



# POLICY AND SERVICES COMMITTEE SUMMARY MINUTES

Regular Meeting  
March 8, 2022

The Policy and Services Committee of the City of Palo Alto met on this date in hybrid teleconference at 7:00 P.M.

Present In-Person: Cormack

Present Virtually: Stone (Chair), Tanaka

Absent:

## Oral Communications

None

## Agenda Items

1. Update and Potential Recommendations on Pending State and Federal Legislation.

Niccolo De Luca presented to the Policy and Services Committee (Committee) a brief update on potential recommendations to pending state and federal legislation. Assembly Bill (AB) 1400 and AB 854 failed to progress this session. The Legislature has introduced 2,115 bills for Fiscal Year 2022. Assembly and Senate leaders have set a mid-March deadline for legislators to make amendments to existing legislation. On January 10, 2022, Governor Newsom released his California Blueprint. The January Budget proposal assumes a \$45.7 billion operating surplus, of which \$20.6 billion is discretionary. Governor Newsom's priorities included addressing COVID-19, rising cost of living, homelessness, public safety, and investments in climate resiliency. A portion of the trailer bill language detailing implementation and funding formula specifics was released by the Department of Finance. Transportation budget and legislative priorities focus on high-speed rail funding, transit and rail projects, local projects, and zero emission vehicles. The General Fund will provide \$1.9 billion to the California Emergency Relief Fund for COVID-19 mitigation, which includes increasing testing capacity, enhancing vaccination programs, and supporting frontline workers.

# SUMMARY MINUTES

Council Member Cormack asked if any changes to the Committee's strategy were necessary to ensure adequate funds are received.

Mr. De Luca recommended continuing the same strategy.

Council Member Cormack asked if Council or members of the public should be taking more of an active role.

Mr. De Luca believed that there could be a role for Council to engage in certain proposals. At present, some proposals are still in development.

Council Member Cormack expressed interest in SB (Senate Bill) 1100. She asked if the Committee should be more proactive regarding the Taxpayer Protection and Government Accountability Act.

Mr. De Luca answered yes.

Andres Ramirez agreed that it would be reasonable for Palo Alto (City) to actively participate in educating its constituencies.

Mr. De Luca advised that regarding Homekey, staff has been working with the Manager's Office to push for the application submitted by the City jointly with the service provider.

Deputy City Manager Chantal Cotton Gains indicated that letters regarding the Homekey application are being prepared along with a letter related to the budget surplus stating high-level City needs.

Chair Stone asked what is contributing to the state's continued surpluses.

Mr. De Luca explained that COVID-19 and the technology industry are largely responsible.

Chair Stone wanted to know more about the Governor's proposed budget.

Mr. De Luca advised that \$2 billion would be allocated for sustainable housing developments to existing programs. An estimated \$100 million is being proposed for state excess site development, approximately \$200 million for mixed-income housing development loans, and \$100 million for the rehabilitation of mobile homes parks. Approximately \$200 billion was proposed by the Governor, which primarily funds existing programs and must be applied for by the City. Following the release of the budget framework proposal, the Legislature will present additional funding programs.

Mr. Ramirez articulated that the intent is for the legislature and specifically the budget subcommittees to digest the Governor's proposal and formulate a

# SUMMARY MINUTES

rebuttal. The Governor can then form a revision with input from the legislature.

Chair Stone appreciated Staff's response and found it helpful. He believed the funding proposed was particularly inadequate. Funding for infrastructure needs is important, more funding is needed regarding affordable housing. He asked if any of the \$500 million for grade crossings in the Governor's proposed budget will be accessible for cities.

Mr. De Luca answered yes, cities have traditionally applied for grade separation funding.

Chair Stone inquired whether AB 1795 or other proposed laws would apply to both the public and participants.

Mr. Ramirez stated that the intent in some bills regarding legislative bodies continuing discretionary remote operations was not apparent, but Staff can inquire further.

Chair Stone stated that he supports SB 1100 and AB 1795, with the understanding that remote meetings be advocated for if such a provision is not included.

Council Member Tanaka remarked that the City may need to consider less spending during the high inflation. The City needs to encourage innovation more aggressively. He added that while funding is needed, there is also a need for laws.

Mr. Ramirez noted that while there will be large spending amounts, the governor's administration has committed this year to paying down debt on state pensions and paying out debt to other states and/or countries.

Council Member Tanaka emphasized that inflation is at a record high. He inquired regarding fixed debt and variable debt in the state.

**MOTION:** Council Member Cormack moved, seconded by Chair Stone to recommend the City Council:

A. Consider supporting Senate Bill 1100 to conduct orderly meetings.

**MOTION PASSED:** 3-0

Council Member Tanaka wanted to put forward a motion to support and encourage the lobbyists to support the ability to have remote meetings.

Council Member Cormack announced that she would not support the motion.

# SUMMARY MINUTES

**MOTION:** Council Member Tanaka moved, seconded by Chair Stone to recommend the City Council:

- A. Support and encourage legislation for all participants to participate in remote meetings even during non-emergencies.

**MOTION PASSED:** 2-1, Cormack no

2. Office of the City Auditor's Presentation of the Economic Recovery Advisory Report.

Kyle O'Rourke presented the results of the Economic Recovery Advisory Report to the Policy and Services Committee. The objectives of the audit were to review the City's long-term financial planning models and inputs and offer recommendations for improvement. Also, identify key revenue source categories that pose long-term risks to the City's financial sustainability, conduct scenario analysis, and provide ad hoc advisory assistance during the budget process for Fiscal Year 2022.

Peter Haney reported that preliminary analysis in March 2021 included a detailed review of Property Tax, Sales Tax, and Transient Occupancy Tax (TOT) forecasting models. Analysis of City revenues also focused on Documentary Transfer Tax (DTT) and Utility User Tax (UUT). Staff requested information of all existing spreadsheets, models, and reference materials. Interviews with members of Administrative services were conducted, along with independent research around state and national projections/economic indicators. Mixed analyses were completed, including statistical correlations using roughly a dozen various factors. Observations and Data Analysis include historical performance, historical averages, and corresponding economic indicators. The Revenue Trends and Models Review also provides a description of models used, industry best practices, and corresponding observations and recommendations. Staff concluded that the forecasting methodology is generally sound, logical, and aligned with best practices. Staff recommended improvements for workbook cleanliness and considerations of other factors in TOT.

Council Member Cormack appreciated the report and found it helpful. She asked how Staff would evaluate the forecast accuracy to the Economic Recovery Advisory through the last five years.

Mr. O'Rourke believed the results were exceptional. Deviations in the region of five percent are expected.

Mr. Haney agreed. Fiscal Year 2020 was unsteady but expected and reasonable.

# SUMMARY MINUTES

Council Member Cormack asked if the Committee found the correlation between TOT and Sales Tax to be useful.

Christine Paras answered yes, especially with the last two economic downturns. There is a relationship, based on which staff attempts to model revenues.

Council Member Cormack found it interesting that the luxury hotels have a lower beta than other segments. Thinking more about the segments is a helpful way to think about recovery and transition. She appreciated the recommendations. The location quotient was helpful.

Chair Stone appreciated the report and found it helpful and thorough. He inquired regarding the forecast for work from home models as the world transitions from a pandemic to an endemic.

Mr. Haney indicated the forecast is uncertain. How much remote work will be an option for many companies in the area will be largely speculative.

Ms. Purdy agreed. A good approach is to keep in contact with businesses to remain up to date.

Chair Stone found it interesting the report warned of decreasing real estate values in Palo Alto due to external factors. He wanted to know if the claim was based on anything specific.

Mr. Haney indicated that if businesses move out of the City or a greater number of residents move out of California, the continued population trend may decrease the value.

Chair Stone inquired about data for regional state trends of what is normal for a percentage of a workforce to live in the same city.

Ms. Purdy responded that staff did not explore the data for the City.

Council Member Tanaka believed it was best practice to compare the actual against the forecast and look at the error to compare to actual results.

Ms. Paras explained that actuals are always compared to the previous forecast was in the projections.

Council Member Tanaka asked if only linear models were used.

Nick Dragisich answered yes, all trend lines are linear.

# SUMMARY MINUTES

Council Member Tanaka suggested using a different trend line for the TOT revenue.

Mr. Dragisich explained that the revenue streams had too much variability and producing adequate results was challenging.

Council Member Tanaka suggested using additional features to better inform the model.

**MOTION:** Chair Stone moved, seconded by Council Member Cormack to recommend the City Council:

- A. Review the Economic Recovery Advisory report and corresponding recommendations for improvement and recommend the City Council accept the report.

**MOTION PASSED:** 3-0

3. Presentation of the FY22 Risk Assessment Report & Audit Plan.

Kyle O'Rourke presented the Fiscal Year 2022 risk assessment report and audit plan to the Committee. Project phases include planning, information gathering, analysis, and reporting. Some risk areas are strategic, financial, operational, compliance, technological, and reputation. Rather than drawing conclusions, areas of risk are assessed to inform the audit plan. No activities were performed that would enable documenting findings or making recommendations. In total, 154 auditable areas were identified. The primary purpose is to inform the Audit Plan. Audit plan considerations include citywide risk assessment, ability to add value, City Council direction, audit coverage, prior audits, proper timing and on-going internal initiatives, and scheduling. The City Auditor is required to develop an Annual Plan. Staff has a tentative plan through the end of Fiscal Year 2023.

Chair Stone asked if it was common practice for cities to not shut off utilities in the event of regularly missed payments.

Mr. O'Rourke believed it was location specific.

Chair Stone wanted to know if utility customers not paying bills is a problem in Palo Alto.

Mr. O'Rourke responded that it was not a significant issue.

Council Member Cormack asked what changed from last year.

# SUMMARY MINUTES

Mr. O'Rourke remarked that many labor related matters rose to the high-risk area. The ability to work through the process quickly, efficiently, and effectively rose to the top.

**MOTION:** Council Member Cormack moved, seconded by Chair Stone to recommend the City Council:

- A. Review the Fiscal Year 2022/23 Risk Assessment Report and Recommend City Council Approval;
- B. Review the Fiscal Year 2022/23 Audit Plan Report and Recommend City Council Approval;
- C. Review the following Task Orders identified in the Audit Plan Report and Recommend City Council Approval:
  1. Remote and Flexible Work Study
  2. Cybersecurity Assessment
  3. Wastewater Treatment Plant Agreement Audit

**MOTION PASSED:** 3-0

4. Presentation of the Office of the City Auditor Quarterly Status Report - October to December 2021.

Kyle O'Rourke presented the Office of the City Auditor Quarterly Status Report to the Committee. The scope of work overview includes financial audit tasks, executing the annual plan, preparation of quarterly report and annual status report, and evaluation and benchmarking. Staff sought approval for the Fiscal Year 2022-2023 assessment report for the citywide risk assessment and annual audit plan. Regarding the financial audit, proposals were solicited from Financial Audit firms. City Council reviewed and approved three audits, the Committee reviewed an additional three audits, and one task order associated with the Wire Payment Process was approved. Five reports were issued for Fiscal Year 2021. The City Auditor, in conjunction with the City Manager and City Attorney, reviewed and closed two Hotline reports filed in the prior year. The City Auditor recommends that the Policy and Services Committee accept the Office of the City Auditor's Quarterly Status Report covering October – December 2021.

# SUMMARY MINUTES

Council Member Cormack put forward a motion.

Chair Stone seconded.

**MOTION:** Council Member Cormack moved, seconded by Chair Stone to recommend the City Council:

- A. Accept the Office of the City Auditor's Quarterly Status Report covering October – December 2021.

**MOTION PASSED:** 3-0

## Future Meetings and Agendas

Deputy City Manager Chantal Cotton Gaines reported future meetings regarding additional auditor reports, the non-profit agreement management report, SAP report, and providing a draft to the Committee related to the Council, Procedures, and Protocol document for review. Also, follow-ups related to renter protections.

Adjournment: The meeting was adjourned at 9:38 P.M.