily require the reconciliation on the tail end would be simpler administratively, as long as we could identify some assurance for the payers that the funds they're depositing into the in lieu fee accounts will be used in a manner that's consistent with the original intent.

Council Member Berman: I just want to make sure that we're providing guidance on any decision points that we're supposed to be providing guidance on. One that pops up is in the City Manager's response matrix on 1-1. It says ASD defease and reduce the bond debt by the \$1.8 million that was inadvertently drawn down. Blah, blah, blah. Then target date depends upon action. If Council prefers to transfer, this can be done as part of the midyear budget adjustment, etc. If Council chooses to defease the bonds, this should be complete by June. Do you guys need an answer from us? If you do, then I need a little more explanation of what that means and what the ramifications of it are.

Joe Saccio, Administrative Services Assistant Director: Joe Saccio, Assistant Director of ASD. As Council Member Burt said, we used bond proceeds when we should not have and have used in lieu fees. The appropriate thing to do in our opinion is to take those monies and defease bonds, because it provides relief to the property owners Downtown that would otherwise have to pay—it would pay for these bonds unless we defease them. Rather than offset debt service, it would seem that we really need to reduce the bonds and the burden in the future. Just a little history. On the two garages, we had excess bond funds. We did defease bond funds. The project came in way under cost. We defeased bonds. Staff took the initiative in 2012 to refinance those bonds, and we did. We save the Downtown people \$2 million in net present value savings. In this instance, it's more appropriate, we think, to defease the bonds than to do anything else.

Council Member Berman: Thank you, Joe. Does the City Auditor's Office have an opinion?

Ms. Richardson: That was our initial recommendation to defease the bonds. We didn't look at the other options as much. We felt like just reducing the bonds now was the way to go.

Council Member Berman: I'm glad everyone's on the same page on that. I think that's it.

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Chair Burt: Tom.

Council Member DuBois: Thank you for the audit. It seemed to be a really good audit. The recommendations were clear, and it was very understandable. I think most of my comments are really about the actions we're taking. I had a question about how we can simplify the system. That's been asked. What does it mean to defease a bond? Does it just affect future payments? Are we actually refunding money?

Ms. Richardson: I'll let ASD answer that, because they deal with that part of it.

Mr. Saccio: I'll sit over so I can answer your questions more quickly. What we need to do on this is put these monies into an escrow account so that they can grow over time. The recommendation of the financial adviser is we keep them in escrow, they grow, and then we defease a certain portion of the outstanding bonds in the future. You're basically relieving the property owners of paying the principal and the interest on that set of bonds. There are always requirements about when you can call bonds back and defease them. The financial adviser has provided us with guidance on when we should do that. Basically the bonds will be called back, and we will not have to pay—the bondholders get paid. I'm sorry. The property owners will not have to pay the principal and interest on that.

Council Member DuBois: Thanks.

Chair Burt: Explain to me how this affects our financial statements. Do these dollars that will be paid back, is it really just a balance sheet adjustment and not a one-time (crosstalk)?

Mr. Saccio: Right now, the funds that we need to use to repay the bonds are sitting in our Capital Improvement Fund. We need to reduce that fund in order to take out the money to put in escrow to defease the future bonds. I don't have a real clear answer for how it's going to affect the financial statements. It's not as though the money isn't there; it's just going to be less than what we would have liked it to be.

Chair Burt: It'll be that much less in the Capital Improvement Fund.

Mr. Saccio: Yes, that is true. That's correct.

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Council Member DuBois: Thank you. Some different questions. The net revenue on the University Avenue and Cal. Avenue parking garages, did you guys make any judgment on whether the expenses are reasonable compared to what's typical for a garage?

Yuki Matsuura, Senior Performance Auditor: What we found was it was really a policy decision. Annually, you review as Council Members the Budget is presented and you review, so that's the process. We didn't find inappropriate expenditures. It seems like what was approved was being spent for that purpose.

Council Member DuBois: It seemed to vary quite a bit year to year, but you're saying it's a policy decision, what gets spent. I see that the money that we wrote has already been paid.

Ms. Richardson: Which money has already been paid?

Council Member DuBois: The money that we undercharged. It says it's already been collected.

Ms. Richardson: Yes, yes.

Council Member DuBois: I guess the last question was really on the separation of the Crescent Park from College Terrace. The concurrence said partially agree. Are we definitely separating those accounts going forward? That's 2.2.

Mr. Saccio: Planning and budget group will work together. We have established cost centers. Sherry can speak to this, because Planning Department is in charge of those cost centers. We're going to establish cost centers for Crescent Park, College Terrace and the RPP piece. We have funds for the University Avenue Parking Permit Fund and the Cal. Avenue Parking Permit Fund. At the very beginning with College Terrace, especially Crescent Park—Crescent Park is really small in terms of expenditures and revenues. I'll look to Sherry, but we're going to implement in this next budget process make sure these cost centers are separate and try with our best efforts to separate out the revenues and expenses for each.

Sherry Nikzat, Senior Management Analyst: Sherry Nikzat, Planning and Community Environment. I'm the Senior Management Analyst in that department. We actually did set up—when we started RPP, we set up a separate cost center. At that point the Office and Management and Budget

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separated cost centers for College Terrace, Crescent Park and RPP. That is the approach we will be taking for any other future parking programs.

Council Member DuBois: Thank you. I think it's the last question. Yeah, last question. There was a discussion on 1.5 about the record retention policy which we just updated. I wondered if that actually got included.

Ms. Richardson: I don't believe it did. This recommendation hadn't been finalized by the time that was submitted. I don't think that's included in there. We'd have to go back and double check.

Council Member DuBois: It'll be caught the next time, I guess. It sounds like. Thank you.

Chair Burt: If we don't have any other questions, we need a motion that would recommend that Policy and Services Committee recommend to the City Council acceptance of the Audit of the Parking Funds.

Council Member Wolbach: So moved.

Council Member Berman: Second.

**MOTION:** Council Member Wolbach moved, seconded by Council Member Berman to recommend the City Council accept the Audit of Parking Funds.

Chair Burt: Any discussion? All in favor. That passes unanimously. Thank you very much.

**MOTION PASSED:** 4-0