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COUNCIL COMMENTS, QUESTIONS, AND ANNOUNCEMENTS

9. CONFERENCE WITH CITY ATTORNEY -- EXISTING LITIGATION

FINAL ADJOURNMENT: The meeting adjourned at 10:35 p.m.
The City Council of the City of Palo Alto met on this date in the Council Chambers at 7:05 p.m.

PRESENT: Barton, Beecham, Cordell, Drekmeier, Kishimoto, Klein, Kleinberg, Morton, Mossar

ORAL COMMUNICATIONS

Carroll Harrington, 830 Melville Avenue, spoke regarding Winds of Change conference.

Mary Carey Schaefer, 742 DeSoto Drive, spoke regarding emergency preparedness.

Wayne Swan, 240 Kellogg Avenue, spoke regarding redevelopment.

APPROVAL OF MINUTES

**MOTION:** Council Member Morton moved, seconded by Mossar, to adopt the minutes of November 21, December 5 and 12, 2005.

**MOTION PASSED** 8-0, Barton abstaining.

City Attorney Gary Baum said Council Minutes were informal under Robert’s Rules and Parliamentary Procedures, but standards were higher on Consent items. Council Members could participate in second readings and items brought before Council as long as they were comfortable and familiar with the matter. Under State Law, Council Members were compelled to vote but could abstain if they had legal conflicts or were unfamiliar with the matter.

Mayor Kleinberg said Council Members would be given two minutes to explain their “no” votes after all votes were taken on Consent items.

CONSENT CALENDAR

**MOTION:** Council Member Morton moved, seconded by Klein, to approve agenda Item Nos. 1-5.

1. **Ordinance 4891** entitled “Ordinance of the Council of the City of Palo Alto Updating the R-1 Zone District Regulations of Title 18 [Zoning] of the Palo Alto Municipal Code by Amending Section 18.04.030 of Chapter 18.04 [Definitions] and Table 3 (Summary of Gross Floor Area for Low Density Residential Districts) of Chapter 18.12 [R-1 Single-Family Residence District Regulations]”

3. Acceptance of Annual Status Report on Developers’ Fees

4. Approval of Amendment No. 1 to Enterprise Fund Contract No. C3146379 with Mehdi Ghadiani (Doing Business as Computing Solutions Group) in the Amount of $24,000 for Additional Computer System Services at the Water Quality Control Plant


Council Member Cordell registered a “no” vote on Item No. 1, for the same reason as the first reading.

**MOTION PASSED** 8-1 Item No. 1, Cordell voting no.

**MOTION PASSED** 9-0 Item Nos. 2-5.

PUBLIC HEARINGS

6. Public Hearing: Declaring that all Weeds Growing Upon Any Private Property or in Any Public Street or Alley, as Defined in Section 8.08.010 of the Palo Alto Municipal Code, Constitute a Public Nuisance, which Nuisance Must be Abated by the Destruction or Removal Thereof.

Mayor Kleinberg said Resolution 8575, declaring weeds to be a nuisance, was publicly noticed and no one appeared or filed written objections against the weed abatement proceedings.

City Attorney Baum said Stanford University was on the weed abatement notice and he advised the two Council Members with potential Stanford conflict to not participate.

Council Member Cordell stated she would not participate in the item due to a conflict of interest because she was employed by Stanford University.

Council Member Mossar stated she would not participate in the item due to a conflict of interest because her husband was employed by Stanford University.
Council Member Klein stated he would not participate in the item due to a conflict of interest because his wife was employed by Stanford University.

**MOTION:** Council Member Morton moved, seconded by Barton, to adopt the Resolution ordering the abatement of weeds.

Resolution 8585 entitled “Resolution of the Council of the City of Palo Alto Ordering Weed Nuisance Abated”

**MOTION PASSED** 6-0, Cordell, Klein, Mossar not participating.

**COUNCIL MATTERS**

**REPORTS OF COMMITTEES AND COMMISSIONS**

7. Finance Committee Update to Long Range Financial Plan

Administrative Services Director Carl Yeats said the Finance Committee had questioned revenue projections in transient occupancy tax (TOT), room rate increases and occupancy rate and had concerns regarding the commitment to continue funding infrastructure on a long-term basis, create surplus to fund infrastructure, and the $1,000,000 interest earnings to increase the infrastructure fund on an annual basis. The Long Range Financial Plan (LRFP) identified key issues and would guide the 2006-07 budget process. It covered national, state, and local economic conditions, methodology, forecasting, revenues and expenditures, analysis of City revenue and expenditures, performance, long range forecast results, financial challenges, and comparing the City’s forecast model with alternative forecasting methods. The Financial Plan was updated every other year and an interim update in the in-between years.

Administrative Services Deputy Director Joe Saccio spoke regarding the state of the economy. He said the County and local economies had improved, but employment rates had declined at the state and national level. Wages had increased by 3.5 percent in 2005 from 2004. Sales and TOT had increased by 3.6 percent and property taxes by 6.4 percent. Silicon Valley was slow in creating new jobs. Unemployment had increased due to the decline in the housing industry. The projected overall growth in revenues for the next 10 years was 2.8 percent, sales tax by 2.7 percent and TOT by 3.7 percent. Growth rates were low due to slow job growth in the local areas, uneasiness in consumer spending, and competition from local malls and big box stores in surrounding areas. The General Fund’s largest revenue source was the equity fund transfer which increased 3 percent annually.
Budget Manager David Ramberg spoke on the LRFP’s forecast assumptions, projections, and expenditures. Salary and benefits were the primary expense in the operating budget and 3.4 percent was expected in expense growth. It represented 63 percent of total expenses and was expected to rise to 69 percent throughout the duration of the 10-year plan. Salary growth was projected at 3 percent and benefits at approximately 5 percent. The City was able to correct its deficit by strengthening the bottom line. There was a surplus of $1.4 million in 2005-06 reaching to $3.1 million in 2009-10, and the $1 million transfer to the Infrastructure Reserve was possible. The surplus would begin to diminish by 2010-11 due to a possible recession and the loss of the Refuse Fund to the General Fund. Some of the City’s challenges were to enhance its economic base in sales revenues and TOT, a need of $3 to $5 million per year to complete the Infrastructure Management Plan, to identify additional funding for new facilities and fund the medical liability for retirees, and the loss of the Refuse Fund rent in 2012-13, which would total $4.5 million by 2015.

Mr. Yeats said goals would be met by maintaining a high level of services and reserves, strengthening the bottom line, restructuring and the process of curbing personnel and medical expenses. The City had maintained a triple-A credit rating with major credit agencies. The City’s Budget Document and Financial Report continued to receive excellence recognition due to long-range financial planning, multi-year budgeting, capital expense audits, and creating reserves for infrastructure and retiree medical liability. Steps to maintain financial strength would continue in financial discipline, restructuring opportunities, organized service levels and delivery, continued restructuring vacancies and retirements, control of rising medical benefits for retirees, and to identify new revenue sources as per the Councils direction.

Council Member Beecham asked how the City would achieve spending $10 million annually to maintain the Infrastructure Reserve fund.

Mr. Yeats said the City would need to look at delivery of services by staff or to contract out to minimize cost, seek different revenue sources, and maintain current revenues.

Council Member Beecham asked about the nominal short-fall of achieving a 10 percent inflow annually into the Infrastructure Reserve Fund.

Mr. Yeats said the annual General Fund contribution for infrastructure was approximately $3.6 million and the Infrastructure Reserve Fund generated approximately $1 million.

Council Member Morton said Northern California had one of the highest
medical costs in the State. The County and DeAnza College were working on a proposal for Municipalities and Unions to control impacts to operating expenses.

Mr. Yeats said it was believed that local agencies were subsidizing the State in medical costs and the City had pressured the Public Employee Retirement System (PERS) to rectify the situation.

Council Member Barton asked how percentages were calculated in medical benefits.

Mr. Yeats said data from the last 10 years was projected into the future and was based on compounded annual growth.

Mr. Ramberg said the 4.7 percent growth was a blended benefits growth rate. There was a 10 percent projected growth rate in healthcare for the next several years of the plan. Retirement contribution rates had diminished in the last year. The 10 to 15 percent increase during the past two years in PERS contributions covered by the City had decreased 3 to 5 percent in 2005-06.

Council Member Barton asked if there would be structural changes in the budget if the projected recession occurred.

Mr. Yeats said the budget would be continually monitored and reviewed for what could occur in the future and changes would be made accordingly.

Council Member Klein said the unemployment rate was misleading due to people becoming self-employed consultants and not being part of the unemployment system. He asked if studies had been made on how much of a contribution they were making to the economy.

Mr. Yeats said unemployment numbers came from the County but he was not sure if figures were captured on people who became independently employed.

Council Member Klein said all employee health and retiree medical costs were funded by the City and he asked what the normal plan coverage was in neighboring cities.

Mr. Yeats said it varied from PERS covering co-payments only to partial coverage of medical benefits for retirees.

Council Member Klein asked if there were figures to compare with the City’s
coverage for an employee earning $60,000 annually and someone who made the same salary in neighboring cities.

Mr. Yeats said those figures would be obtainable after every city complied with Government Account Standards Board (GASB) 43 and 45 and booked actual costs on annual basis.

Council Member Klein asked if there were comparable figures on active employees.

Mr. Yeats said those figures were obtainable.

Council Member Klein asked what the impact would be on the budget if the City adopted General Obligation (GO) Bonds to build a large project such as the police building.

Mr. Yeats said it depended on the funding mechanism. There would be no impact on the General Fund if there was a new revenue source.

Council Member Klein said his assumption was a GO Bond was a Proposition 13 exception and would be added to the property tax bills.

Mr. Yeats that was correct and the amount would be based on each parcel.

Council Member Klein asked what if it was a parcel tax rather than a GO bond.

Mr. Yeats said it would be a new revenue source and would have no impact on the budget other than staffing and furnishing the facility.

Vice Mayor Kishimoto said the report should be viewed as making course corrections before salaries and benefits reached the 69 percent mark of the budget and depleted the Infrastructure Reserves. She asked for staff to set goals in preparing the next two-year budget.

Mayor Kleinberg asked whether there would be an opportunity to look at the plan for the Infrastructure Reserve Fund’s annual need of $3 to $5 million to complete the Infrastructure Management Plan.

Mr. Yeats said one of the items being brought back to Council for discussion was a business registry fee versus a business license tax. Service level delivery and new revenue sources would also be discussed.

Mayor Kleinberg asked how new technology would impact projections and
how loss of revenue would be factored in as the economy transferred from the traditional form of communications to being service-oriented.

Mr. Yeats said this would occur at the State level. Cell phone providers had a great impact on the ability to tax and regulations or legislative policy would be brought forward to help all California agencies with these issues. Elimination of cell phone tax would create a loss of $1.5 million in utilities users tax.

Council Member Cordell requested a breakdown of retirement benefits being paid out to Council Members and City employees.

Mr. Yeats said the figures would be reflected in the Government Accounting Standards Board (GASB) 43 and 45 analyses. Benefits would be broken down by bargaining units for the various groups within the organization. It would include how plans had changed, impacts on long-term costs in retiree medical benefits, future costs, along with a plan on funding the liability.

**MOTION:** Council Member Morton moved, seconded by Beecham, to accept the updated Long Range Financial Plan from the Finance Committee meeting of December 6, 2005.

Council Member Beecham said the LRFP was an excellent plan, but if executed within the next 10-years, the Infrastructure Reserve Fund would not get funded as it should. Principle would get spent and not replenished. A third reduction would be more severe than in the past if the reserve fund were being replenished by reduction in expenses. There was a downslide in TOT, auto dealerships, and major retailers were under duress. He encouraged his colleagues, staff and the community to take a hard look at the budget expenses, ways to enhance revenues, and to not ignore spending down assets.

Council Member Klein said he concurred with Council Member Beecham’s comments but was not in favor of the motion. He found the LRFP to be informative but approval of the motion meant endorsing the plan and in agreement of salaries and benefits rising from 63 to 69 percent of expenses throughout duration of the 10-year plan. His suggestion was to accept the LRFP as information only and to move forward.

Mr. Yeats said they were not concrete figures but based on what had happened in the past and what could happen in the future. The purpose of the report was a projection of what might occur in the future. Approval of the report was the basis for the upcoming budget and Palo Alto's future.
Council Member Morton clarified his motion was to accept but not to approve the report.

Council Member Klein asked what was the purpose for the motion in accepting the report and what did it imply.

Council Member Morton said the LRFP was a document that contained a budget based on a set of assumptions and Council would need to accept it to make it an official document of the City. Not accepting the document would be a change in procedure.

Mr. Baum said the Council could receive and file the document but the Council was not required to approve the LRFP.

Mr. Benest said staff and the Finance Committee recommended the Council accept the LRFP. It was not to endorse the figures but outlined what needed to be done in dealing with the Infrastructure Reserve, personnel-related costs, and upcoming recessions and deficits. A basis was needed to take action in dealing with financial problems and issues.

Mayor Kleinberg asked what would happen if the LRFP was not approved.

Mr. Baum said nothing would happen but the Council may want to consider receiving and filing the document.

Council Member Cordell concurred with Council Member Klein and did not find the need to approve the forecast. It was not a budget requiring action to be taken.

**SUBSTITUTE MOTION:** Council Member Cordell moved, seconded by Klein, to receive and file the Updated Long Range Financial Plan from the Finance Committee meeting of December 6, 2005.

Council Member Klein said the Finance Committee’s actual motion from the December 6, 2005 meeting, was “Finance Committee recommends the Council review and comment on forecast of revenues, expenses and reserve levels before the full City Council reviewed the plan.” He said it had been accomplished by the Council at this evening’s meeting.

Council Member Beecham said he supported the motion and agreed the Council had commented and reviewed the LRFP at this evening’s meeting.

**SUBSTITUTE MOTION PASSED** 8-1, Morton voting no.
REPORTS OF OFFICIALS


Council Member Mossar stated she would not participate in the item due to a conflict of interest because a family trust fund holds telecommunications stock.

Council Member Morton stated he would not participate in the item due to a conflict of interest because a family trust fund holds telecommunications stock.

Council Member Cordell said for the record she did not have a conflict but was paid by Viacom for her services as a legal analyst for CBS.

Mr. Baum clarified the City did not have a contract nor received income or payment to Viacom and he was not aware of Viacom as a bidder or a potential bidder at this time. In the event Council Members owned interest in the bidders, an evaluation would be made at that time to determine conflicts.

Mayor Kleinberg stated she would not participate in the item due to the amount of Google stock held in her family trust fund. It was not a legal restriction but combined with her employment with Joint Venture Silicon Valley Network and its involvement with wireless and broadband, she preferred not to have any perception of bias and would not participate. She turned the meeting over to Vice Mayor Kishimoto.

Mr. Saccio gave a presentation as outlined in staff reports CMR:111:06 and CMR:398:05. Attachments were included to the CMR’s regarding broadband surveys, services and wireless activities in other cities. The purpose for discussion was to get Council clarification and direction in moving forward on a Request for Proposal (RFP).

MOTION: Council Member Beecham moved, seconded by Barton, to direct staff to issue a Request for Proposal (RFP) for the construction and operation of an ultra-high speed bandwidth system. Primary goals for this system are:

- Capability of providing minimum bandwidth of 100 megabits per second symmetric service to the customer;
- Provision of at least data, video and telephony services; and
- City ownership of the physical system.
The RFP shall request information from the responders on the following parameters:

- Proposed financial and other contributions required from the City. City contributions may include assigning, with operational and other limitations, use and control of the City’s dark fiber ring and the City’s existing trial network;
- Assessment of financial risk to the City;
- Proposed schedule to achieve the City’s primary goals;
- Proposed technologies to achieve the City’s primary goals;
- Proposed ultimate ownership of the system’s physical infrastructure;
- Will the proposed system be an “open” system, i.e. with all qualified service providers having equal access to the system? If not, what types or timeframes of limited access are proposed?
- Proposed roles of the City versus roles of the responder.

Furthermore, to have staff include in the RFP a latency parameter and the preference for an open system.

Jeff Hoel, 731 Colorado Avenue, was in favor of a FTTH system. The wireless system lacked speed, security, reliability and was not a substitute for FTTH.

Wayne Martin, 3687 Bryant, was not in favor of the proposal. He said the City had carriers other than Comcast and why add another vendor with no background history and not protected by Public Utilities Commission (PUC). Major vendors had discontinued the FTTH system because the service was not being accepted rapidly across the world as anticipated.

William Kornfeld, 3440 Tippawingo Drive, was in favor of the FTTH system. He said the two internet providers available to him did not provide superior telephony, video and services only possible with high bandwidth low latency internet. He asked the Council to approve the FTTH system.

Norman Carroll, 425 High St. #120, presented questions regarding cost, added equipment, underground wiring, maintenance, inconveniences and whether the public was ready to face all that was required in installing the FTTH system. He felt higher standards should be placed on emergency services and preparedness, street and sidewalk maintenance, utilities and public services for the City.

Robert Smith, 2291 Green, asked whether there was a business plan, who was interested, and what companies were willing to partner with the City. He suggested asking incumbent providers what would be useful in working with them and to start with cell phone providers.
Robert Moss, 4010 Orme St., spoke regarding how the FTTH system would provide high capacity bandwidth and would bring people and businesses into the community creating revenue and making Palo Alto a leader. He urged the Council to approve the system.

Sanford Forte, 280 College Avenue, spoke of establishing a system to compete with the commercial providers. It would bring in revenue and provide better service to the community. He felt the RFP was well meaning but misguided.

David Harris, 455 Margarita Avenue, spoke of the City’s resources in supporting the FTTH system that most cities did not have. It consisted of seven rings of dark fiber, a Utilities staff with expertise in fiber technology, and billing services credibility with the citizens.

Ellie Gioumousis, 992 Loma Verde, was in favor of the FTTH and urged the Council to move forward on the system.

Herb Borock, P.O. Box 632, suggested the Council approve the actual language of the RFP. Public input could only be obtained after voting on the primary goals of the system.

Bill Zaumen, 912 Clara Dr., spoke regarding data storage and the capability of connecting the computer to open standards not requiring software from an Internet Service Provider (ISP).

Cedric de La Beaujardiere, 3153 Stelling Drive, spoke regarding the misconception of having to dig up streets to install the system. Fibers would run along existing lines. Increased bandwidth would give the City the capability of sharing information with the public. Payment to FTTH would mean monies remaining in the community.

Paul Diamond, 175 Heather Lane, was in favor of FTTH. A high bandwidth system would bring in revenue to the City.

Council Member Beecham spoke of the supplemental risk and the Council wanting to minimize financial exposure of the project. He said the Council recognized or guaranteed financial or other assets in achieving its goals. Responses to the RFP needed to include City financial risk mitigations, quantity, timing, and roll-out scheduling. The responder had to demonstrate the ultimate capacity of the proposed system. Among the existing technologies, optical fiber appeared to provide bandwidth of 100 megabits of service. Wireless internet access had a symmetric bandwidth of about one
Mpb which was one per cent of the City’s goal. The Council supported pursuit of a Citywide wireless service, but not as a substitute for the City’s goal of 100 megabits of symmetric service. The City wanted to own the system’s physical infrastructure and ownership could depend on the City’s financial contributions. Responders would need to clarify their relationship between the City, investments, risks, and ownership.

Council Member Barton supported the motion and said the RFP was a good tool to determine what could be provided. He said the system would be advantageous to the City in attracting and retaining businesses in Palo Alto.

Council Member Cordell said she did not oppose FTTH but felt it was not the time to go forward on the proposal. The public showed limited interest in the matter and had greater priorities in public services such as the libraries and the police building. She raised concern regarding the potential financial risk and legal liabilities in going forward and funds needed in litigations dealing with risk.

Council Member Drekmeier supported the motion but raised concern regarding the system’s capability of eavesdropping and tapping in at the request of federal, state, or local law enforcement authorities.

Council Member Klein felt FTTH would be successful and supported the motion. He asked the proposal to specify the request for an open system rather than ask responders for input on an open system, direct staff to seek adjacent communities interest regarding partnership and consult with potential commercial customers and to include latency in the standards.

Council Member Beecham said he accepted adding latency and to request an open system. He preferred having a City-owned system but was willing to discuss the possibility of limited ownership provided financial risk was low. He was not in favor of considering partnership with adjacent communities. The City had its own utilities and enterprise funds and was not in favor of negotiating with other City governments or consulting with major customers, which could delay the RFP from moving forward.

Mr. Benest said staff was ready to proceed in moving forward with an RFP but wanted the Council to be aware it would take a significant amount of time to complete the process. The motion would require six votes in order to come back with a budget amendment ordinance (BAO) in allocating funds for the current fiscal year and five votes to include allocations in the following year’s budget.

Vice Mayor Kishimoto said she was a long-time FTTH supporter. She agreed
with Council Member Cordell that FTTH was a timing issue and the need to remain competitive. She viewed the FTTH system as an economic base and part of sustainable development without negative impacts on the environment.

Council Member Klein suggested adding a directive for staff to keep adjacent communities informed on progress of the RFP and for the Council to consult with significant potential customers of the system in getting their input, which may be more desirable than having staff do portions of the work.

Council Member Beecham said he along with other colleagues would be willing to talk with neighboring cities, but would not ask staff to do so at this point.

**MOTION PASSED** 5-1, Cordell voting no, Kleinberg, Morton, Mossar not participating.

**COUNCIL COMMENTS, QUESTIONS, AND ANNOUNCEMENTS**

Council Member Kishimoto reported at a recent VTA Policy Advisory Committee meeting, she recommended VTA keep the BART schedule on the 2018 track, which saves funds on the bonding, and explore a shorter BART routing to San Jose.

Mayor Kleinberg requested this evening’s meeting be closed in honor of Doctor Martin Luther King, Jr. and the importance of the past week and his birthday.

**CLOSED SESSION**

9. **CONFERENCE WITH CITY ATTORNEY -- EXISTING LITIGATION**

Subject: The City of Palo Alto, a municipal corporation v. GTE Mobilnet of California Limited Partnership dba Verizon Wireless, et al., Santa Clara County Superior Court Case No.: 1-04-CV 028047

Authority: Government Code section 54956.9(a)

Council adjourned into closed session at 9:53 p.m.

Council Member Mossar would not participate in the item due to a conflict of interest because of family holdings in Verizon and/or SBC.

Council Member Morton would not participate in the item due to a conflict of interest because of family holdings in Verizon and/or SBC.
The City Council met in Closed Session to discuss matters regarding existing litigation, as described in Agenda Item No. 9.

**Mayor Kleinberg announced there was no reportable action taken.**

**FINAL ADJOURNMENT:** The meeting adjourned at 10:35 p.m.

ATTEST:                                                                 APPROVED:

City Clerk                                                                 Mayor

NOTE: Sense minutes (synopsis) are prepared in accordance with Palo Alto Municipal Code Sections 2.04.180(a) and (b). The City Council and Standing Committee meeting tapes are made solely for the purpose of facilitating the preparation of the minutes of the meetings. City Council and Standing Committee meeting tapes are recycled 90 days from the date of the meeting. The tapes are available for members of the public to listen to during regular office hours.