



POLICY AND SERVICES COMMITTEE

Regular Meeting
November 29, 2011

Roll Call

Chairperson Price called the meeting to order at 7:00 p.m. in the Council Conference Room, 250 Hamilton Avenue, Palo Alto, California.

Present: Burt, Klein, Holman, Price (Chair)

Absent:

Oral Communications

None

Agenda Items

1. Economic Development Policy and Staff Action Plan

Thomas Faherenbach Economic Development Manager, reviewed the Economic Development Policy. He stated that Staff had incorporated the changes the Committee requested. He asked the Committee to recommend the Council adopt the Economic Development Policy and to provide comments on the Staff Action Plan as it related to the Policy.

Council Member Klein stated he had many changes on the Background portion of the Staff Plan as he felt it didn't flow. He approved of the Policy Statement and the Guiding Principles except Item 4. He said he would not be able to vote for it as it was.

James Keene City Manager said Staff would be happy to collect marked up copies from Committee Members to reconcile changes.

Chair Price stated reconciling changes would be appropriate.

Council Member Holman said she would write up her changes and provide them to Staff.

Chair Price stated she felt it would be more efficient to have Staff make changes rather than debate each change in the meeting.

Council Member Klein said the Policy and Plan were substantively appropriate, but the grammar needed work.

Mr. Keene stated he shared the lead responsibility with Mr. Faherenbach for drafting the proposed Policy. He felt the Policy formed the foundation for an action plan.

Chair Price asked for comments on Attachment One.

Council Member Burt stated he had concerns similar to Council Member Klein's regarding the Background section. He asked what the purpose of the Background section was. He said it was not entirely background but included overriding statements. He reviewed examples of his concerns with the Background section. He asked if the intention of the Guiding Principles was to describe how the Council will function or how the Council will function with the private sector.

Council Member Klein agreed stating it should be a guide to economic development efforts.

Mr. Keene agreed.

Council Member Burt said even though the dedicated Staff was just one person, various departments had some collaborative effort in the process. He felt this needed to be explained better. He said ensuring stability was an objective but not within the City's power. He stated the City complements the private and academic sectors in advancing creativity and innovation, but questioned if the City was capable of advancing these goals.

Mr. Keene requested specific suggestions on language to be used. He said there were various ideas presented at the previous meeting, but he was uncertain as to the Council's dedication to these ideas.

Council Member Burt stated the process should be for the Committee Members to actually participate in the project rather than simply approving or disapproving the content. He suggested Staff provide drafts further in advance of meetings so that Committee Members could provide feedback to the Staff prior to meetings, and then at

the meeting Staff would have drafts closer to the finished product.

Council Member Holman felt the report focused on innovation and innovative companies, which are important but are not exclusive. She felt there was not a good reference to providing the Goods and Services that also support the community and should be mentioned in the report.

Mr. Keene suggested the word "support" had a different meaning than grow. He said support could be applied to supporting all of the existing businesses.

Council Member Holman said some businesses draw people but don't generate much income on their own and that was not addressed in the report. She stated the list of Guiding Principles had not changed much. She stated other communities were discussing how to economically support existing businesses in order to change their model to address these issues in the short term. Regarding attachment two, she asked if digital boards, a Stanford shopping center expansion and an auto mall were of interest for discussion. She also questioned the meaning of development of existing parking lots in terms of verbiage.

Chair Price stated the Committee was commenting on the Economic Development Policy, Staff Action Plan, and attachments 1A and 1B.

Council Member Burt said under Staff Action Plan Staff would evaluate versus act.

Mr. Faherenbach agreed.

Council Member Holman said evaluation takes time. She was unsure if the Council would be interested in Staff exploring digital billboards and auto malls.

Council Member Klein said yes it does but not necessarily those particular ideas. He felt the Council should not dictate how Staff spends its time as the City Manager has discretion on that and should report back to Council. He said it was Staff's job to evaluate ideas and report on them.

Council Member Holman said she was concerned about providing Staff with topics for investigation such that their time would be better served.

Mr. Keene said the policy was predicated on the primary goal of maintaining the revenue base and growing it where possible. He recognized there were more limitations placed on themselves in Palo Alta than other cities. He stated Staff had to put down something to give the Policy meaning and that Staff wanted to suggest rather than limit the kinds of revenue to pursue.

Council Member Klein said Staff had a tendency to take one Council Member's comments over listening to the consensus of the entire committee.

Chair Price said this was improving. She stated she too had detailed comments regarding the Policy and the Staff Action Plan. She felt there was redundancy within the Guiding Principles and that they were a combination of statements, goals, methodologies, and strategies. She felt this document had to provide a clear understanding of the most important principles. She said her initial read on the action plan was that they needed a priority order to the list. She said she would send her written comments to Staff. She then mentioned the Council's focus area discussions.

Mr. Keene asked if this related to priorities.

Chair Price felt that was one of the best documents she had seen and that approach would be helpful here. She thought the Committee needed a better understanding of what Staff identified as general priority areas as a way to outline a work plan. She asked when the last Economic Development Policy was adopted and if there was a component in the Comprehensive Plan. She felt this provided touchstones and set a framework. She stated she saw some great improvements and expressed her appreciation.

Council Member Burt said priorities needed to be broken down into what was most important and what was most immediate. He said the Council should not guide the specific actions of Staff; however, there were issues that should be addressed. He discussed historical context and revenue generation being the primary driver in economic development, with local services being another factor. He also discussed revenue from sales tax and big-box retail stores in Palo Alto. He thought the Committee should acknowledge local-serving economic elements which generate significant revenue. He next discussed the loss of hotels even though the City had many inherent attractions for hotel stays and the revitalization of hotels through zoning and marketing efforts. He stated an increase in the hotel tax had not hurt business. He stated part of the document's purpose was to explain the Council's actions and plans for the City.

Chair Price requested additional comments on attachments one and two.

Council Member Klein requested that Staff send copies to the Committee Members as a Word document for editing purposes.

Mr. Keene agreed and asked if the Committee wanted individual markups or group markups.

Council Member Klein asked Staff to compile the Committee Member's comments and submit them at another meeting.

Chair Price asked if the next meeting would be on December 13, 2011.

Council Member Burt asked if they needed one on the 13th.

Chair Price asked if Staff could have the documents revised for a meeting on the 13th.

Mr. Keene said it depended on how aligned the comments were.

Chair Price stated there was a meeting tentatively scheduled for December 13th. She stated Staff would send the Committee Members the Staff Plan and the Committee Members would make their edits then return them to Staff. She asked Staff to set a deadline for the Committee Members to return edited versions. She asked Staff to discuss items for the next meeting.

Rob Braulik stated the only item scheduled for the next meeting was the massage ordinance. He stated items for a future date to be determined were anti-smoking, human habitation of vehicles and whistle-blower.

Mr. Keene stated the massage ordinance was the only definite item. He suggested that the 13th would not be a good date as Council Member Klein would not be present. He also asked if it would be worthwhile to present the revised documents at that time.

Council Member Burt said it would be difficult for him to attend on the 13th.

Chair Price stated her concern about those Committee Members who would be attending other committee meetings in January.

Mr. Keene suggested it may have been a mistake to bring a document to edit as opposed to framing a conversation about goals the Council would have. He stated the way Council Members want to see Palo Alto positioned in and described to the world was important. He was concerned that there would be a large discussion when presenting the documents to the full Council.

Chair Price asked if the Economic Development Principles could be embedded in the retreat.

Mr. Keene suggested a foundation paper from the Committee could be included in strategic-visioning sessions the Council had asked him to structure.

Chair Price said that could be another vehicle in terms of visioning and strategic discussions.

Council Member Holman asked if Staff liked the idea of putting the Action Plan into a matrix such as the priorities.

Mr. Keene said it might be too much detail and create complications. He suggested main themes to generally focus emphasis. He stated Staff had to exercise judgment daily about their work and the plans were meant to guide work activities.

Chair Price said it seemed there needed to be a simple rationale regarding the purpose of a cluster of activities. She said this would provide a better understanding of the structure and priorities.

Council Member Burt stated the individual elements of the Action Plan were principally Staff-based. He agreed with Mr. Keene's prior comments regarding creating primary objectives before creating the document. He suggested the Committee needed to comment on how it might be framed and then an overall set of objectives.

Council Member Klein felt the Committee had backed into consideration of the plan. He stated the City's reputation was based on technology industries that did not bring in much revenue. He stated a central part of revenue generation was all types of businesses which the City did need to develop and improve. He felt it was a mistake to give the Action Plan to the Council for review. He said it was difficult to strike a balance among innovative materials which provide the City's identity, the businesses which provide taxable revenue, and small local businesses so that the Community could have the Goods and Services it wanted.

Council Member Holman said she saw no reference to a business registry as opposed to a business license tax. She said there were action items under the priorities but they were too detailed, too extensive. She asked Staff to comment on a business registry.

Mr. Faherenbach explained there were data-analytical tools available that would allow Staff to see trends and make assessments. He felt there could be simpler ways to obtain information regarding trends than a business registry. He suggested Staff could explore this.

Council Member Holman stated she thought contact with businesses was important. She thought employing Council Members to visit businesses would help relations with the business community.

Council Member Burt felt it would be more appropriate to add something about a database.

Mr. Keene agreed the City needed an economic database. He suggested an economic development principle for Palo Alto should be "first do no harm."

2. Utilities Advisory Commission Recommendation that the Policy and Services Committee Recommend that Council Establish the Utilities Emerging Technology Demonstration Program.

Utilities Advisory Commission Chair, Jon Foster stated that the Utilities Advisory Commission (UAC) and the City of Palo Alto Utilities Department (CPAU) had been working together for the past two years to establish a Utilities Emerging Technology Demonstration Program. The issue was brought forward in late 2009/early 2010 because several emerging energy technology companies viewed Palo Alto as an innovative place where they could bring and demonstrate new products. Companies that presented their products to larger utility venues ran into difficulties and sometimes found it impossible to try to get through bureaucratic barriers. Companies found that Palo Alto had an interest but the City did not have a program to accommodate their needs. The Staff brought forward a pilot program that was endorsed by the UAC to facilitate the incoming applications from technology companies. The program would start small with limited funds from the City to hire a consultant and to purchase equipment to help assess the products. The funds could not be used for grants or loans. The pilot program looked promising and it should generate a large number of applications. Both Palo Alto and the companies involved could benefit from the new products and technologies.

Council Member Klein asked why the companies were not paying for the services.

Mr. Foster stated utility companies would volunteer staff time and services and did not charge the companies. He said it appeared to be the common practice and did not know why it was done that way.

Council Member Klein stated he had worked with several developing companies that paid to have their product tested and raised concerns regarding the practice.

Mr. Foster stated that would be an interesting question to ask the Sacramento Municipal Utility District (SMUD).

Council Member Klein suggested asking companies during the evaluation process if they planned to pay the City for its services.

Mr. Foster raised concerns that companies may ask for something rigorous in return if

they had to pay. The City could find itself in a competitive situation because there were utility companies that did not charge for services. Palo Alto and its residents would have the advantage of being a test bed and the opportunity to be the first to try new products.

Chair Price said it would be worthwhile to examine a fee arrangement. Palo Alto had an attraction and a draw. The City could establish a fee agreement and at a minimum, charge the companies for Staff's valuable time and expertise.

Council Member Burt said Council Member Klein viewed the issue as a factor and Council Member Price spoke of a fee structure that could be formulaic. He said a company could have a product that Palo Alto and residents could benefit from but the fee could be a barrier, whereas, a company could have a less gainful product and was able to meet the fee.

Council Member Klein said he was in favor of the program but was not swayed to allow the City to try a product for services rendered. He felt that companies who felt Palo Alto was the right place to promote their product would have no problem in meeting some form of compensation.

Mr. Foster asked Council Member Klein what his thoughts were regarding compensation.

Council Member Klein said it could be a fee or an arrangement for the Utilities Department to adapt in a system where the company would give the City a discount for a certain amount of time.

Chair Price said there were several forms of compensation models that could be explored.

Council Member Burt stated that having a set of cutting-edge programs was a good reason for a program like this. There had been conversations on how to build a set of cutting-edge energy initiatives. With environmentally focused values, our greatest impact would be not just about Palo Alto, but about what would be the greatest environmental impact we would have.

Council Member Holman raised concerns of how the public might view the program in certain scenarios. She asked if there would be inherent conflicts or legal reasons why the City could not accept stock in exchange for service.

Mr. Foster said getting stocks in exchange was a very complicated issue. He clarified that his response was not from a legal standpoint but from one who worked for a

venture-back software company that encountered difficulties in getting stocks.

Council Member Holman clarified she was referring to an inherit conflict and not a conflict of interest.

Utilities Director, Valerie Fong said the City was not at that point but would need to take a hard look at the stock option and with legal guidance. She said Staff was in the stages of looking for utility benefits that could accrue for customers from emerging technologies. The pilot program would start with limited City funds and staffing and would be an initial foray to see what was out there, who was interested, and practice on how to handle and evaluate proposals.

Council Member Holman stated that she was looking for the best way to leverage the City's investment for future payback.

Ms. Lloyd stated \$200,000 was needed to start the pilot program. The budget for energy efficiency in the coming year was \$.95 million for gas efficiency and \$3.38 million for electric energy efficiency. She said investing in these innovative products would provide the opportunity to learn what products worked in the community and what would be good investments for energy efficiency.

Council Member Klein stated the City would not have the right to use the product to make improvements to the City. The intent on how the product would be used needed to be stipulated in a contract. The company owned the product and the City would be subjected to a confidentiality agreement.

Ms. Fong disagreed and explained that the use of the product would be a benefit to the industry and the customers as the industry goes through a learning curve.

Council Member Klein did not see it in those terms and said that was not how the rest of the world operated.

Mr. Foster supported Ms. Fong's comment and said if a new, company-owned, product such as an energy control system was deployed in 100 houses in Palo Alto and the test proved to be significant, the end results would be that people would purchase the product.

Council Member Klein said legally that would not fly and a confidentiality agreement would need to be dealt with.

Council Member Burt asked Mr. Foster if the vision was that a pilot program would determine what worked and what did not work in the community. The program would

then be in a better position of taking advantage of the opportunity to scale the product as a pilot user who would understand the pros and cons and would be in a better position to decide whether to scale the product for the community. It would constrain scaling the product elsewhere but would provide a learning curve, would not be competing with other communities, and would be an advantage to the City.

Mr. Foster agreed.

Council Member Burt noted other advantages. He said the Stanford Research Park and Electric Power Research Institute (EPRI) were two research institutes located right in Palo Alto. They had expressed an interest in things that were being done in Palo Alto and essentially would allow the City to leverage their resources in research and development (R&D), and could gain from the program's evaluation. The City had benefited from becoming an early leader in a couple of developments in the last decade. In 1993, the Dark Fiber service became an economic driver for the community. The City also had a Renewable Energy portfolio that was further ahead than the rest of the state. Those were two examples that worked well and the community benefited from its service, its cost-effectiveness, and environmental achievements. He spoke of Linkoping, Sweden, one of the Palo Alto's Sister Cities that had an advanced incinerating system that generated revenue. Linkoping commercialized and sold plants all over the world. He said Linkoping had a different form of government and did not envision commercialization to occur in the City.

Mr. Foster addressed Council Member Holman's issue regarding stocks. He said one approach would be to get the program going and once the program proved to be successful, stock options could be looked at.

Chair Price encouraged looking into a fee agreement. She said Staff time and service were valuable. Palo Alto had accessible benefits and many technology companies had a fair amount of resources. She felt the City would undervalue its expertise and the program to not explore the option.

Council Member Klein referred to a statement in the Staff Report ID#2217, page 4, regarding SMUD that stated "*The customer's site is the test bed for the R&D project and the customer assumes most of the risk.*" He asked if SMUD assumed some of the risk or was it clear that the customer assumed all of the risk.

Ms. Fong stated it was the supplier that assumed the risk.

Council Member Klein wanted confirmation the City would not assume risk.

Mr. Foster confirmed the City would not be assuming risk.

Ms. Fong stated some of the companies were Startup companies and products would fail.

Council Member Klein stated it would be helpful to not talk about Startup companies because a product could be coming from an established company.

Council Member Klein asked if the City was getting a lot of applications.

Ms. Fong stated several industries with various products had applied.

Ms. Lloyd stated one evaluation criterion was how much money the company proposed to put into the project.

Council Member Klein stated the Staff Report noted that SMUD was a member of the Emerging Technologies Coordinating Council (ETCC) that represented the Municipal Utilities in the state. He asked if the SMUD represented Palo Alto.

Ms. Fong said they were the Municipal Utility on ETCC Council.

Ms. Lloyd said they did not represent the City in legal or financial matters. Palo Alto had voiced an interest to join the ETCC. SMUD took on the responsibility to provide information and to invite Palo Alto to their meetings, otherwise the City would need to pay for membership and allocate resources to the ETCC. It was an informal relationship.

Council Member Klein addressed comments regarding program evaluation and Staff time. He stated there could be a need to hire a new person to handle the tasks. He asked why added staffing was not included in the report.

Ms. Fong said Staff involvement and time allocation was undetermined at this time. Staff could submit a request with justification if needed. She envisioned starting the program with little effort.

Ms. Lloyd stated that the first year budget would entail program setup, putting into place an on-line application process, and to setting up an evaluation committee. Most of the money would be spent on a consultant to evaluate the program, with the possibility of a part-time person to manage the day-to-day work.

MOTION: Council Member Klein moved, seconded by Burt, that the Policy and Services Committee recommend that Council establish the Utilities Emerging Technology Demonstration Program with a budget of \$200,000 for FY 2012 and direct

Staff to develop a process for evaluating and selecting projects with an added criteria to the "Proposed Evaluation Criteria" on page 5 of 8 stating "financial or other benefits to the City" as the second criteria.

Council Member Holman stated the draft policy was attached to the Staff report and asked if that was still in effect.

Ms. Lloyd clarified the draft policy was a Citywide policy and needed more work.

Ms. Fong stated that Thomas Faherenbach, Economic Development and Redevelopment Manager, had planned to return with more input on the Implementation Guidelines and Partnership portion. She said she had conversations with the City Manager to launch a smaller program to see how it would work. The Utilities Department's piece would be to learn from the pilot program and would provide updates to the citywide policy.

Ms. Lloyd stated that the Citywide policy would continued to develop while the pilot program moved forward and could act as a springboard for the Citywide policy and a test bed on how to streamline the process.

Council Member Holman asked if the "Implementation of the Guidelines" was part of the policy.

Ms. Lloyd said it was not part of the pilot program guidelines.

Ms. Fong said the pilot program piece was a subset of the larger piece.

Council Member Holman raised concerns regarding security and privacy issues.

Ms. Fong said the program would need to work closely with the City Attorney's office to make sure to not jeopardize customer information and to get waivers from voluntary customers. She was hesitant to embrace the fee-based concept, which could be perceived as selling customer information. Voluntary customers needed to self-identify themselves during the initial launch of the program. Privacy laws were strict and needed to be cautious.

Ms. Lloyd suggested the possibility of charging an application processing fee.

Mr. Foster addressed Council Member Holman's concerns regarding the security and privacy issues and referred to #4 of the PowerPoint presentation on the screen regarding privacy and indemnity provisions.

Ms. Lloyd said the four main evaluation criteria that needed to be met to qualify for the program were: the product needed to be: 1) innovative in nature, or the application needed to be innovative, 2) applicability to CPAU and its customers, 3) have beneficial features of the technology, and 4) be acceptable of the City's contractual indemnity and customer privacy protection.

Council Member Klein proposed to add "and become one of the top five requirements."

Chair Price asked at what point the performance measures would take place and who the key driver of the exercise would be.

Ms. Fong said an evaluator may be hired after the first year of the program to evaluation how well the program work.

Ms. Lloyd stated one criterion was to propose a start date, milestones, and duration of the demonstration. The Committee did not want to see a five-year pilot program.

Council Member Holman stated there were 10 criteria listed in the Staff report and needed clarification on why only five were shown in the presentation.

Ms. Fong said the first five were threshold criteria and the minimum requirements the project had to meet in order to qualify for the program. The others would be used to evaluate and rank the applications.

Council Member Klein asked that the added criteria, "financial or other benefits to the City" would become criteria No. 2, under the Propose Evaluation Criteria. The third sentence in the paragraph should read "The first five criteria listed below are the minimum requirements for a project to be included in the CPAU Program."

Council Member Burt stated that the first five criteria should be set apart from the others to indicate they were minimum requirements.

MOTION PASSED 4-0.

ADJOURNMENT: Meeting adjourned at 8:59 p.m.