



# FINANCE COMMITTEE FINAL MINUTES

Special Meeting  
December 15, 2020

The Finance Committee of the City of Palo Alto met on this date in the Community Meeting Room at 6:01 P.M.

Present: DuBois; Kniss arrived at 6:28 P.M., Tanaka

Absent:

## Oral Communications

Rebecca Eisenberg believed that the City Council (Council) made the right decision to vote against allocating money to the Palo Alto History Museum. She suggested that the Roth Building be turned into low-income housing instead. She encouraged Council to discuss again the idea of the City having a Business Tax as well as possibly implementing an Emergency Tax.

## Agenda Items

5. First Quarter Fiscal Year 2021 Financial Report.

Chair Tanaka shared that Agenda Item Number 5 will be heard first.

Kiely Nose, Administrative Services Director disclosed that the item was informational only and Staff did not have a presentation.

Molly Stump, City Attorney reminded the Finance Committee (Committee) that public comment needed to be heard.

Rebecca Eisenberg requested that the reports include an analysis of what the budget would look like if an Emergency Tax was implemented.

Chair Tanaka asked if the State of California reimbursed the City for the Fire Department's overtime.

Ms. Nose explained that the State of California reimbursed strike team overtime.

Chair Tanaka inquired how Staff separated overtime that is covered by the City and what was covered by the state.

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Ms. Nose mentioned that the Fire Department has a separate system that tracked all Staff and those reports were turned into the State of California.

Chair Tanaka rephrased his question regarding split weeks where overtime was accumulated within the City as well as in deployments.

Ed Shikada, City Manager commented that when a firefighter was on deployment, those deployments lasted for 2-weeks and so a firefighter would never be able to have overtime accumulated for the City at the same time.

Chair Tanaka pointed out that the Fire Department overtime had increased.

Geoffrey Blackshire, Fire Chief confirmed that firefighters are on a portal to portal program and all their movement was calculated and tracked through the system. Any time over 56-hours a week was considered overtime and the state covered all backfill overtime. Any overtime accumulated by a firefighter within the City's jurisdiction was covered by the City.

Mr. Shikada asked Mr. Blackshire to estimate how many times a firefighter was sent on deployment, comes back, and then is called in to help with emergencies within the City.

Mr. Blackshire reported that it was an extremely rare occurrence.

Chair Tanaka wanted to know the breakdown of overtime in terms of what the City has to pay for versus the State of California.

Ms. Nose articulated that she would have to work with the Fire Department to get that breakdown.

Mr. Blackshire added that the department was still waiting for invoices to determine how much overtime the City paid and what was paid by the State of California.

Chair Tanaka proclaimed that airport funds were loaned out.

Ms. Nose confirmed that is correct.

Chair Tanaka specified that the Federal Aviation Administration (FAA) would reimburse the City.

Ms. Nose explained that the airport money was loaned to cover operating and capital expenses. Separately, the airport did receive funding from the FAA for Capital Improvement Projects (CIP).

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Chair Tanaka inquired why there was a \$.5 million reduction in Airport Funds.

Ms. Nose mentioned that there was a difference between the prior year and the current year and the \$.5 million reflected year over year changes.

Chair Tanaka asked if the report included a Fiscal Year (FY) Quarter 1 forecast.

Ms. Nose mentioned that Agenda Item 3 would have that analysis.

Chair Tanaka appreciated having FY 2020 as a benchmark, but another benchmark that he wanted was the adjusted budget for Quarter 1.

Ms. Nose restated that Staff did not have those figures because Staff does not review the budget on a quarter by quarter basis. She reconfirmed that Agenda Item 3 covered annual numbers.

Mr. Shikada reemphasized that Staff does not analyze budgets or forecasts by quarters. Actuals were tracked on a percentage of year-to-date but not against any break down by quarter.

Chair Tanaka wanted to see a table reflecting actual quarter figures year-to-date compared to actual adjusted budget to-date.

Ms. Nose confirmed that what Chair Tanaka was seeking was within Table 1 of the report.

Chair Tanaka stated that Ms. Nose was correct. He noticed that the City's expenses were higher than in prior years.

Ms. Nose confirmed that it could be expected because FY 2021 dropped a lot of expenses in Staff vacancies.

Council Member Kniss asked if hiring across the whole agency was frozen.

Ms. Nose indicated that there was a hiring freeze but essential roles continued to be filled.

Vice Mayor DuBois suggested saving any further discussion for Agenda Item 4.

Chair Tanaka inquired why the Department of Public Works' expenses increased.

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Ms. Nose disclosed that she would have to investigate further, but Public Works' biggest expense was dealing with Coronavirus (COVID-19) issues.

Council Member Kniss asked if the Transit Occupancy Tax (TOT) was lower than what was predicted.

Ms. Nose answered yes.

Council Member Kniss wanted to know what long-range planning would be altered because of a lower TOT.

Ms. Nose indicated that Staff would be presenting that to the Committee in another Agenda Item.

## **NO ACTION TAKEN**

1. Review and Recommend to the City Council a Fire Department Ambulance Subscription Program: 1) Adopt Ordinance to Establish Program and Fees; and 2) Approval of a Budget Amendment in the General Fund.

Geoffrey Blackshire, Fire Chief reported that for over 40-years the Fire Department has served the public with an emergency transport service and that Palo Alto (City) was the only City within Santa Clara County that provided that service. On average, two-thirds of the Fire Departments' emergency calls were emergency medical incidents and resulted in 3,500 transports to an emergency room via ambulance. The Fiscal Year (FY) 2021 Adopted Budget for the Fire Department included \$1.4 million of estimated revenue from the Ambulance Subscription Program. Staff was seeking recommendations from the Finance Committee (Committee) regarding proposed fee levels.

Amber Cameron, Senior Business Analyst of the Fire Department disclosed that the Ambulance Subscription Program included a base fee of \$2,460. Depending on the patient's insurance or no insurance, that determined how much of the payment the patient would have to pay out of pocket for the service.

Council Member Kniss asked how the co-pay for uninsured folks compared to other cities that charge for ambulance services.

Mr. Blackshire reported that he would provide those metrics to the Committee at a future time.

Council Member Kniss inquired how many Staff occupied an ambulance at one time.

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Mr. Blackshire answered one paramedic and one Emergency Medical Technicians (EMT).

Vice Mayor DuBois predicted that the fee would be per household not per person.

Ms. Cameron confirmed it was per household and the program was more focused on commercial insurance holders.

Council Member Kniss requested clarification on how the fee was based on household.

Ms. Cameron proclaimed that further in the presentation it would explain how the fee worked.

Chair Tanaka wanted to know how much nonpayment was received.

Ms. Cameron indicated that the program never received the full amount that was charged out.

Chair Tanaka inquired how many people who used the service were Palo Alto residents versus non-Palo Alto residents.

Ms. Cameron expressed that she would have to collect that information and bring it to the Committee. She continued with her presentation and stated that the program would be voluntary and participants could terminate their membership at any time. The program did mirror other programs that were available in other cities including the City of Anaheim, City of Huntington Beach, City of Newport Beach, City of Orange City, and City of Corona. The other cities did report that 25 to 30 percent of their population did self-select to enroll in the program. Two of the five cities did not have a flat fee for businesses but based it on employee count. In terms of the City's program, all folks living within a household where be covered because enrollment was based on residential address. Any visitors visiting the residents were also covered. If a business was enrolled, all employee was covered while at work or commuting to and from work. If enrolled, a participant would pay their monthly fee on their utility bill. Staff presented three options for potential fee rates for residents. Option A included an annual fee of \$80 which would accumulate an annual revenue of \$550,000. Option B had an annual rate of \$100 which accumulated \$687,500 and Option C's annual rate was \$120 which was estimated to supply \$825,000 in revenue. All options assumed a 27.5 percent participation level. For businesses, Staff proposed there be five tiers that were based on headcount within the business and each tier included an Option A, B, or C fee amount. Option A was a lower payment per year with Option C being the highest. To implement the program, Staff

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requested an annual \$60,000 allocation from the City for fee collection as well as a one-time allocation of \$25,000 for community outreach and education.

Rebecca Eisenberg supported the program and supported the adjustment of the Municipal Fee Schedule. She suggested a very low fee be applied to residents and a higher fee for businesses.

Council Member Kniss inquired why Option C was not the top preference.

Ms. Cameron specified that Staff wanted to present several options because other cities charged a much lower rate.

Vice Mayor DuBois asked how the department will determine who are permanent residents.

Mr. Blackshire restated that the program is associated with a physical address, not a person.

Vice Mayor DuBois predicted it may be hard for folks to show proof of residence. His main concern was how to market the program and he suggested to headline how much popular insurances would charge for an ambulance ride. He wanted to understand why a business would be motivated to pay for the program when their employees had insurance.

Mr. Blackshire mentioned that the program was more popular with smaller businesses and it could be viewed as an incentive for employees.

Vice Mayor DuBois inquired how other Cities marketed their program.

Mr. Blackshire shared that most of the marketing would be done within the first year.

Vice Mayor DuBois questioned if the program could be advertised on utility bills for new residents.

Ms. Cameron concurred that was Staff's plan.

Vice Mayor DuBois supported the program and he suggested bringing draft marketing materials when the item comes before City Council (Council).

Chair Tanaka rephrased if the City could bill for the program through the Utilities Department.

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Molly Stump, City Attorney restated that it was a voluntary program, not an imposed cost and the City can legally collect fees if the customer has agreed.

Chair Tanaka wanted to know what the distribution was of calls coming in that requested the service.

Mr. Blackshire did not have that information available.

Chair Tanaka declared that it is important to understand the distribution and an analysis of distribution needed to happen. He foresaw the City losing money if there was not random distribution.

Ms. Cameron confirmed that elderly folks do use the ambulance service more, but Staff felt that commercial insurance holders will be drawn to the program due to unforeseen accidents occurring.

Chair Tanaka advised Staff to do a Distribution Analysis on the call data and until the analysis was completed, he could not support the program. He wanted to understand how much in advance did a person have to buy into the program and how did it work for multi-residential units.

Mr. Blackshire explained that a person could join the program whenever they felt the program would be beneficial to them.

Chair Tanaka was worried about the heavy user problem.

Ms. Cameron disclosed that on average, there are three residents per household within the City. The program was tied to an address so each duplex or apartment would pay for their own plan and each plan would cover those individual apartments or duplexes.

Chair Tanaka felt that one flat fee was inequitable when a home could contain numerous persons and pay the same amount as a studio apartment. He asked how the program was performing in the comparable cities.

Mr. Blackshire declared that the programs have been performing very well and have been sustainable in some cases over two decades.

Mr. Shikada predicted that the cities that do have a similar program run their own ambulance service.

Mr. Blackshire confirmed that is correct.

Chair Tanaka inquired how successful the programs were in terms of revenue.

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Mr. Blackshire shared that the City of Huntington Beach received \$1.4 million a year from the program.

Chair Tanaka wanted to see deeper financial metrics on other cities that had a similar program. He asked what percentage of the City of Huntington Beach's emergency calls were covered by their program

Mr. Blackshire said he did not know what percentage of their call volume and were from residents who used the program.

Mr. Shikada did not understand why Chair Tanaka was objecting to program revenue being a metric of the success of the program.

Chair Tanaka clarified that revenue was not the only metric and that he wanted to understand the heavy user problem. He felt there were many unknowns still.

Mr. Shikada objected and felt that the program and proposal were complete.

Vice Mayor DuBois summarized that even without a program, the City still provided emergency ambulance services. Sometimes the residents did not have to pay for the ride based on what insurance they have and it is heavily used by the elderly. He asked if the existing plan was operating at a loss of revenue.

Ms. Cameron confirmed that is correct and in FY 2019, only 41 percent of fees were collected. The Ground Emergency Medical Transport (GEMT) Program did help make up for the lost revenue.

Vice Mayor DuBois inquired if \$2,500 was the actual cost of service or if that was what the City was allowed to charge.

Ms. Cameron explained that it was based on the cost of service and it had not been increased other than by the City-wide annual increase.

Chair Tanaka believed that the program would require a leap of faith and for that reason, he wanted to see further analysis.

Vice Mayor DuBois advised Staff to show the current model of current charges and the City's ability to collect compared to collecting the subscriber model, plus the insurance, and the cost of that.

Chair Tanaka agreed with Vice Mayor DuBois that marketing the program will be complicated.



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Kim Roderick, Emergency Medical Service Director reported that out of the 3,800 transports that are done annually, two-thirds were residents. Before the Coronavirus Pandemic (COVID-19), Staff did do an analysis and there were a few dozen patrons that used the ambulance service once a month with others using it less than twice a year as well as one-offs. In terms of deductibles, the trend was to have lower monthly payments with a higher deductible, and the program would benefit those folks who had a high deductible.

Chair Tanaka asked what distribution looked like for folks who are on a commercial insurance program.

Ms. Roderick answered that 34 percent of private insurance folks used the existing service and that equaled roughly 1,255 residents.

Ms. Cameron restated that other cities have indicated that 25 to 30 percent of their entire population participate in their ambulance program. In terms of Palo Alto, only 5 percent of the total population of the City used the existing ambulance service.

Vice Mayor DuBois added that the City could try the program and if it does not work, it could be stopped very quickly.

Council Member Kniss requested of Staff what their thoughts were in terms of the options for fees.

Mr. Blackshire specified that the lower the payment, the higher the participation rate.

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

- A. Recommend that City Council approve the Program and adopt the recommended Program fee level(s);
- B. Recommend that City Council adopt an Ordinance amending the Fiscal Year 2021 Municipal Fee Schedule;
- C. Recommend that City Council make budget amendments as necessary to begin and maintain this program; and
- D. Recommend that Staff present marketing materials to the City Council.

Vice Mayor DuBois was not sure that the Committee needed to prescribe an annual payment.

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Ms. Nose confirmed that Staff could identify the cost of operating the program and bring that to Council. If the Committee had a preferred fee level, she encouraged that feedback.

Council Member Kniss suggested the fee be in the mid-range of the three options.

Vice Mayor DuBois believed the market should drive the price, not the budget. He advised Staff to test the prices by a willingness to pay. He questioned if Staff could figure out which fees would sell.

Mr. Shikada suggested having a focus group to provide feedback on willingness to pay.

Vice Mayor DuBois noted that pricing was determined based on budget goals and not the value of the service.

Ms. Nose argued that the program was being priced based on what other cities were doing.

Chair Tanaka asked the maker and seconder to include in the Motion a Financial Analysis.

Vice Mayor DuBois disclosed that Staff had indicated that they could do a Financial Analysis.

Mr. Blackshire specified that a Financial Analysis would take some time depending on how detailed the analysis was.

Chair Tanaka wanted to see a Distribution Analysis.

**INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER** to add to the Motion, Part D, "a Financial Analysis and a Distribution Analysis".

Chair Tanaka wanted a Distribution Analysis done on the 34 percent private insurance who currently use the existing ambulance services.

Council Member Kniss felt Chair Tanaka was getting too complicated.

Chair Tanaka believed that Staff already had the data for a Distribution Analysis.

Mr. Blackshire agreed to provide some analysis, but he emphasized that the benefits outweighed the uncertainties.

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**MOTION AS AMENDED RESTATED:** Council Member Kniss moved, seconded by Vice Mayor DuBois to:

- A. Recommend that City Council approve the Program and adopt the recommended Program fee level(s);
- B. Recommend that City Council adopt an Ordinance amending the Fiscal Year 2021 Municipal Fee Schedule;
- C. Recommend that City Council make budget amendments as necessary to begin and maintain this program; and
- D. Recommend that Staff present marketing materials, a financial analysis and a distribution analysis to the City Council.

**MOTION AS AMENDED PASSED:** 3-0

2. Review the Draft Park, Community Center, and Library Development Impact Fee Justification Study; and Recommend That the City Council Consider Adoption of an Ordinance Based on Study Recommendations to Update the City's Park, Community Center, and Library Impact Fee Program.

Kristen O'Kane, Community Services Director presented the item to the Finance Committee (Committee). Palo Alto (City) had been imposing Impact Fees for new developments since 2001, but the fees had not been updated since then.

Nate Perez, David Taussig & Associates (DTA) continued with the presentation. Topics of discussion included the Nexus Study process, demographics, existing inventory and cost assumptions, Impact Fees, and land valuation, and proposed updated Impact fees and land valuation. Existing Impact Fees have been increased by annual Consumer Price Index (CPI) but the Fee Study had not been updated. The process by which an Impact Fee Study was drafted included categorizing existing inventory which was then coupled with categories of demographics. Then standards-based methodology was applied and then the proposed fees were calculated. Existing inventory included park facilities, community center facilities, and library facilities. The Fee Study used Scenario 3 of the Comprehensive Plan update, Environmental Impact Report (EIR) adopted in 2017 to help determine demographics.

Vice Mayor DuBois asked why the employee counts were different depending on what slide the presentation was on.

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Mr. Perez explained that employee count was parsed out by category. He continued with the presentation. Land valuation included two components, Park Impact Fee and Quimby Fee, and the Quimby Fee had been updated more frequently because the Municipal Code required it. The Quimby Fee was using \$5.1 million per acre for land valuation and DTA proposed using \$5.7 million. The current Fiscal Year (FY) 2019-2020 Quimby Fee was \$62,564 per unit and that fee was charged to residential projects that required a Subdivision Map. Park Fees were charged to residential developments that did not involve a Subdivision Map and commercial projects. The land valuation update would result in a slightly increased Quimby Fee and would more closely align the Park Fee with the Quimby Fee.

Rebecca Eisenberg indicated that businesses should be charged on a per square foot basis and charged higher amounts than residents.

FINANCE COMMITTEE TOOK A BREAK AT 8:31 P.M. AND RETURNED AT 8:40 P.M.

Vice Mayor DuBois asked about the City of Los Altos and their land valuation.

Mr. Perez mentioned that there was no formal action taken by the City of Los Altos and so it was removed from the comparison chart.

Vice Mayor DuBois rephrased the question of why their land values were higher than the City's.

Mr. Perez predicted it was due to selection of data points or maybe Council preference.

Vice Mayor DuBois challenged if it was better for a City to have a higher or lower land value.

Mr. Perez answered a higher value meant higher fees.

Vice Mayor DuBois asked what the role of assessed value was.

Mr. Perez disclosed that there were many homes within the \$5 to \$6 million range.

Vice Mayor DuBois wanted to know if the Nexus Study had to include anticipated upcoming expenses.

Mr. Perez reported that some Nexus Studies do require that, but a Level of Service approach does not require that.

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Vice Mayor DuBois pressed if the Cubberley Community Center updates were included.

Mr. Perez answered yes in terms of a marginal component.

Vice Mayor DuBois clarified that \$6.2 million was a marginal expansion at Cubberley Community Center and not a full rebuild.

Mr. Perez confirmed that is correct.

Vice Mayor DuBois emphasized that 32,000 employees felt off.

Mr. Perez predicted it was resident employees and no additional employees. He emphasized that the same growth would be projected if it was employee total. He proposed to revisit the conversation with Staff to double-check the counts.

Vice Mayor DuBois suggested using some of the Business Tax analysis that Staff had drafted to determine employees within the City. He questioned where the Regional Housing Needs Allocation (RHNA) fell into the study.

Mr. Perez confirmed that RHNA numbers were very high and the team chose a scenario that aligned with the EIR and the Parks Master Plan.

Vice Mayor DuBois confirmed that the study projected 4,500 housing units even though the City was being asked to build 10,000.

Mr. Perez answered yes. He requested feedback from the Committee on what housing number should be modeled in the study.

Vice Mayor DuBois concurred that there is a need to update the fees. He requested that that be presented to City Council (Council) as an action item.

Chair Tanaka wanted to see a percentage delta from where the City was currently to the newly proposed increase. He disclosed that he was concerned about increasing the Impact Fees too much to where many new development projects would be feasible. He wanted to see a side by side comparison of the proposed increase compared to existing fees. Also, to include the percentage increase for the Council meeting.

Mr. Perez believed that the increases were reasonable.

Chair Tanaka articulated that increasing fees may be foreseen as discouraging housing production.

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Mr. Perez mentioned that since the City was doing a good job of using the fees to build infrastructure, an increase would most likely be accepted by the development community. He restated that a tiered approach could be taken to increase the fee slowly to minimize impacts.

Chair Tanaka asked if the fees applied to square footage or per unit.

Mr. Perez reported that single-family fees were per unit and the non-residential fee was per 1,000-square foot.

Chair Tanaka challenged why not have it for both.

Mr. Perez commented that it could be difficult from a permitting perspective to know the actual square footage at Subdivision Map time of the homes that were proposed to be built.

Chair Tanaka asked what the Park Fee increase was.

Mr. Perez predicted it to be five times larger than existing residential fees and three times larger for commercial and hotel.

Chair Tanaka inquired if other cities have increased their rates drastically in one sitting.

Mr. Perez confirmed that some cities do increase them quickly.

Chair Tanaka announced that some of the fees felt too high and he hesitated to support the analysis.

Council Member Kniss asked why the updated study was done.

Ms. O'Kane emphasized that the Impact Fees have not been updated for 20-years and that was the main driver to do the study.

Council Member Kniss pressed if Staff was seeking adoption from Council or to just acclimate Council to the drastic increases that were needed.

Ms. O'Kane specified that the Committee could make the recommendation to adopt the maximum, keep the fees as they are, or do something in between.

Ed Shikada, City Manager predicted that the study has not been reviewed by the Parks and Recreation Commission.

Ms. O'Kane answered that is correct.

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Mr. Shikada suggested that outreach be made to stakeholders who would be impacted most by the increased fees as well as tax payers.

Council Member Kniss wanted to continue forward and not leave the fees as is. She supported having a gradual increase to maximum levels.

Vice Mayor DuBois advised giving DTA feedback on the study so additional analysis or information could be drafted before Council saw the item.

Chair Tanaka wanted to give Staff and the consultant more time to gather additional information regarding the questions that the Committee Members had asked.

Vice Mayor DuBois emphasized that if the fees were not updated the City lost revenue.

Chair Tanaka articulated that there was not a lot of development happening within the City and the time to gather more information was now. He did not want to rush the item.

**MOTION:** Vice Mayor DuBois moved, seconded by Council Member Kniss to recommend that the City Council approve any adjustments to fee levels and direct Staff to return with the necessary Ordinance and fee schedule updates; and present some incremental options for adoption.

Council Member Kniss requested that the Motion include a tiered approach for implementation.

Chair Tanaka did not support the Motion and felt that increasing the fees would discourage housing production.

**MOTION PASSED:** 2-1 Tanaka no

3. Review and Recommend That the City Council Accept the Preliminary General Fund Forecast for Fiscal Year (FY) 2022 and FY 2022 Budget Development Guidelines.

Ed Shikada, City Manager disclosed that the item was time-sensitive.

Kiely Nose, Administrative Services Director acknowledged that the item was a preliminary one-year forecast for Fiscal Year (FY) 2022. Staff intended to return to the Full City Council (Council) in January of 2021 with a longer-term forecast.

Christine Paras, Administrative Services Assistant Director restated that due to the Coronavirus Pandemic (COVID-19), Staff felt that a preliminary

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forecast that focused on near term and based on the current economic situation and unknown impacts of COVID-19 would provide better information than a 10-year long-range forecast. Palo Alto (City) faced several fiscal pressures including funding for the 2014 Infrastructure Plan Projects, growing costs of pension benefits and labor costs, and proactive funding of pension obligations. Due to COVID-19, the economic picture at the national, state, and local level changed daily. One positive outcome was that Quarter 3 of the Calendar Year 2020 had positive results in terms of revenue and employment statistics. Based on modeling that all things held flat on the expense side, the General Fund (GF) would need an additional increase of 15 percent in Sales Tax compared to the base case to mitigate the shortfall that was projected in FY 2022. Within the base forecast for FY 2022, Staff was forecasting a \$4.7 million gap in the GF but it continued to be a moving target. Major revenue project categories included Sales Tax, Transient Occupancy Tax (TOT), and Property Tax. FY 2022 was forecasted to see an increase of 3 percent compared to FY 2021 forecast.

Ms. Nose mentioned that although revenue was projected to increase by 3 percent, taxes were expected to grow by 7 percent and there was to be a significant increase in TOT infrastructure. The forecast did assume that the two new hotels would come online in the calendar year 2021.

Ms. Paras continued to say that the increase in expenditures was driven by salary and benefit-cost increases. FY 2022 was forecasted to increase by 6 percent compared to FY 2021's forecast. One positive note was that total expenses in the GF had decreased from a high of \$224 million in 2019 to \$204 million in FY 2022. Also included in the forecast were committed additions for operation and maintenance (O&M) costs for capital projects that were anticipated to be completed in 2022. The next steps included a presentation to the Finance Committee (Committee) in February 2021 of mid-year results and an expanded forecast.

Rebecca Eisenberg disclosed that there was no reference to the repercussions of Council Member Kou's attempt to put the City into a breach of a settlement agreement that resulted in the lawsuit filed by American Civil Liberties Union (ACLU) and National Association for the Advancement of Colored People (NAACP). Also, the cost of the lawsuit the City already lost regarding charging residents without permission in Utility Fees. She plugged that it was vital to tax businesses and that the City needed to enact an Emergency Tax.

Council Member Kniss predicted that the City will have to make up for the lost TOT over a long period.



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Vice Mayor DuBois acknowledged that there would be a \$4.7 million gap and he asked Staff how they planned to address that gap.

Mr. Shikada reemphasized that Staff will return mid-year with recommendations.

Vice Mayor DuBois shared that in terms of construction bid trends, there was interest in sharing data with other cities. He wanted to understand if there were ideas that would help hotels recover quicker. He requested that the City consider stronger prohibitions on housing units that are 100 percent rented as short-term rentals. He echoed Council Member Kniss's comments. He concluded that the City should consider how to become a lesser commuter driven economy. He believed that reviewing a couple of years in the future was not a great way to make decisions.

Chair Tanaka agreed with Vice Mayor DuBois that there are systemic changes that were happening. Business travel has changed drastically and it may never return to what it was before COVID-19. He believed that the predicted Sales Tax for FY 2022 was too optimistic and suggested that the City be conservative. He did not think the forecast should assume that TOT would come back at full strength. He advised possibly lowering the existing TOT Tax to encourage a more competitive market. He predicted that the City faced a \$9 million shortfall. He asked why the forecast assumed a 7 percent increase for employee raises.

Ms. Nose emphasizes that the 7 percent increase included all costs including workers' compensation, pension costs, benefit costs, and salary. The salary growth that was assumed in the forecast also included the deferrals owed to public safety contracts as well as a one-year concession for management.

Chair Tanaka proclaimed that the City should hold the line in terms of salaries and decrease the transfer of revenue funds to infrastructure projects. He believed by doing both, the City could make up the gap. He suggested that the Committee provide feedback to Staff regarding potential ways to make up the funding gap.

Vice Mayor DuBois agreed that the City needed to be creative and agreed with Chair Tanaka about business travel decreasing. He suggested that Staff look at tourism and other types of travel instead. He disclosed that white-collar workers have been relatively unaffected by the pandemic and that was the majority of Palo Alto residents. He did not support the idea of no Staff pay increases. He wanted to see more data on what was happening locally. He concluded that when Stanford University reopens, that will drastically impact the City's economic status.

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Council Member Kniss advised the Committee, Council, and Staff to be ready for any scenario. She agreed with Chair Tanaka that the City should take a more conservative approach for the forecast.

Chair Tanaka commented that the City will have to contemplate how to give funds to the Utility Fund.

Mr. Shikada restated that the item was a forecast and not a policy direction for Staff or Council.

**MOTION:** Council Member Tanaka moved, seconded by Council Member Kniss to recommend the City Council accept the General Fund preliminary forecast for Fiscal Year (FY) 2022 and the FY 2022 annual Budget Development Guiding Principles and direct Staff to use this forecast as the starting point for the initiation of the FY 2022 budget process, with the following revisions:

- A. Direct Staff to create an alternative scenario with a more conservative forecast of the Transient Occupancy Tax and Sales Tax; and
- B. Direct Staff to hold expenses on infrastructure transfer and salary and benefit levels.

Vice Mayor DuBois disclosed that Staff has done very well predicting the forecast but he supported the Motion.

Ms. Nose suggested that Chair Tanaka bring up the concern regarding the transfer to infrastructure at Council.

Chair Tanaka did not understand why he could not discuss FY 2022 when the Agenda stated that was the item.

Mr. Shikada emphasized that any direction provided that modified the prior Council's policies was not on the agenda.

Molly Stump, City Attorney shared that the transfer to infrastructure amount was a figure based on prior Council policy. Any changes to that amount would need full Council discussion.

Chair Tanaka clarified that he was talking about Staff salary increases.

Vice Mayor DuBois mentioned that Chair Tanaka has raised the issue before regarding the 7 percent employee pay increase.

**INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER** to change the Motion, Part B, to read "Direct Staff

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to have expenses for 2022 remain the same as 2021 for infrastructure transfer and salary and benefit levels.” (10:16 PM)

**MOTION AS AMENDED:** Council Member Tanaka moved, seconded by Council Member Kniss to recommend the City Council accept the General Fund preliminary forecast for Fiscal Year (FY) 2022 and the FY 2022 annual Budget Development Guiding Principles and direct Staff to use this forecast as the starting point for the initiation of the FY 2022 budget process, with the following revisions:

- A. Direct Staff to create an alternative scenario with a more conservative forecast of the Transient Occupancy Tax and Sales Tax; and
- B. Direct Staff to have expenses for 2022 remain the same as 2021 for infrastructure transfer and salary and benefit levels.

## **MOTION SPLIT FOR THE PURPOSE OF VOTING**

**MOTION FOR PART A PASSED:** 3-0

**MOTION FOR PART B PASSED:** 2-0 DuBois no

- 4. Fiscal Year 2021 Finance Committee Referrals Update and Potential Recommendations to the City Council.

Ed Shikada, City Manager requested that the item be deferred to a future meeting.

Chair Tanaka agreed.

Council Member Kniss supported that recommendation.

Future Meetings and Agendas

Adjournment: The meeting was adjourned at 10:18 P.M.