



JOINT CITY COUNCIL AND PLANNING COMMISSION STUDY SESSION

TUESDAY, JUNE 26, 2018 – 5:30 P.M.

Community Meeting Chambers
Los Altos City Hall
One North San Antonio Road, Los Altos, California

1. 5150 El Camino Real Development Proposal: Consider the proposed project and provide feedback and guidance to the applicant and staff (Z. Dahl)

ADJOURNMENT

SPECIAL NOTICES TO THE PUBLIC

In compliance with the Americans with Disabilities Act, the City of Los Altos will make reasonable arrangements to ensure accessibility to this meeting. If you need special assistance to participate in this meeting, please contact the City Clerk 72 hours prior to the meeting at (650) 947-2720.

Agendas, Staff Reports and some associated documents for City Council items may be viewed on the Internet at <http://www.losaltosca.gov/citycouncil/online/index.html>. Council Meetings are televised live and rebroadcast on Cable Channel 26.

On occasion the City Council may consider agenda items out of order.

All public records relating to an open session item on this agenda, which are not exempt from disclosure pursuant to the California Public Records Act, and that are distributed to a majority of the legislative body, will be available for public inspection at the Office of the City Clerk's Office, City of Los Altos, located at One North San Antonio Road, Los Altos, California at the same time that the public records are distributed or made available to the legislative body. Any draft contracts, ordinances and resolutions posted on the Internet site or distributed in advance of the Council meeting may not be the final documents approved by the City Council. Contact the City Clerk at (650) 947-2720 for the final document.

If you wish to provide written materials, please provide the City Clerk with **10 copies** of any document that you would like to submit to the City Council for the public record.

For other questions regarding the City Council meeting proceedings, please contact the City Clerk at (650) 947-2720.



STUDY SESSION

Agenda Item # 1

AGENDA REPORT SUMMARY

Meeting Date: June 26, 2018

Subject: 5150 El Camino Real Development Proposal

Prepared by: Zachary Dahl, Planning Services Manager

Reviewed by: Jon Biggs, Community Development Director

Approved by: Chris Jordan, City Manager

Attachments:

1. Cover Letter
2. Conceptual Project Plans

Initiated by:

Applicant, Dutchints Development, LLC

Previous Council Consideration:

None

Fiscal Impact:

Undetermined

Environmental Review:

Undetermined

Policy Questions for Council Consideration:

- Is the proposed density appropriate for the site?
- Does the proposed site design, which includes a mix of condominium and townhouse units, provide an appropriate transition between the commercial-multi-family context of El Camino Real to the single-family context behind the site along Casita Way and Marich Way?
- Are the development incentives being requested in-line with the number of affordable units being proposed and the number of density bonus units received?

Summary:

- The property at 5150 El Camino Real is zoned CT (Commercial Thoroughfare) and has a base density that allows for 145 dwelling units (38 units per acre).
- The proposed multiple-family project is offering to designate 30 units (21%) as Below Market Rate (BMR) and is seeking a density bonus of 35% and three development incentives in exchange for the BMR units.
- Overall, the project is proposing a total of 196 multiple-family residential units – 24 townhouses and 172 condominiums – for a total density of 52 dwelling units per acre.



Subject: 5150 El Camino Real Development Proposal

Staff Recommendation:

Consider the proposed project and provide feedback and guidance to the applicant and staff



Subject: 5150 El Camino Real Development Proposal

Purpose

The Study Session is to provide the City Council and the Planning Commission an opportunity to learn about and discuss the proposed multi-family residential project and provide guidance and feedback to staff and the applicant.

Background

The project site at 5150 El Camino Real is 3.8 acres in size, has a General Plan land use designation of Thoroughfare Commercial and is zoned CT (Commercial Thoroughfare). The property is currently developed with five office buildings that contain approximately 78,000 square feet and has primary access at the El Camino Real-Rengstorff Avenue intersection. The property was recently purchased by Dutchints Development, LLC and they are seeking to redevelop it with a multiple-family residential project.

The CT District (Chapter 14.50) allows for a base residential density of 38 units per acre and permits residential units as a conditional use. The City's Multiple-Family Affordable Housing Ordinance (Chapter 14.28) requires projects to provide affordable housing and allows for the granting of a density bonus and development incentives in exchange for the affordable units. In addition, when a project includes affordable housing, the Code allows for reduced on-site parking requirements (Section 14.28.040.G).

Discussion/Analysis

The project is proposing a total of 196 multiple-family units, which result in an overall density of 52 units per acre. The project includes two five-story condominium buildings with 172 units along El Camino Real and 24 three-story townhouse units, with attached two-car garages for each, along the rear of the site to create a transition to the single-family neighborhoods behind the site. Access to the townhouses will be provided via a driveway that runs along the parameter of the site. One-level of below-grade parking is proposed below the condominium building with the entrance at the El Camino Real-Rengstorff Avenue intersection. Additional surface parking is provided around the parameter of the site and in the townhouse garages for a total of 282 on-site parking spaces. As outlined in the Zoning Code, a project of this type is required to provide a minimum of 152 on-site parking spaces.

A cover letter that provides additional information about the project is included as Attachment 1 and conceptual project plans are included at Attachment 2.

For a project with a base density of 145 dwelling units, the Code requires a minimum of 10% of the units to be designated as BMR units. Since the condominium and townhouse units are proposed to be ownership units, they must be affordable at the Moderate income level (with one Low or Very-Low unit). To achieve a density bonus of 35%, the Code requires at least 11% of the BMR units to be affordable at the Very-Low income level. To comply with the City's Affordable Housing Ordinance and achieve a 35% density bonus, the project is proposing a total of 30 BMR units, with



Subject: 5150 El Camino Real Development Proposal

14 Moderate income units and 16 Very-Low income units. This results in the project offering 21% of its total units as affordable. The following table provides a breakdown of the proposed units.

Townhouse Units	Market Rate	20
Townhouse Units	Below Market Rate - Moderate	4
Condominium Units	Market Rate	95
Condominium Units	Below Market Rate - Moderate	10
Condominium Units	Below Market Rate - Very-Low	16
Base Density Units (38 units/acre)		145
Additional Density Bonus Units	Market Rate	51
Total Units (52 units per acre)		196

In exchange for the BMR units, the project is seeking three development incentives:

- 1) A height increase of 11 feet for the two condominium buildings (56 feet where 45 feet is required in the CT District);
- 2) A parking stall width of 8.5 feet where the Code requires a minimum width of nine feet; and
- 3) A front yard setback reduction of 2-4 feet to allow for deck and bay window projections.

While not discussed or evaluated at this point, the project may also need to seek a waiver to allow for its elevator tower to exceed the 12-foot height exception that is permitted by the Code (14.66.240.F).

To be sensitive to the single-family properties to the rear of the site along Casita Way and Marich Way, the project is exceeding the minimum rear yard setbacks required in the CT District. The townhouse units along the rear will have a minimum rear yard setback of 46 feet (40 feet required) and will not exceed the 30-foot height limit, and the five-story condominium buildings will have a minimum rear yard setback of 130 feet (100 feet required). In addition, the active use outdoor spaces to serve the project will be located between the townhouses and condo buildings to reduce noise impacts and the required 20-foot landscape buffer with trees and landscape screening will be provided.

City staff has met with the project team for Dutchints Development, LLC and determined that a joint Study Session with the City Council and the Planning Commission would provide them with an opportunity for the City's decision-makers to learn about this project while it is still in the early stages of design and provide some input and guidance to the development team.

To ensure that residents in the surrounding neighborhood are aware of the project, a public meeting notice for this study session was mailed to all property owners within 500 feet of the project site. In addition, the applicant held a community meeting (a non-City sponsored meeting) on May 24, 2018



Subject: 5150 El Camino Real Development Proposal

at the Los Altos Youth Center at City Hall to review and discuss the proposed project with mailed notices sent to all property owners within 1,000 feet of the project site.

Recommendation

Consider the proposed project and provide feedback and guidance to the applicant and staff



DUTCHINTS DEVELOPMENT

Cover Letter – 5150 EL CAMINO REAL

Project Highlights

Address: 5150 El Camino Real, Los Altos, CA

Size: 3.80 Acres

General Plan Designation: Thoroughfare Commercial (Required Density = 38 du/ac)

Zoning Designation: CT Commercial Thoroughfare District

Guiding Code/Guideline: Los Altos Municipal Code/Grand Boulevard Initiative

Current Use: Los Altos Plaza – Approximately 77,000 square feet of office

Entitlements Requested: Vesting Tentative Tract Map, State Density Bonus

Proposed Development: 24 townhomes and 172 condominium units – Total 196 units (52 du/ac)

Affordable Housing: 30 Below Market Rate Units Total – 16 Moderate Rate Income Units and 14 Very Low Rate Income Units

Construction Type: Four separate buildings. Two buildings of three story townhomes at grade, Type V wood framed construction. Two buildings of five story, Type III wood framed condominiums over one level of underground parking, Type I concrete.

Project Applicant: Dutchints Development, LLC



ATTACHMENT 1

Introduction

Dutchints Development envisions creating a community enhancing development project. This project will do its part to help solve Los Altos' (and the overall region's) need for more market-rate and below-market-rate housing, while taking into account the fabric of the existing neighborhood. The design pays special attention to respect the single-family property owners to the south of the property and to the project's overall interaction with El Camino Real. The goal is to create a great place to live, while promoting sustainability, walkability and the use of mass transit.

Through extensive collaboration with city staff, elected officials, neighborhood groups, individual property owners and standalone community meetings, the proposed development plan has been created and submitted to City for review.

Location

The site is located at 5150 El Camino Real, on the south side of the street at the terminus of Rengstorff Avenue. To the west of the property is a high-density residential development. To the east of the property is the Mountain View, KinderCare and Taekwon Kids facility. To the south are six existing single family homes. The property is located mid-block. Overall, the property is located in a desirable urban area of Silicon Valley. The neighborhood has good transportation linkages to the South Bay and Peninsula as well as the greater Bay Area and is convenient to major employment areas. Residential support services such as schools, recreational areas and shopping are considered above-average.



Feedback and Direction

Feedback from City Staff and the community has led to the overall direction of the development:

- Conform with the existing CT Commercial Thoroughfare District (Municipal Code)
 - Chapter 14.28 – Multiple-Family Affordable housing (Section 14.28.040 – Density Bonus)
 - Chapter 14.50 – CT Commercial Thoroughfare District
 - Chapter 14.78 – Design and Transportation Review
- Participate in Joint City Council/Planning Commission Study Session
- Create affordable housing
- Create “affordable by design” housing
- Design an attractive high-density residential development.
- Create a minimum of 38 du/ac (the maximum density in the General Plan)
- Utilize the **State Density Bonus** to create more affordable housing
- Respect the single-family homeowners to the south with large setbacks, and reduced building massing and height toward the southern property line. Also create architecture with limited windows and balconies facing the southern property line that minimizes new residents “looking” into the single-family homes’ rear yards.

Proposed Project

Four separate buildings. Two buildings of three story townhomes at grade, Type V wood framed construction. Two buildings of five story, Type III wood framed condominiums over one level of underground parking, Type 1 concrete.



Condo Buildings 1 & 2

Condo Buildings 1 & 2 front El Camino Real and will be the key architectural feature seen by residents. The interaction between Condo Building 1 & 2 and El Camino Real is extremely important. Condo Buildings 1 & 2 are each five-story, 85 unit buildings, above one level of underground parking that front onto El Camino Real and present a strong modern aesthetic. The buildings include a mix of one and two bedroom units. The square footage of these units average 825 square feet for one-bedroom units and 1,215 square feet for two-bedroom units. For residents' convenience and to further activate the building frontage, there are two main entry lobbies for the residents' common elevators. There will be ample bicycle parking located in the underground parking garage. The strong vertical massing, contrasting rich body colors and materials, along with contemporary architectural detailing articulate and present to the public the desired urban character for this new development in Los Altos.

El Camino Real Frontage

The high speed traffic on El Camino Real is best responded to by a deeper setback and a pedestrian-oriented building character. In order to provide a safe pedestrian experience, wider sidewalks along El Camino Real are proposed. Also, a planting buffer is shown between the sidewalk and the street. This planting buffer will consist of new street trees and shrubs, as well as enhanced street lighting. The entrance of the underground parking garage is located between Buildings 1 & 2 and at the terminus of Rengstorff Avenue. This location is the logical place for the entrance to the parking garage as it is a signalized intersection and breaks up the project into two buildings.

Townhomes

The townhome component of the project meets the required setbacks and heights described in the zoning designation. These buildings do not exceed 30 feet in height and are located no closer than 40 feet from the rear property line. The townhomes will be built at grade and will each have a two car parking garage. The average square footage for the townhomes is 1,675 square feet.

Public Transportation

The property is located centrally to public transportation infrastructure, making it an excellent location for high-density residential development. The project has good access to bus routes #34, #35 and #40, including direct access to regional/ rapid bus route #22 and #522 (to Stanford and San Jose) at the bus stop located in front of the property. The project is located less than a mile from the San Antonio Caltrain Station that provides train services to San Francisco, Oakland and surrounding Bay Area communities. There are bicycle lanes that connect directly from the project site to the Caltrain Station. The project is within 12 miles of San Jose International Airport, 24 miles to San Francisco International Airport and has good access to the 101 and 280 Freeways.

Green & Community Oriented Features

Utilizing sustainable building designs and sustainable building practices make the community a better place for current and future residents. The project will incorporate the following elements:

Building Design

- EV Charging Stations available for all parking spaces
- All homes wired for rooftop solar panels
- ADA accessible units, parking, and path of travel
- Low flush toilets
- Energy efficient appliances
- Insulated windows and walls
- Low energy LED light fixtures
- Efficient heating and air conditioning systems

Landscape Design

- No invasive plant species
- Native and drought tolerant plant species
- Wildlife friendly planting
- Water efficient drip irrigation system
- On-site storm water bio-treatment
- Pervious pavement
- Attractive "good-neighbor" fences
- Variety of seating options and outdoor community gathering spaces
- Shade providing and oxygen sequestering trees



DUTCHINTS DEVELOPMENT

Below Market Rate Housing and Density Bonus Calculation

The 5150 El Camino Real project will create below market rate housing for a community that needs affordable housing. These units will be geographically spread throughout the development and will also be evenly distributed by bedroom count. These units will be built to the base standard finish levels as the rest of the units in the project. This section describes how the development is adhering to the zoning code and state density bonus by creating more affordable housing.

- Lot Size: 3.8 acres
- Maximum Density allowed in the General Plan: 38 du/ac = 144.4 units (Rounded to 145 units)
- Required Affordable Housing per Los Altos Municipal Code (10%) = 145 units x 10% BMR = 14.5 BMR units (Rounded to 15 BMR units) **(14 Moderate + 1 Very Low Income Units)**
- 11% Very Low Income Units are required to qualify for the 35% State Density Bonus = 11% BMR x 145 units = 16 Very Low Income Units. Note: Because the project already has 1 Very Low Income Unit, the project is only required to create **15 additional Very Low Income Units**.
- **TOTAL BMR: 30 Below Market Rate Units (14 Moderate Income Units and 16 Very Low Income Units)**
- State Density Bonus of 35% = 145 + 35% Density Bonus = 195.75 units (Rounded to a total of 196 units)
- The project qualifies for 3 incentives per state Density Bonus Law:
- Incentive Items Requested:
 1. Height of Condo Buildings 1 & 2 increase by 11 feet (145 feet allowed + 11 foot increase = 156 feet)
 2. Reduction in Parking Stall Dimension to (8.5 feet x 18 feet)
 3. Front Setback Reduction (Limited to deck/bay window projections)

Summary

The proposed project at 5150 El Camino Real is a thoughtful way to create attractive new housing, while also taking into consideration the surrounding uses and the community's interests. The project is designed to achieve, the goals of the City of Los Altos to create more market-rate and affordable housing and do its part to solve the region's housing crisis.

Utilizing larger sidewalks and enhanced landscaping, while activating the street with ground level individual unit entries, the project is an example of how new development should interact with El Camino Real. The project will utilize sustainable building practices and design. Creating private common open space with active and passive amenities for residents to congregate and positively interact, makes the project a very 'livable' community. The project is located in a walkable, transit friendly area and residents will be encouraged to use mass transit. By providing attractive bicycle parking, residents will be further encouraged to reduce vehicular travel.

Through a transparent community outreach process, which will continue for the duration of the project, the development has been able to be designed to address many of the neighbors needs and concerns. This is the largest project currently proposed in Los Altos, and we hope to create a project that will make the community of Los Altos proud.



DUTCHINTS DEVELOPMENT, LLC



STUDIO T-SQUARE



5150 EL CAMINO REAL

JOINT CITY COUNCIL AND PLANNING COMMISSION STUDY SESSION
PRESENTATION PACKAGE
JUNE 26, 2018

EL CAMINO REAL - DEVELOPMENT CORRIDOR

RECENTLY APPROVED AND BUILT PROJECTS



RECENT STUDIO T-SQ PROJECTS IN THE NEIGHBORHOOD

PROJECT DENSITY AND UNIT COUNTS



**400 SAN ANTONIO RD, MOUNTAIN VIEW
(APARTMENT)
- APPROVED/ UNDER CONSTRUCTION**

582 UNITS
DENSITY: 101 DU/AC



**1720 W. ECR, MOUNTAIN VIEW
(MONTROSE APARTMENT) - COMPLETED**

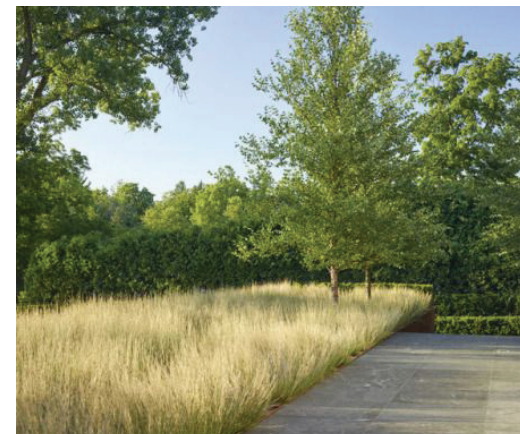
232 UNITS
DENSITY: 67 DU/AC



**100 MOFFETT, MOUNTAIN VIEW
(APARTMENT) - COMPLETED**

191 UNITS
DENSITY: 34 DU/AC

ILLUSTRATIVE SITE PLAN



GROUND LEVEL EDGE CONDITIONS

SCHEMATIC LANDSCAPE PLAN & INSPIRATIONAL IMAGES



4 PASEO BETWEEN CONDOMINIUMS & TOWNHOMES



1 MIDDLE BLOCK PLAZA



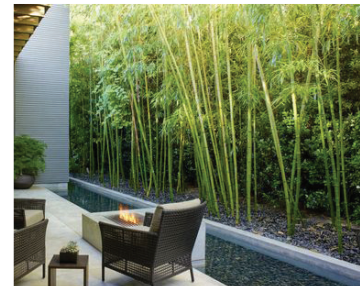
6 PASSIVE GARDEN AT 20FT. LANDSCAPE BUFFER



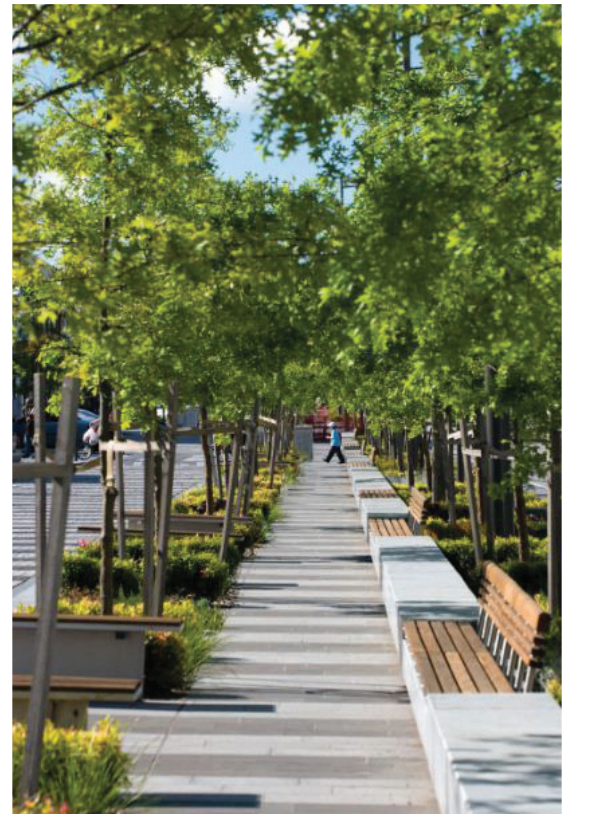
BUS STOP



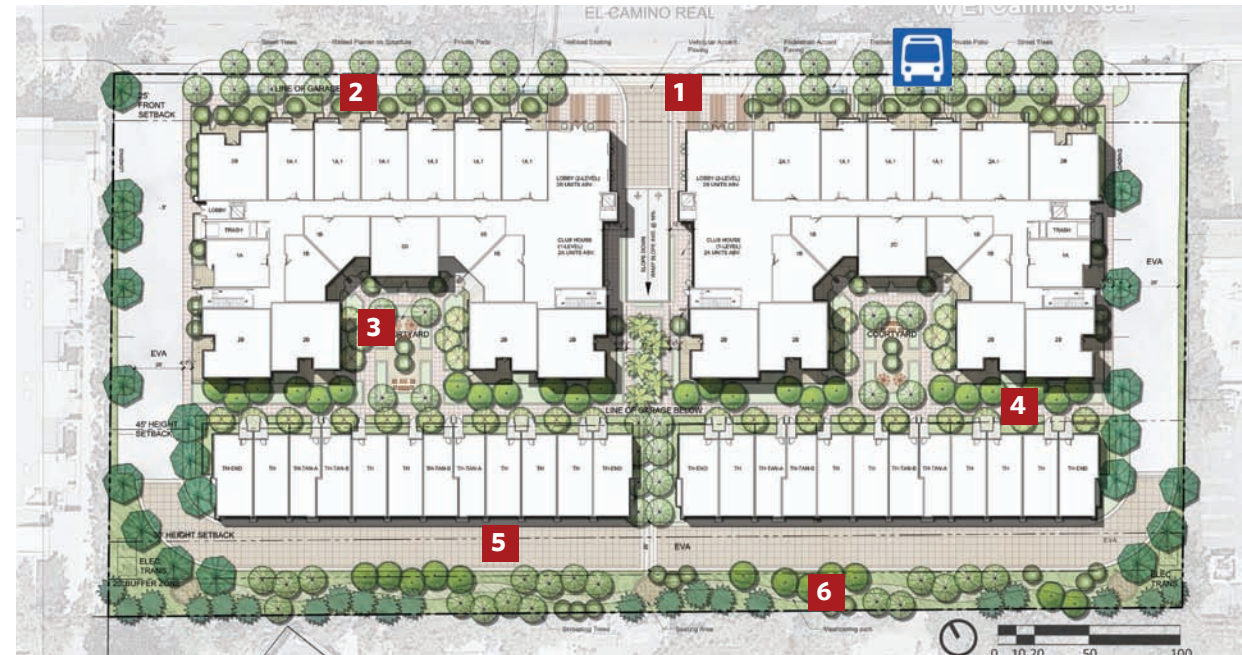
2 ENHANCED STREETSCAPE



3 COURTYARD LIVING



2 ENHANCED STREETSCAPE



ARTIST RENDERING OF VIEW FROM NORTH-EAST CORNER



ARTIST RENDERING OF TOWNHOMES



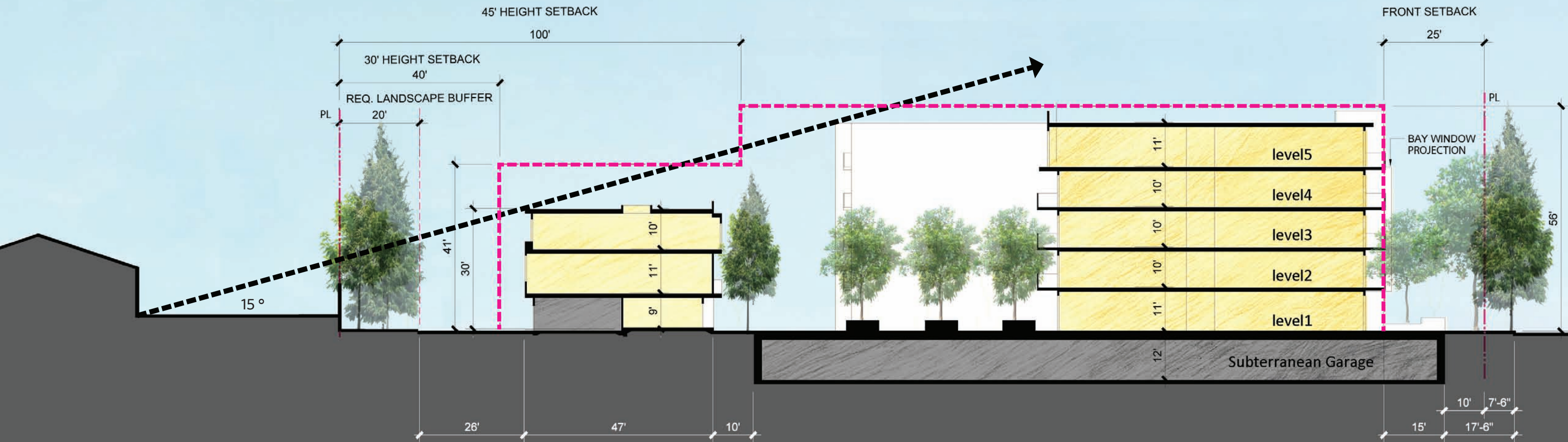
ARTIST RENDERING OF MIDDLE BLOCK PLAZA



CONCEPTUAL BUILDING MASSING

CODE COMPLIANCE

- - - - - SETBACKS
- - - - - MAX. ALLOWABLE BUILDING ENVELOPE WITH DENSITY BONUS :
56' (CONDOMINIUMS) / 41' (TOWNHOMES)
- - - - - LINE OF SIGHT



AFFORDABLE HOUSING DENSITY BONUS CALCULATION

PER LOS ALTOS MUNICIPAL CODE (§14.28.040)

CALCULATION

- Lot Size: 3.8 acres
- Per General Plan Maximum Density allowed: 38 du/ac = 145 units
- Per Los Altos Municipal Code Required Affordable Housing (10%) = 145 units x 10% BMR = 15 BMR units (14 Moderate + 1 Very Low Income units)
- 11% Very Low Income units are required to qualify for the 35% State Density Bonus and 3 Incentives = 11% BMR x 145 units = 16 Very Low income units. Note: Because the project already has 1 Very Low Income Unit, the project is only required to create 15 additional Very-Low-Income units.

PROVIDED




- Total BMR: 30 Below-Market-Rate units (14 Moderate Income Units and 16 Very Low Income Units)
- 145 Units + 35% State Density Bonus = 195.75 units (rounded to a total of 196 units)

INCENTIVE ITEMS REQUESTED

Project qualifies for 3 incentives per State Density Bonus Law

- Height of condo buildings 1 & 2 increase by 11 feet (45 feet allowed + 11 foot increase = 56 feet)
- Reduction in parking stall dimension to (8.5 feet x 18 feet)
- Front setback reduction (limited to deck/bay window projections)

AFFORDABLE UNIT ALLOCATION

-  1-BEDROOM AFFORDABLE UNIT
-  2-BEDROOM AFFORDABLE UNIT
-  AFFORDABLE TOWNHOME



LEVEL 5



LEVEL 4



LEVEL 3 (CONDOMINIUM + TOWNHOMES)



LEVEL 2 (CONDOMINIUM + TOWNHOMES)



LEVEL 1 (CONDOMINIUM + TOWNHOMES)

AFFORDABLE BY DESIGN

MEDIAN UNIT SIZES FOR PROPOSED CONDOMINIUMS & TOWNHOMES

5150 EL CAMINO REAL PROPOSED MEDIAN UNIT SIZE

1-BR UNITS @ 825 SQ.FT AVG.
2-BR UNITS @ 1,215 SQ.FT AVG.

TOWNHOMES @ 1,670 SQ.FT AVG.



1720 W. ECR, MOUNTAIN VIEW (APARTMENTS)

1-BR @ 770 SQ.FT AVG.
2-BR @ 1,125 SQ.FT AVG.



400 SAN ANTONIO ROAD MOUNTAIN VIEW (APARTMENTS)

1-BR @ 705 SQ.FT AVG.
2-BR @ 1,085 SQ.FT AVG.



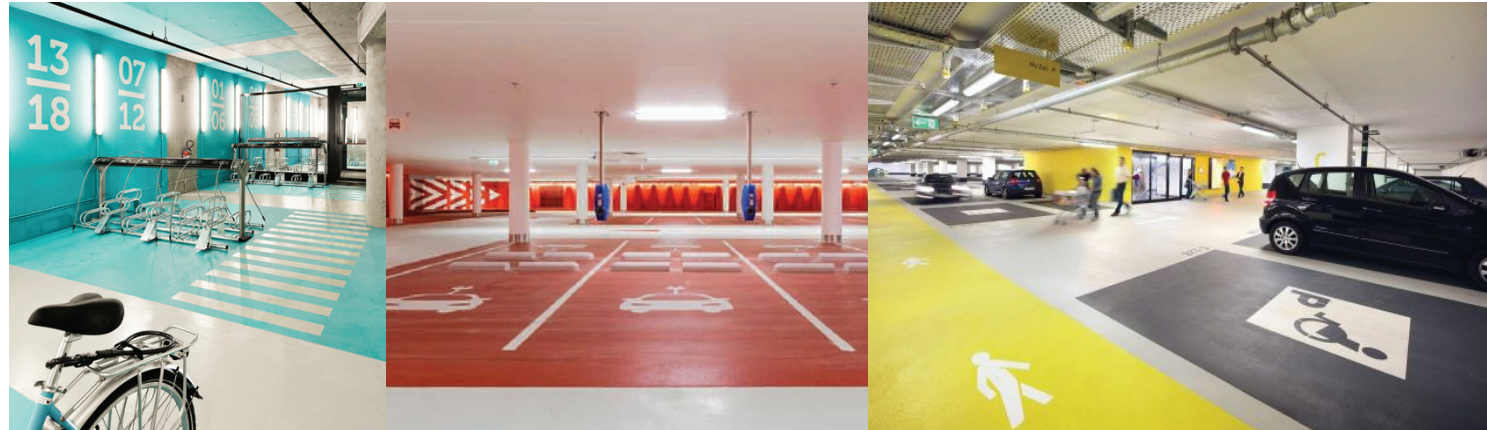
100 MOFFETT, MOUNTAIN VIEW (APARTMENTS)

1-BR @ 712 SQ.FT AVG.
2-BR @ 1,082 SQ.FT AVG.

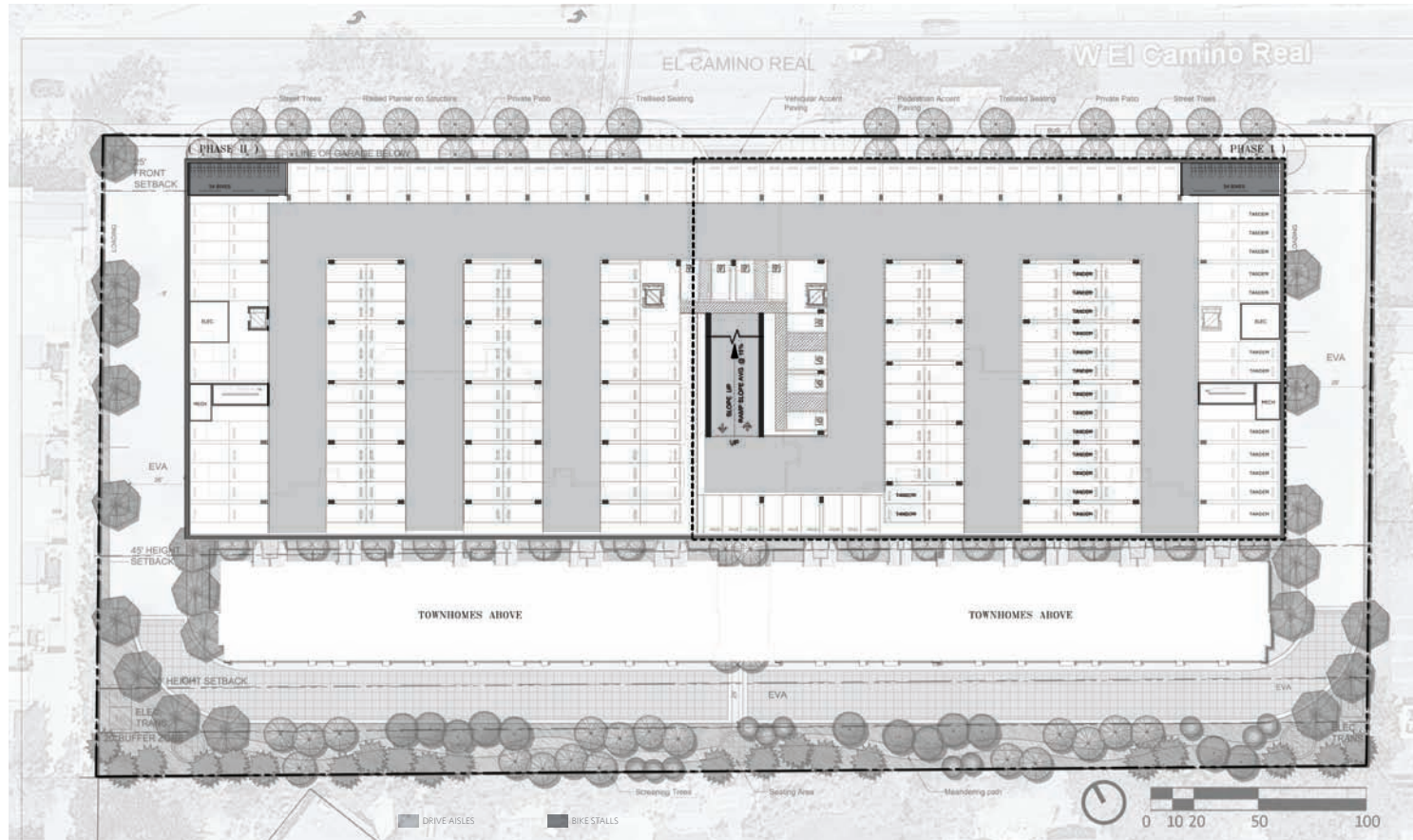


PARKING REQUIREMENTS & SUMMARY

PER LOS ALTOS MUNICIPAL CODE (§14.28.040)



INSPIRATIONAL IMAGES



SCHEMATIC SUBTERRANEAN GARAGE - PARKING LAYOUT

14.74.080 - PARKING REQUIREMENT FOR RESIDENTIAL USE IN CT DISTRICTS

	RQMTS. (SP/DU)	UNIT #	PKG REQ'D (SP)
1-BR	1.5	88	132
2-BR	2.0	84	168
TOWNHOME	2.0	24	48
GUEST	0.25		49
TOTAL			397

14.28.040 §G2(A) - PARKING REQUIREMENT ALTERATION STANDARD (DENSITY BONUS)

	RQMTS.(SP/DU)	UNIT #	PKG REQ'D (SP)
1-BR	1.0	88	88
2-BR	2.0	84	168
TOWNHOME	2.0	24	48
GUEST	N/A		
TOTAL			304

14.28.040 §G2(B) - PARKING REQUIREMENT ALTERATION STANDARD (DENSITY BONUS + MAJOR TRANSIT)

	RQMTS.(SP/DU)	UNIT #	PKG REQ'D (SP)
1-BR	0.5	88	44
2-BR	1.0	84	84
TOWNHOME	2.0	24	24
GUEST	N/A		
TOTAL			152

NOTE:
The project is located within 1/4-miles from a major transit station, a regional bus stop, and providing maximum affordable units.

PROPOSED PARKING

	PROPOSED PKG RATIO (SP/DU)	UNIT #	PKG PROPOSED (SP)
1-BR	1.0	88	88
2-BR	1.6	84	137
TOWNHOME	2.0	24	48
GUEST			9
TOTAL			282

NOTE:
193 Universal Stalls (Incentive Item)
49 Tandems Sp
5 Standard Accessible Sp
2 Van Accessible Sp



REGULAR CITY COUNCIL MEETING

TUESDAY, JUNE 26, 2018 – 7:00 P.M.

Community Meeting Chambers

Los Altos City Hall

1 North San Antonio Road, Los Altos, California

ESTABLISH QUORUM

PLEDGE OF ALLEGIANCE

CHANGES TO THE ORDER OF THE AGENDA

SPECIAL PRESENTATION

Update on Information Technology Roadmap

PUBLIC COMMENTS ON ITEMS NOT ON THE AGENDA

Members of the audience may bring to the Council's attention any item that is not on the agenda. Please complete a "Request to Speak" form and submit it to the City Clerk. Speakers are generally given two or three minutes, at the discretion of the Mayor. Please be advised that, by law, the City Council is unable to discuss or take action on issues presented during the Public Comment Period. According to State Law (also known as "the Brown Act") items must first be noticed on the agenda before any discussion or action.

CONSENT CALENDAR

These items will be considered by one motion unless any member of the Council or audience wishes to remove an item for discussion. Any item removed from the Consent Calendar for discussion will be handled at the discretion of the Mayor.

1. Council Minutes: Approve the minutes of the June 12, 2018 regular meeting and joint study session with the Planning Commission (J. Maginot)
2. Professional Services Agreement: Redwood Grove stewardship: Authorize the City Manager to execute an agreement with Grass-Roots Ecology (formerly Acterra) in the amount of \$77,710 to manage and restore Redwood Grove (K. Prasad)
3. Professional Services Agreement: On-Call City-wide Tree Maintenance Services: Authorize the City Manager to execute an agreement with West Coast Arborists, Inc. in the amount of \$100,000 for On-Call City-wide Tree Maintenance Services (T. Yee)
4. Quarterly Investment Portfolio Report – Quarter Ended March, 2018: Receive the Investment Portfolio Report through March 31, 2018 (S. Etman)
5. City Investment Policy: Adopt the revised Investment Policy (S. Etman)

PUBLIC HEARING

6. Ordinance No. 2018-445: Sanitary Sewer Rates: Introduce and waive further reading of Ordinance No. 2018-445 establishing the rates of the Sewer Service Charge for Fiscal Year 2018-19 and subsequent Fiscal Years (C. Lamm)

Jeannie Bruins
Councilmember

Lynette Lee Eng
Vice Mayor

Jean Mordo
Mayor

Jan Pepper
Councilmember

Mary Prochnow
Councilmember

DISCUSSION ITEMS

7. City-owned land measure: Discuss a potential ordinance to be submitted to voters regarding the sale or transfer of City-owned land and provide direction to staff (Staff)
8. North County Library Authority Library Redevelopment Task Force update: Receive an update from the North County Library Authority Library Redevelopment Task Force (J. Maginot)
9. Ordinance No. 2018-446: Public Art Development Fee: Introduce and waive further reading of Ordinance No. 2018-446 establishing a development fee of 1% for public art, creating a Public Art Fund and establishing requirements for inclusion of public art in development projects (J. Maginot)
10. Ordinance No. 2018-447: Accessory Structures: Introduce and waive further reading of Ordinance No. 2018-447 to amend Title 14 of the Los Altos Municipal Code pertaining to an 800 square-foot size limit for accessory structures in residential districts (Z. Dahl) **PUBLIC HEARING**
11. Ordinance No. 2018-448: Accessory Dwelling Units: Introduce and waive further reading of Ordinance No. 2018-448 amending those Chapters and Subsections of the Los Altos Municipal Code that regulate accessory dwelling units (J. Biggs) **PUBLIC HEARING**
12. Los Altos-Los Altos Hills Joint Community Volunteer Service Awards Committee: No staff recommendation (C. Jordan)

COUNCIL/STAFF REPORTS AND DIRECTIONS ON FUTURE AGENDA ITEMS

ADJOURNMENT

SPECIAL NOTICES TO THE PUBLIC

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Agendas, Staff Reports and some associated documents for City Council items may be viewed on the Internet at <http://www.losaltosca.gov/citycouncil/meetings>. Council Meetings are televised live and rebroadcast on Cable Channel 26. On occasion the City Council may consider agenda items out of order. If you wish to provide written materials, please provide the City Clerk with **10 copies** of any document that you would like to submit to the City Council for the public record.

Written comments may be submitted to the City Council at council@losaltosca.gov. To ensure that all members of the Council have a chance to consider all viewpoints, you are encouraged to submit written comments no later than 24 hours prior to the meeting.

All public records relating to an open session item on this agenda, which are not exempt from disclosure pursuant to the California Public Records Act, and that are distributed to a majority of the legislative body, will be available for public inspection at the Office of the City Clerk's Office, City of Los Altos, located at One North San Antonio Road, Los Altos, California at the same time that the public records are distributed or made available to the legislative body. Any draft contracts, ordinances and resolutions posted on the Internet site or distributed in advance of the Council meeting may not be the final documents approved by the City Council. Contact the City Clerk at (650) 947-2720 for the final document.

If you challenge any planning or land use decision made at this meeting in court, you may be limited to raising only those issues you or someone else raised at the public hearing held at this meeting, or in written correspondence delivered to the City Council at, or prior to, the public hearing. Please take notice that the time within which to seek judicial review of any final administrative determination reached at this meeting is governed by Section 1094.6 of the California Code of Civil Procedure.

**MINUTES OF THE REGULAR MEETING OF THE CITY COUNCIL OF
THE CITY OF LOS ALTOS, HELD ON TUESDAY, JUNE 12, 2018,
BEGINNING AT 7:00 P.M. AT LOS ALTOS CITY HALL, 1 NORTH SAN
ANTONIO ROAD, LOS ALTOS, CALIFORNIA**

ESTABLISH QUORUM

PRESENT: Mayor Mordo, Vice Mayor Lee Eng, Councilmembers Bruins, Pepper and Prochnow

ABSENT: None

PLEDGE OF ALLEGIANCE

Mayor Mordo led the Pledge of Allegiance to the flag.

CHANGES TO THE ORDER OF THE AGENDA

The Council moved Directions on Future Agenda Items to immediately before item number 16.

PUBLIC COMMENTS ON ITEMS NOT ON THE AGENDA

The following individuals provided comments on items not on the agenda: Los Altos residents Michele Coldiron and Linda Hsi.

CONSENT CALENDAR

Vice Mayor Lee Eng pulled item number 3, Councilmember Bruins pulled item number 4 and Councilmember Pepper pulled item number 9. Vice Mayor Lee Eng and Councilmember Bruins indicated they would be voting no on item number 5

Action: Upon a motion by Councilmember Pepper, seconded by Vice Mayor Lee Eng, the Council unanimously approved the Consent Calendar, with the exception of items number 3, 4, 5 and 9, as follows:

1. Council Minutes: Approved the minutes of the May 22, 2018 study session and regular meeting.
2. Resolution No. 2018-16: 2018 City Council Election: Adopted Resolution No. 2018-16 calling for a General Municipal Election to be held on November 6, 2018 for two City Council seats and consolidating said election with Santa Clara County.
3. Youth Commission appointments: Reappoint Drishaan Jain to a one-year term on the Youth Commission expiring June 2019; reappoint Krish Gujral, Mahi Kolla and Medha Rajagopalan to two-year terms on the Youth Commission expiring June 2020; and appoint Boladale Erogbogbo, Connie Hong, Anisha Reddy and Serra Tulu to two-year terms on the Youth Commission expiring June 2020 – *pulled for discussion (see page 5).*

4. Resolution No. 2018-17: Cost of living adjustment for all non-represented staff positions: Adopt Resolution No. 2018-17 approving a cost of living adjustment for all non-represented positions and a special adjustment for three Police Department classifications – *pulled for discussion (see page 4)*.
5. Ordinance No. 2018-444: Affordable Housing Impact Fees: Adopted Ordinance No. 2018-444 establishing Affordable Housing Impact Fees for residential and non-residential development, by the following vote: AYES: Mordo, Pepper and Prochnow; NOES: Bruins and Lee Eng; ABSTAIN: None; ABSENT: None.
6. Professional Services Agreement: Document Scanning and Software Maintenance Services: Authorized the City Manager to execute a new agreement with BMI Imaging Systems Inc. for document scanning and software maintenance services.
7. Unclaimed Funds Policy and Procedure: Adopted the Unclaimed Funds Policy and Procedure.
8. Resolution No. 2018-23: Solid Waste Rate Adjustment: Adopted Resolution No. 2018-23 authorizing the increase of Solid Waste Collection Rates by 3.2427% effective July 1, 2018.
9. Consultant Contract Amendment: Miramonte Path, Project CF-01006: Authorize the City Manager to execute Amendment #2 on behalf of the City with Bellecci & Associates in the amount of \$52,490 for the Miramonte Path, Project CF-01006 – *pulled for discussion (see page 4)*.
10. Clean Water and Storm Drainage Funding Initiative – Contract Amendment: Authorized the City Manager to execute an amendment on behalf of the City with SCI Consulting Group in the amount of \$98,122.60 to provide additional consulting services for the Clean Water and Storm Drainage Funding Initiative.
11. Inspection Services for Various Sanitary Sewer CIP Projects: Authorized the City Manager to execute a contract on behalf of the City with Bellecci and Associates for inspections of the three Los Altos sanitary sewer Capital Improvement Program projects in the amount of \$149,184.
- 11a. Letter of support for Santa Clara County’s “Homestead Corridor Safe Routes to School” planning study: Authorized the Mayor to sign a letter in support of Santa Clara County’s “Homestead Corridor Safe Routes to School” planning study.

DISCUSSION ITEMS

12. Fiscal Year 2018-19 Operating Budget and Fiscal Year 2019-23 Capital Improvement Plan: Adopt Resolution No. 2018-18, adopting FY 2018/19 Operating Budget; adopt Resolution No. 2018-19, adopting the 5-year FY 2019-23 Five-Year Capital Improvement Program; adopt Resolution No. 2018-20 establishing the FY 2018/19 Transient Occupancy Tax; adopt

Resolution No. 2018-21 establishing the FY 2018/19 Utility Users Tax; and adopt Resolution No. 2018-22 establishing the FY 2018/19 Appropriations Limit

Administrative Services Director Etman presented the report.

Action: Upon a motion by Councilmember Bruins, seconded by Vice Mayor Lee Eng, the Council unanimously adopted Resolution No. 2018-18 adopting FY 2018/19 Operating Budget.

Action: Upon a motion by Councilmember Bruins, seconded by Councilmember Pepper, the Council unanimously adopted Resolution No. 2018-19 adopting the 5-year FY 2019-23 Five-Year Capital Improvement Program.

Action: Upon a motion by Councilmember Bruins, seconded by Vice Mayor Lee Eng, the Council unanimously adopted Resolution No. 2018-20 establishing the FY 2018/19 Transient Occupancy Tax.

Action: Upon a motion by Councilmember Bruins, seconded by Councilmember Pepper, the Council unanimously adopted Resolution No. 2018-21 establishing the FY 2018/19 Utility Users Tax.

Action: Upon a motion by Councilmember Bruins, seconded by Councilmember Pepper, the Council unanimously adopted Resolution No. 2018-22 establishing the FY 2018/19 Appropriations Limit.

13. Initiative Petition Report: Receive the report of effect of proposed initiative pursuant to Elections Code Section 9212 and take action as permitted by State Law

Public Comments: The following individuals provided public comments: Los Altos residents Rishi Nakra, Robin Abrams, Paul Boetius, Michael Ellerin, Scott Spielman, Frank Martin, Jim Jolly, Kate Disney and Mike Abrams.

Action: Upon a motion by Councilmember Bruins, seconded by Vice Mayor Lee Eng, the Council unanimously adopted Resolution No. 2018-24 placing the proposed measure on the November 6, 2018 ballot and consolidating the election with Santa Clara County.

14. Ordinance to be submitted to voters: Sale or transfer of any property designated as a Park: Discuss a potential ordinance to be submitted to voters regarding the sale or transfer of any property designated as a Park and provide direction to staff as needed

Public Comments: The following individuals provided public comments: Los Altos residents Frank Martin, Michael Ellerin, Margo Horn, David Rock and Scott Spielman, and Kim Cranston.

Direction: The Council directed staff to prepare an ordinance to be submitted to the voters with the following elements for Council consideration: 1) inclusion of all City-owned land; 2) the sale or transfer of City-owned land must be approved by voters; 3) new long-term leases for new uses must be approved by voters; and 4) any change in use from park to any other use must be approved by voters.

Mayor Mordo recessed the meeting at 9:09 p.m. The meeting resumed at 9:18 p.m.

15. Potential Revenue Measures: Adopt Resolution No. 2018-26 placing an increase in Transient Occupancy Tax on the November ballot; and provide direction to staff regarding a cannabis tax

City Manager Jordan presented the report.

Action: Upon a motion by Vice Mayor Lee Eng, seconded by Councilmember Pepper, the Council unanimously adopted Resolution No. 2018-26 placing an increase in Transient Occupancy Tax on the November ballot.

Action: Council took no further action regarding a cannabis tax.

ITEMS PULLED FROM CONSENT CALENDAR

4. Resolution No. 2018-17: Cost of living adjustment for all non-represented staff positions: Adopt Resolution No. 2018-17 approving a cost of living adjustment for all non-represented positions and a special adjustment for three Police Department classifications

Councilmember Bruins commented she would have preferred to have conducted the salary study prior to approving the special adjustments for the Police Department classifications.

Action: Upon a motion by Vice Mayor Lee Eng, seconded by Councilmember Prochnow, the Council unanimously adopted Resolution No. 2018-17 approving a cost of living adjustment for all non-represented positions and a special adjustment for three Police Department classifications.

9. Consultant Contract Amendment: Miramonte Path, Project CF-01006: Authorize the City Manager to execute Amendment #2 on behalf of the City with Bellecci & Associates in the amount of \$52,490 for the Miramonte Path, Project CF-01006

Councilmember Pepper requested that a meeting be held regarding the design of the project to allow for additional input from residents along Miramonte Avenue.

Motion: Motion made by Councilmember Prochnow, seconded by Councilmember Bruins, to authorize the City Manager to execute Amendment #2 on behalf of the City with Bellecci & Associates in the amount of \$52,490 for the Miramonte Path, Project CF-01006.

Councilmember Bruins offered an amendment, which was accepted, to include a Whereas in the amendment reference the execution of Amendment #1. The motion, as amended, failed by the following vote: AYES: Bruins and Prochnow; NOES: Lee Eng, Mordo and Pepper; ABSTAIN: None; ABSENT: None.

Action: Upon a motion by Councilmember Pepper, seconded by Vice Mayor Lee Eng, the Council authorized the City Manager to execute Amendment #2 on behalf of the City with Bellecci & Associates in the amount of \$52,490 for the Miramonte Path, Project CF-01006 and directed staff to

bring the design to Council for review, by the following vote: AYES: Lee Eng, Mordo, Pepper and Prochnow; NOES: None; ABSTAIN: Bruins; ABSENT: None.

3. Youth Commission appointments: Reappoint Drishaan Jain to a one-year term on the Youth Commission expiring June 2019; reappoint Krish Gujral, Mahi Kolla and Medha Rajagopalan to two-year terms on the Youth Commission expiring June 2020; and appoint Boladale Erogbogbo, Connie Hong, Anisha Reddy and Serra Tulu to two-year terms on the Youth Commission expiring June 2020

Vice Mayor expressed the opinion that a student from Homestead High School should be on the Commission.

Action: Upon a motion by Councilmember Bruins, seconded by Councilmember Prochnow, the Council reappointed Drishaan Jain to a one-year term on the Youth Commission expiring June 2019; reappointed Krish Gujral, Mahi Kolla and Medha Rajagopalan to two-year terms on the Youth Commission expiring June 2020; and appointed Boladale Erogbogbo, Connie Hong, Anisha Reddy and Serra Tulu to two-year terms on the Youth Commission expiring June 2020, by the following vote: AYES: Bruins, Mordo, Pepper and Prochnow; NOES: Lee Eng; ABSTAIN: None; ABSENT: None.

DIRECTIONS ON FUTURE AGENDA ITEMS

Future agenda items

The Council requested an agenda item to discuss the review process for residential rooftop mechanical installations.

Mayor Mordo recessed the meeting at 10:05 p.m. The meeting resumed at 10:10 p.m.

JOINT STUDY SESSION WITH PLANNING COMMISSION

PRESENT: (Council): Mayor Mordo, Vice Mayor Lee Eng, Councilmembers Bruins, Pepper and Prochnow; and (Planning Commission): Chair Bressack, Vice Chair Samek and Commissioners Bodner, Lee and Meadows,

ABSENT: Commissioners Enander and McTighe

16. Draft Ordinances amending Chapter 14.74, Off-Street Parking and Loading: Discuss and direct staff to return to the City Council with draft ordinances that introduce the proposed amendments to Chapter 14.74, Off-Street Parking and Loading, of Title 14, Zoning of the Los Altos Municipal Code

Community Development Director Biggs presented the report.

Public Comments: The following individuals presented public comments: Bill Maston and Kim Cranston, and Los Altos residents David Rock, Roberta Phillips and Michael Hudnall.

Direction: Councilmembers provided feedback and directed staff to prepare ordinances for Council to review and consider for how square footage is calculated for parking requirements, parking stall standards and parking ratios.

Councilmember Prochnow recused herself due to a financial conflict of interest (owns property within the Downtown), stepped down from the dais and left the room.

Direction: Councilmembers provided feedback and directed staff to prepare ordinances for Council to review and consider for a Downtown Parking in-Lieu program.

Direction: Council further directed staff to return with the various ordinances as they are ready for Council consideration.

ADJOURNMENT

Mayor Mordo adjourned the meeting at 11:42 P.M.

Jean Mordo, MAYOR

Jon Maginot, CMC, CITY CLERK



CONSENT CALENDAR

Agenda Item # 2

AGENDA REPORT SUMMARY

Meeting Date: June 26, 2018

Subject: Professional Services Agreement: Redwood Grove stewardship

Prepared by: Kishor Prasad, Maintenance Services Manager

Reviewed by: Susanna Chan, Public Work Director

Approved by: Chris Jordan, City Manager

Attachments:

None

Initiated by:

Staff

Previous Council Consideration:

October 12, 2009

Fiscal Impact:

Redwood Grove Stewardship services are budgeted in the FY 2018/19 operating budget

Environmental Review:

Not applicable

Policy Question(s) for Council Consideration:

- None

Summary:

- Having a steward to manage/restore Redwood Grove would preserve the natural open space entrusted to the City
- The contract is renewable for four additional years for a total of five (5) years

Staff Recommendation:

Authorize the City Manager to execute an agreement with Grass-Roots Ecology (formerly Acterra) in the amount of \$77,710 to manage and restore Redwood Grove.



Subject: Professional Services Agreement: Redwood Grove stewardship

Purpose

Authorize the City Manager to execute a contract on behalf of the City with Grass-Roots Ecology in the amount of \$77,710 for stewardship to manage and perform restoration of the open space known as Redwood Grove.

Background

The City of Los Altos owns Redwood Grove Park; a 5.7acre nature preserve located off University Avenue. The City needs assistance in preserving and maintaining this valuable community asset.

Discussion/Analysis

The City of Los Altos issued a Request for Proposal (RFP) in March 2018 to solicit proposals from qualified stewards to partner with the City of Los Altos in preservation, protection and enhancement of the natural habitat, volunteer coordination, and management of Redwood Grove Nature Preserve.

The work includes project coordination and administration, coordination and management of volunteer events, maintenance and restoration of the native plants and habitat, and community outreach and education. The successful Steward is expected to have relevant experience in reintroducing beneficial, locally native plants to open spaces and gardens; improving forage, shelter, and habitat features for wildlife; reducing pollution in seasonal creeks; successfully organizing and managing large volunteer group of all ages; and successfully engaging and educating the local community.

The City received two proposals. Both companies, Ecological Concerns Inc. and Grass-Roots Ecology (formerly Acterra) can provide the services that the City is requiring. Taking into consideration quality, service, fitness or capacity to the requirements of the City, and price, the proposal provided by Grass-Roots (formerly Acterra), has been verified as the lowest responsive and responsible.

Grass-Roots has provided services to the City previously and has a track record of good quality work.

Options

- 1) Authorize the City Manager to execute a contract with Grass-Roots in the amount of \$77,710 on behalf of the City

Advantages: In previous years Grass-Roots Ecology has proven to successfully undertake the programming with good results

Disadvantages: None

- 2) Re-advertise the contract for Redwood Grove Stewardship



Subject: Professional Services Agreement: Redwood Grove stewardship

Advantages: None

Disadvantages: This is not recommended as it is not anticipated that re-advertising would result in others willing to undertake this task

Recommendation

The staff recommends Option 1.



CONSENT CALENDAR

Agenda Item # 3

AGENDA REPORT SUMMARY

Meeting Date: June 26, 2018

Subject: Professional Services Agreement: On-Call City-wide Tree Maintenance Services

Prepared by: Theresa Yee, Project Manager

Reviewed by: Susanna Chan, Public Works Director

Approved by: Chris Jordan, City Manager

Attachment(s):

None

Initiated by:

Staff

Previous Council Consideration:

FY 2018/2019 Operating Budget and Adopted FY 2018/2022 5-year Capital Improvement Plan (CIP).

Fiscal Impact:

Based on the lowest responsive and responsible proposal, the project costs of not-to-exceed \$100,000 are within the budget of the current Operating Budget.

Environmental Review:

Categorically Exempt pursuant to CEQA Section 15301; Class 1 (b) "existing facilities," Santa Clara County file number ENV21537.

Policy Question(s) for Council Consideration:

None.

Summary:

- On-Call City-wide Tree Maintenance Services will enable the City to provide tree maintenance services in locations throughout the City consistent with International Society of Arboriculture (ISA) best practices

Staff Recommendation:

Move to authorize the City Manager to execute an agreement with West Coast Arborists, Inc. in the amount of \$100,000 for On-Call City-wide Tree Maintenance Services



Subject: Professional Services Agreement: On-Call City-wide Tree Maintenance Services

Purpose

Authorize the City Manager to execute a contract on behalf of the City with West Coast Arborists, Inc. in the amount of \$100,000 for On-Call City-wide Tree Maintenance Services in locations throughout the City.

Background

A Request for Proposal (RFP) for City-wide tree maintenance services was prepared and issued on April 16, 2018. The goal is to retain a qualified company which could supplement the City's on-going tree evaluation and conduct tree maintenance work that is not currently performed by in-house staff due to equipment limitations.

On May 4, 2018, representatives from eight (8) firms appeared for a non-mandatory pre-bid conference at the City's Municipal Services Center. Addendum No. 1 was issued on April 26, 2018 and Addendum No. 2 was issued on May 9, 2018.

The City's Purchasing Policy requires contracts for maintenance services to be awarded to the lowest priced responsible and suitable bidder taking into consideration quality, service, fitness or capacity to the particular requirements of the City, and price.

Discussion/Analysis

On May 16, 2018, five (5) proposals were received before the time due for the On-Call City-wide Tree Maintenance Services Request for Proposal (RFP). Each proposal was evaluated by an RFP Evaluation Committee for its responsiveness to the RFP and responsibility in providing the needs and requirements of the City.

Two firms were deemed non-responsive and not responsible as the proposals exhibited elements of not including all information required by the RFP, not demonstrating the ability to provide the type of service requested by the City, or did not demonstrate the ability to provide the staffing needed for the work.

The remaining three firms were rated for their references, of which all received the maximum scoring. The lowest crew rate was proposed by West Coast Arborists, Inc., followed by Professional Tree Care Specialists, and the highest rate proposed by Bay Area Tree Specialists.

Taking into consideration quality, service, fitness or capacity to the particular requirements of the City, and price, the proposal provided by West Coast Arborists, Inc. has been verified as the lowest responsive and responsible.



Subject: Professional Services Agreement: On-Call City-wide Tree Maintenance Services

Options

- 1) Award a contract to West Coast Arborists, Inc. in the amount of \$100,000 for On-Call City-wide Tree Maintenance Services and authorize the City Manager to execute this contract on behalf of the City

Advantages: An on-call contract would enable Staff to contract tree maintenance services in locations throughout the City consistent with International Society of Arboriculture (ISA) best practices. This contract would supplement the City's ability to provide services where unavailable by city-owned equipment and enable a more efficient response

Disadvantages: None

- 2) Do not award a contract for on-call City-wide tree maintenance services

Advantages: None

Disadvantages: Failure to maintain city trees may result in harm and/or damage to life and property, damage and/or interruption of infrastructures and services, and not allow for maintenance of the trees themselves

Recommendation

Staff recommends Option 1.



CONSENT CALENDAR

Agenda Item # 4

AGENDA REPORT SUMMARY

Meeting Date: June 26, 2018

Subject: Quarterly Investment Portfolio Report – Quarter Ended March, 2018

Prepared by: Sharif Etman, Administrative Services Director

Approved by: Chris Jordan, City Manager

Attachment(s):

1. Portfolio Mix Charts
2. Investment Policy Compliance Chart
3. Investment Performance Review Quarter Ended March 31, 2018

Initiated by:

Staff

Fiscal Impact:

None

Environmental Review:

Not applicable

Policy Question(s) for Council Consideration:

- None

Summary:

- This report presents the status of the City's investment portfolio through March 31, 2018. The reporting model has been developed in coordination with PFM Asset Management LLC (PFM), the City's investment portfolio managers.

Staff Recommendation:

Receive the Investment Portfolio Report through March 31, 2018



Subject: Quarterly Investment Portfolio Report – Quarter Ended March 31, 2018

Purpose

These quarterly reports are presented to both the City Council and the Financial Commission to keep both bodies apprised as to the status of the City’s investment holding and demonstrate compliance with the City’s Investment Policy.

Background

A review of the Investment Portfolio Report Quarter Ended March 31, 2018 was presented and discussed by the Financial Commission.

Discussion/Analysis

The summary provided below presents the sum total of all City investment holdings. The City’s portfolio book value, excluding operating cash and bond holdings as of March 31, 2018, was \$67,490,305.

As of March 31, 2018, 13% of the City’s portfolio was placed in Federal Agency Securities (Fannie Mae, Federal Home Loan Bank, Federal Home Loan Mortgage and Federal Farm Credit), 23% in US Treasuries, and 18% in medium-term corporate Notes and Commercial Paper, 14% in Certificate of Deposits, with the balance of 31% in LAIF. This portfolio mix is illustrated as part of Attachment 1.

Full compliance with the City’s Investment Policy is monitored closely and on a per trade basis as illustrated in Attachment 2. In accordance with California Government Code 53646(b)(3), the City of Los Altos has the ability to meet its pool expenditure requirements for the next six months.

As part of these quarterly updates, a status report is prepared by PFM which is included as Attachment 3: Investment Performance Review for the Quarter Ended March 31, 2018. It is important to note that this report highlights the performance of City investments that fall outside its liquid holdings with LAIF. This has been intentionally crafted to isolate the performance of the City’s independently managed investments. The total return of the portfolio since inception is 0.71%, which is highlighted on page 12, of the PFM Investment Review Report (Attachment 3).

Options

1. Receive the Investment Portfolio Report Quarter Ended March 31, 2018

Advantages: None

Disadvantages: None



Subject: Quarterly Investment Portfolio Report – Quarter Ended March 31, 2018

2. Do not receive the Investment Portfolio Report Quarter Ended March 31, 2018

Advantages: None

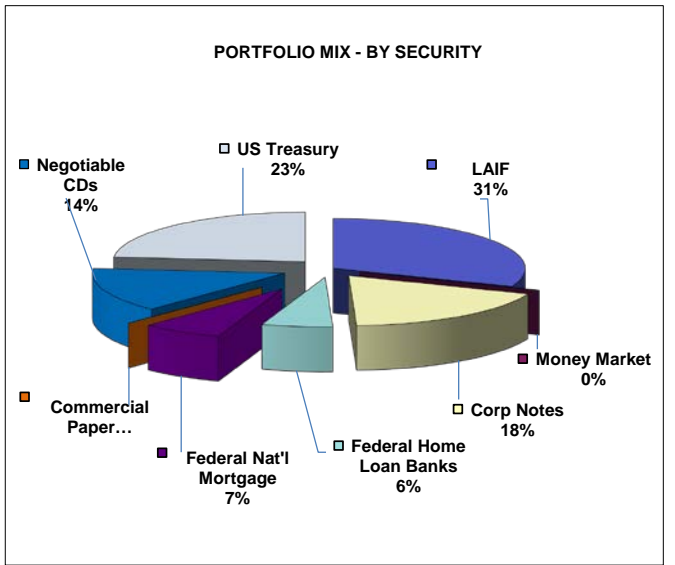
Disadvantages: None

Recommendation

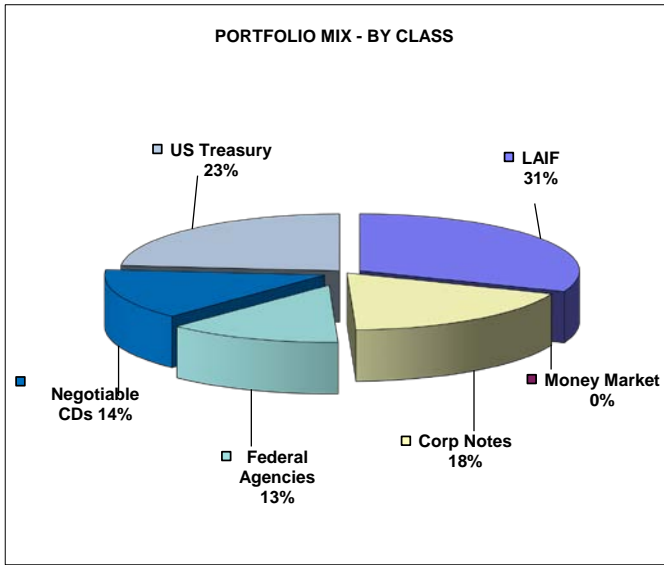
The staff recommends Option 1.

**Attachment 1
Portfolio Mix Charts
March 2018**

Security Type	% of Total	Portfolio Mix By Security
LAIF	31%	20,893,914
Money Market	0%	31,391
Corp Notes	18%	12,380,000
Federal Home Loan Banks	6%	4,025,000
Federal Nat'l Mortgage	7%	4,625,000
Commercial Paper	0%	-
Negotiable CDs	14%	9,690,000
US Treasury	23%	15,845,000
	100%	67,490,305



Security Type	% of Total	Portfolio Mix Par Value	Market Value
LAIF	31%	20,893,914	20,893,914
Money Market	0%	31,391	31,391
Corp Notes	18%	12,380,000	12,208,665
Federal Agencies	13%	8,650,000	8,513,256
Negotiable CDs	14%	9,690,000	9,619,397
US Treasury	23%	15,845,000	15,603,981
	100%	67,490,305	66,870,603
Corp Notes		12,380,000	12,208,665
US Treasury/Agencies		24,495,000	24,117,237
Negotiable CDs		9,690,000	9,619,397
Accrued Interest		-	222,719
		46,565,000	46,168,018
Margin Over (Under) Par			(396,982)



**Attachment 1
Portfolio Mix Charts
March 2018**

City Investment	% Mix	Par Value	Earliest Term	City Policy Term Limitation	City Policy \$ Limitation	City Policy % Limitation	CAPACITY	% Compliance Yes/No	Term Compliance Yes/No
LAIF	31%	20,893,914	03/31/18	No Term	65,000,000	100%	44,106,086	Yes	N/A
Money Market	0%	31,391	03/31/18	Overnight		20%	13,466,670	Yes	N/A
Corp Notes	18%	12,380,000	02/22/16	4 Years		30%	7,867,091	Yes	Yes
Federal Agencies	13%	8,650,000	03/29/16	5 Years		100%	58,840,305	Yes	Yes
Commercial Paper	0%	-	03/31/18	180 Days		15%	10,123,546	Yes	N/A
Negotiable CDs	14%	9,690,000	12/05/16	3 Years		30%	10,557,091	Yes	Yes
US Treasury	23%	15,845,000	06/29/16	5 Years		100%	51,645,305	Yes	Yes
	100%	67,490,305							

Important Notes:

- 1) Face Value has been corrected to Par Value in column E.
- 2) Latest Term has been corrected to Earliest Term in column F.
- 3) City Policy Term Limitation has been added to column G.
- 4) Testing formula for Term Compliance Yes/No has been updated.
- 5) City Policy comparison is based on October 2016 Investment Policy.



CITY OF LOS ALTOS

Investment Performance Review For the Quarter Ended March 31, 2018

Client Management Team

Monique Spyke, Managing Director

Izac Chyou, Senior Managing Consultant

50 California Street, Suite 2300

San Francisco, CA 94111

415-982-5544

PFM Asset Management LLC

One Keystone Plaza, Suite 300

Harrisburg, PA 17101-2044

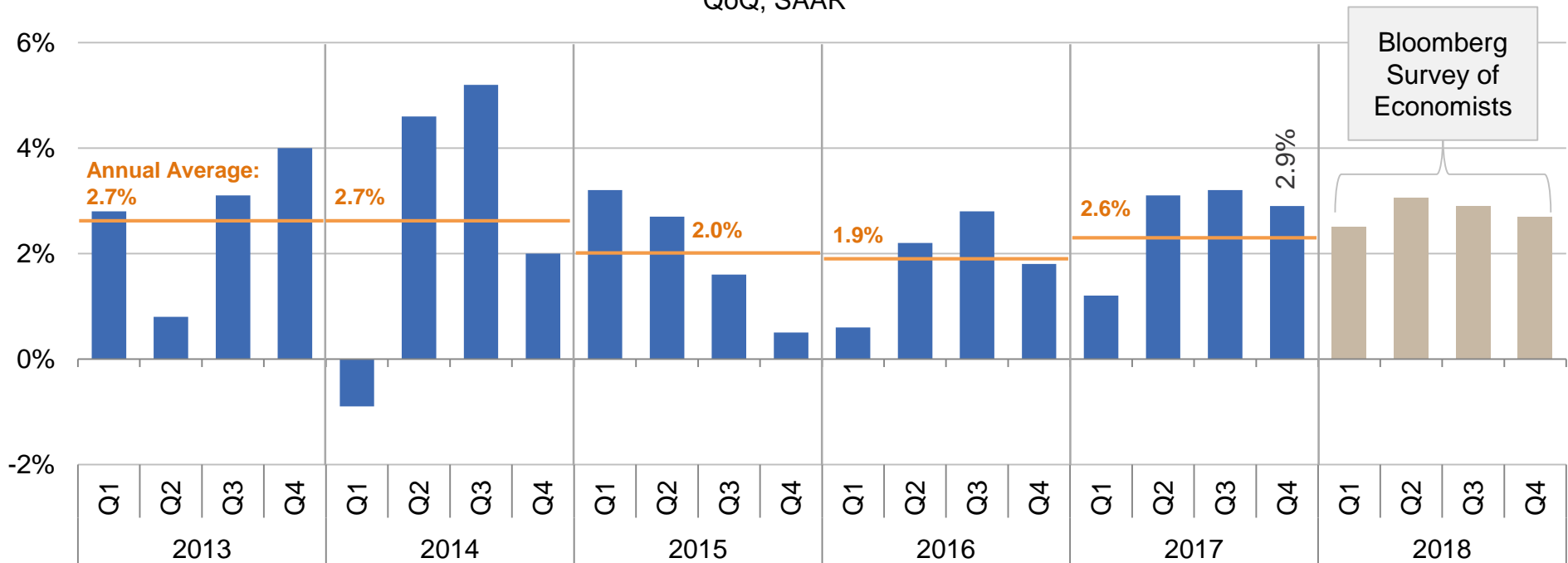
717-232-2723

Market Update

Moderate U.S. Economic Expansion

- U.S. gross domestic product (GDP) grew at an annualized rate of 2.9% in the fourth quarter of 2017. Despite slowing slightly from more than 3% growth in both the second quarter and third quarters, the overall pace of economic activity remained solid as the economy grew at an average of 2.6% on a quarterly basis (annualized), the fastest pace since 2014.
- Strong growth in consumer spending and business investment continued to fuel economic activity over the quarter, while significant declines in inventories and net exports were a drag on reported GDP in the fourth quarter.

U.S. Real GDP
QoQ, SAAR

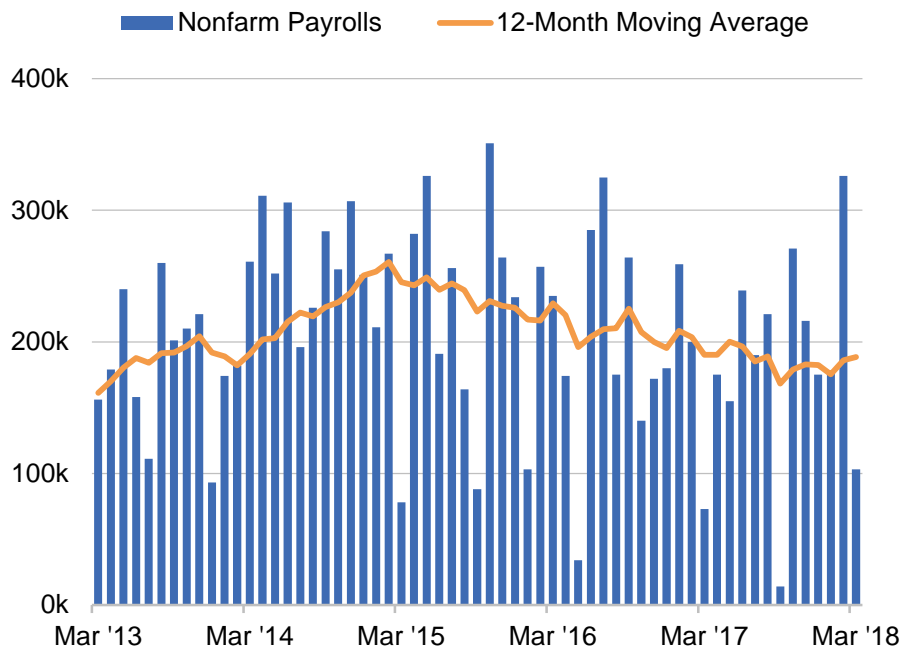


Source: Bloomberg, as of 3/31/2018.

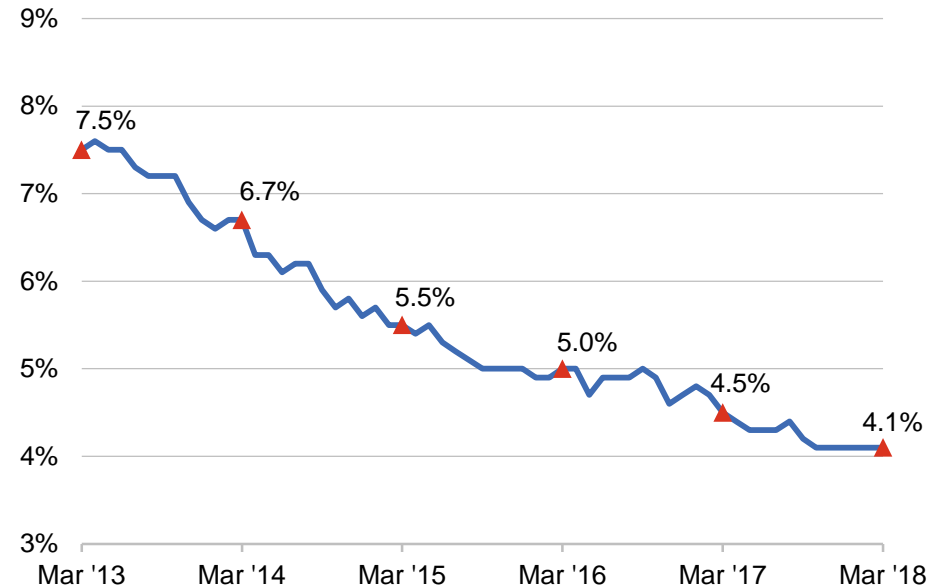
Labor Market Strength Remains

- ◆ The U.S. labor market added 605,000 jobs in the first quarter of 2018.
 - The headline unemployment rate held steady at 4.1% in March for the sixth straight month, matching the lowest level in 17 years.
 - The labor force participation rate ended the quarter at 62.9%, up slightly from 62.7% at the end of 2017.
 - The tight labor market is slowly pushing up worker pay. Average hourly earnings—a key measure of wage growth—rose 2.7% over the past 12 months, ending March.

Monthly Change in Nonfarm Payrolls



Unemployment Rate

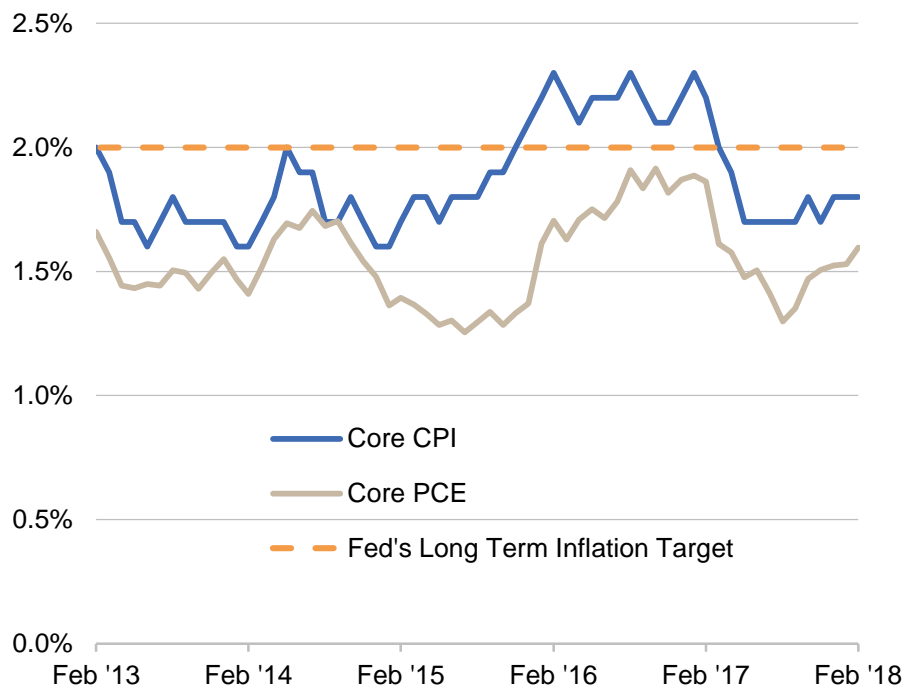


Source: Bloomberg, as of March 2018.

Inflation Expectations Have Moved Higher

- The core personal consumption expenditures (PCE) price index, the Fed's preferred measure of inflation, ticked slightly higher to 1.6% year-over-year in February but still remains firmly below the Fed's 2% target.
- Inflation expectations continue to rise gradually as a result of higher recent wage growth and increases in gold and oil prices.

Inflation Measures
(YoY)



Expectations for Average Inflation Rate over Next 5 Years

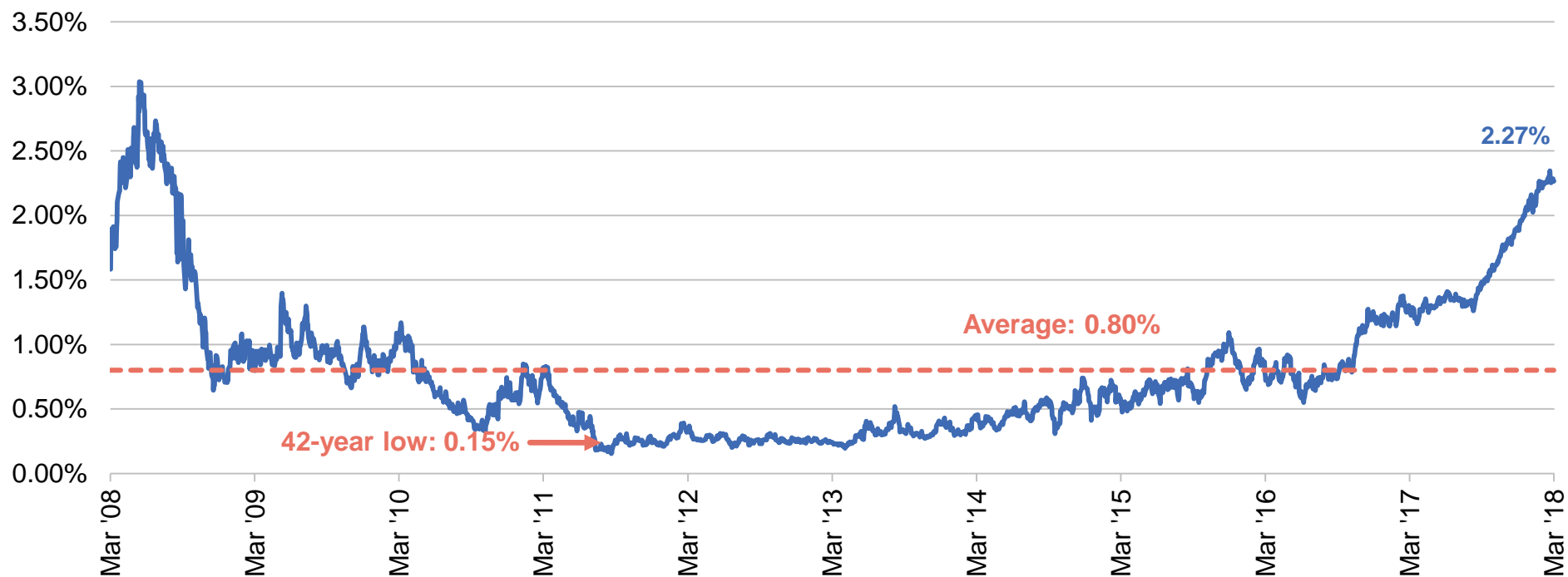


Source: Bloomberg, latest data available as of March 2018. Inflation expectations based on yield difference between 5-year Treasury note and 5-year Treasury Inflation Protected Securities (TIPS).

Short-Term Treasury Yields Continue to Rise

- The 2-year Treasury yield continued to move higher throughout the first quarter of 2018, increasing 38 basis points (0.38%) to 2.27%, levels not seen since 2008.
- The first quarter marked the seventh straight quarterly rise in the 2-year yield as the U.S. economy remained strong and the Federal Reserve continued on its path of quantitative tightening, raising the federal funds target rate by 25 basis points to a range of between 1.50% to 1.75% at its March meeting.

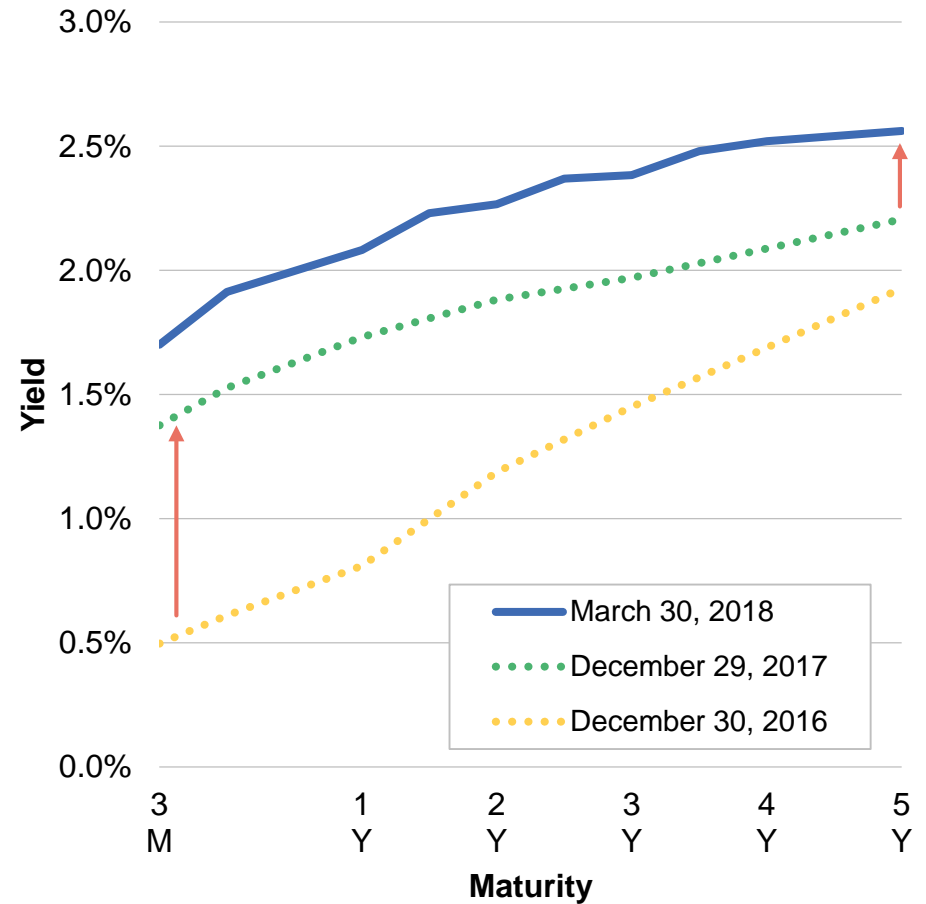
2-Year Treasury Yield



Source: Bloomberg, as of 3/31/2018.

U.S. Treasury Curve

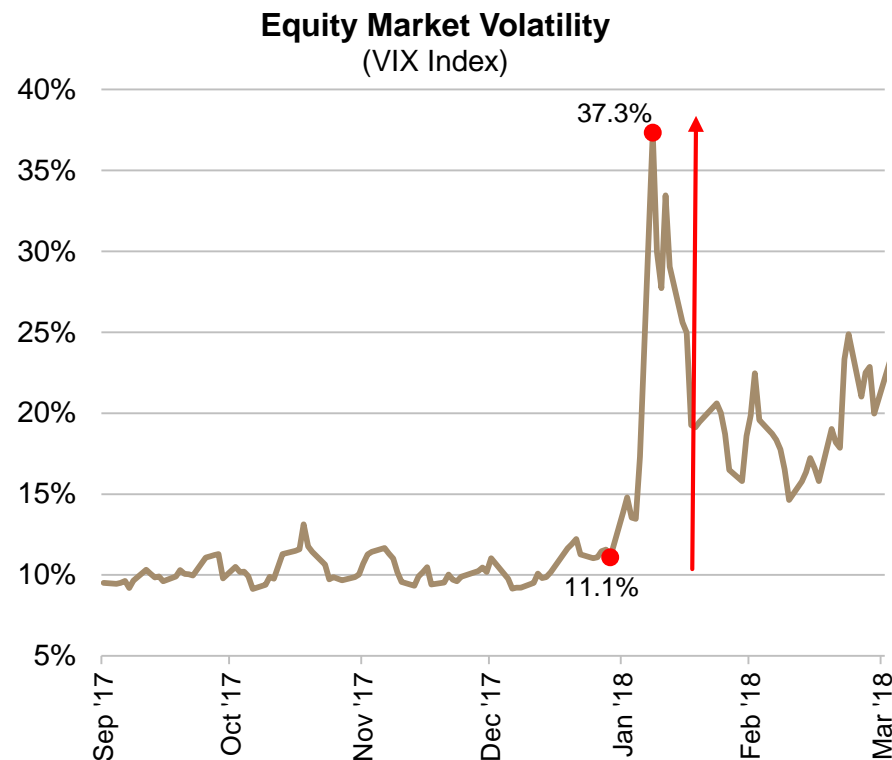
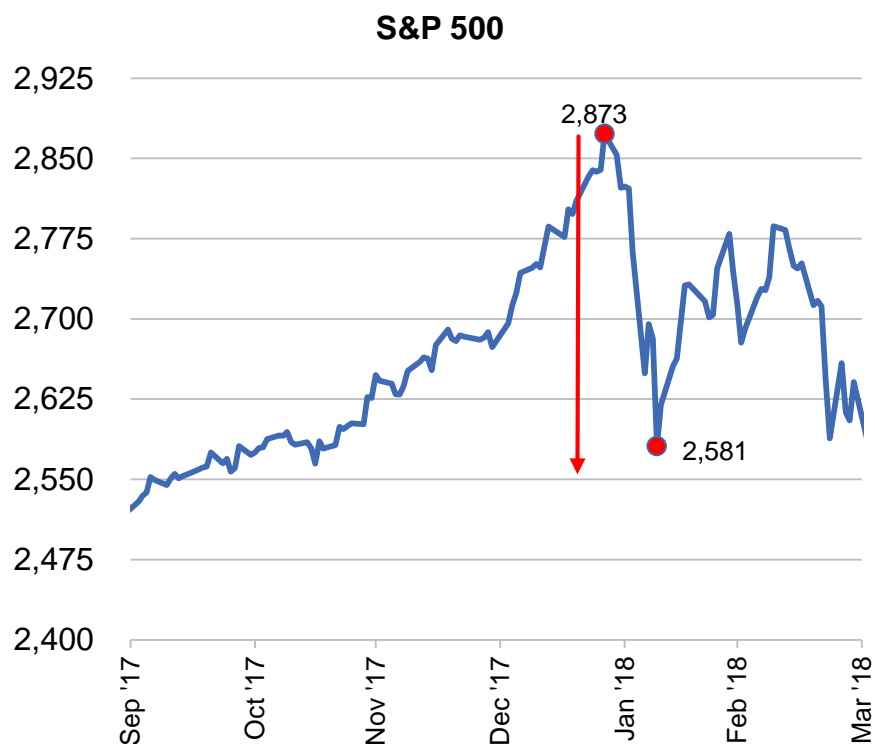
	Current 3/31/18	Year-End 12/29/17	Year-End 12/30/16
3-month	1.70%	1.38%	0.50%
6-month	1.91%	1.53%	0.61%
1-year	2.08%	1.73%	0.81%
2-year	2.27%	1.88%	1.19%
3-year	2.38%	1.97%	1.45%
5-year	2.56%	2.21%	1.93%



Source: Bloomberg, as of 3/31/2018.

The Return of Market Volatility

- After beginning 2018 as 2017 ended, calm and complacent with the S&P 500 logging 14 new record highs in January, volatility roared back into financial markets in early February. After months near all-time record lows, the Chicago Board Options Exchange (CBOE) Volatility Index surged to a near five-year high as concerns surrounding possible trade wars, overheating of the economy given tax cuts and expansionary fiscal budget, and stretched valuations took investors' focus.



Source: Bloomberg, as of 3/31/2018.

Credit Spreads Widen to Start 2018

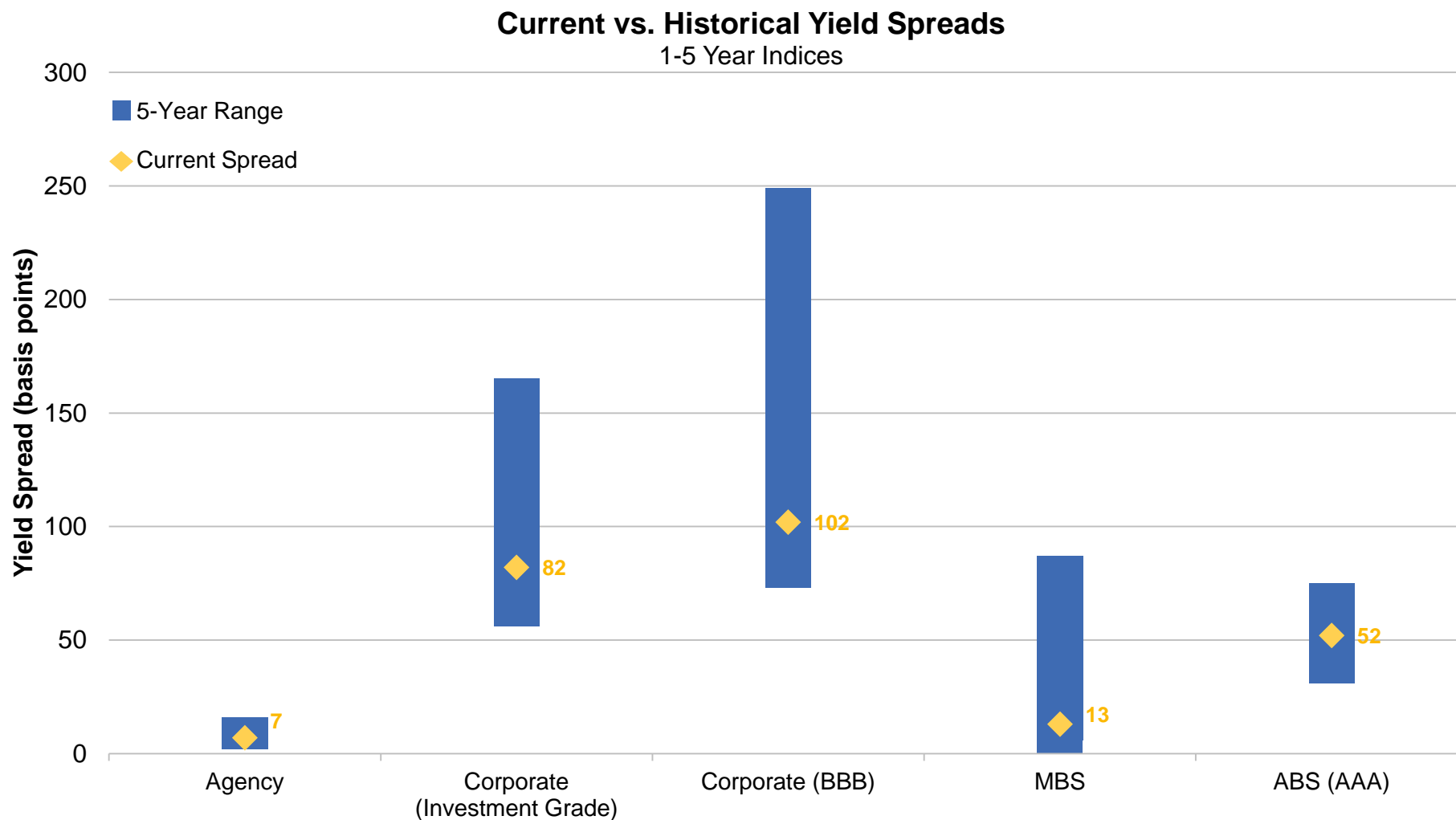
- Credit spreads spiked after the equity market turmoil in early February and have continued to drift wider, increasing the value available in the sector. Although corporate securities have underperformed in the first quarter as a result of spread widening, they are now offered at their cheapest levels since May 2017. With the economy still improving and credit fundamentals still strong, this has been an opportunity to purchase credit investments with incremental value.

1-5 Year Investment Grade Corporate Yield Spreads (OAS)



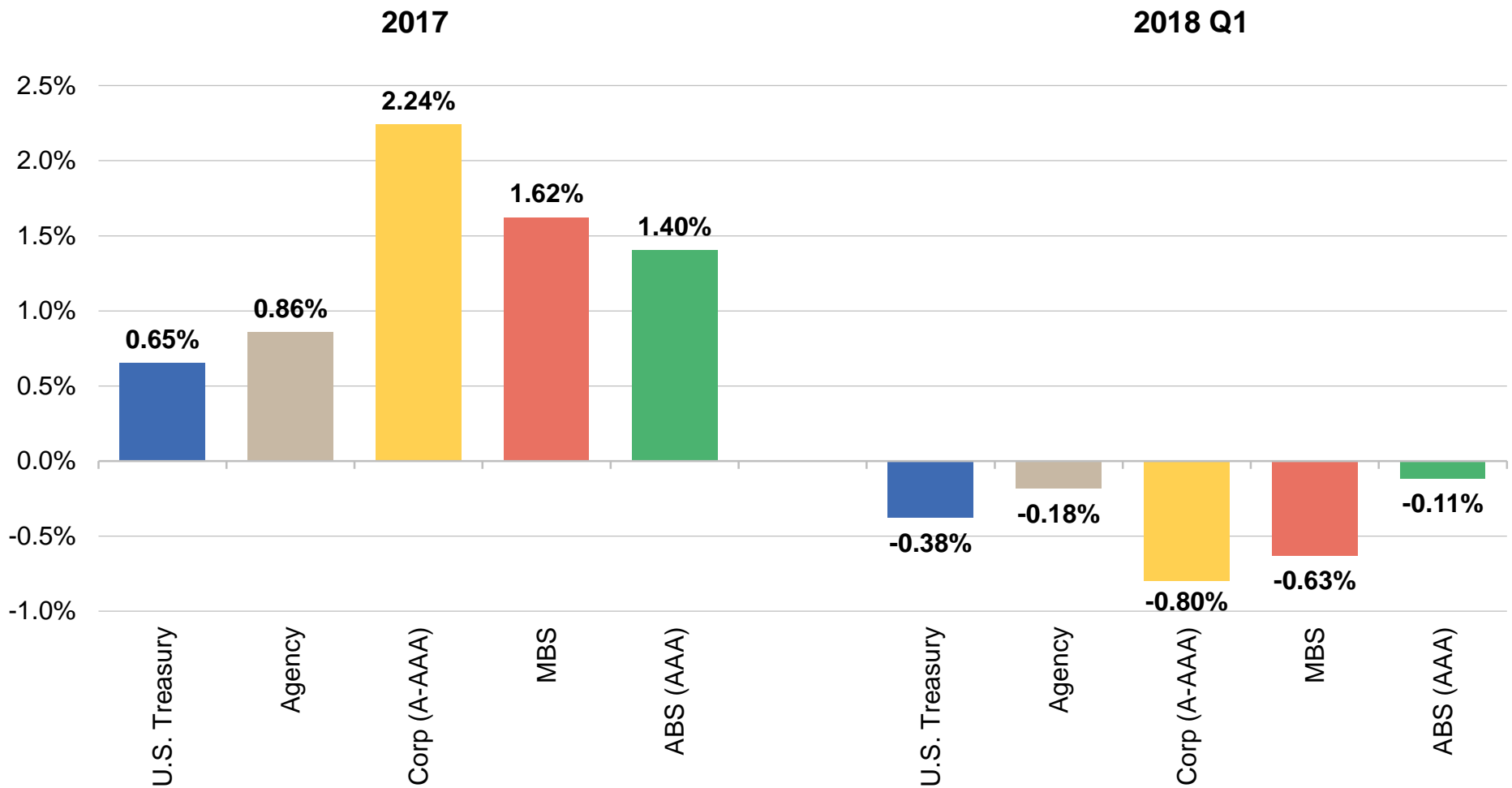
Source: Bloomberg, Bank of America Merrill Lynch Indices, as of March 2018. OAS is Option Adjusted Spread.

Sector Yield Spreads Still Near Historically Tight Levels



Source: ICE BofAML 1-5 year Indices, as of 4/2/2018.

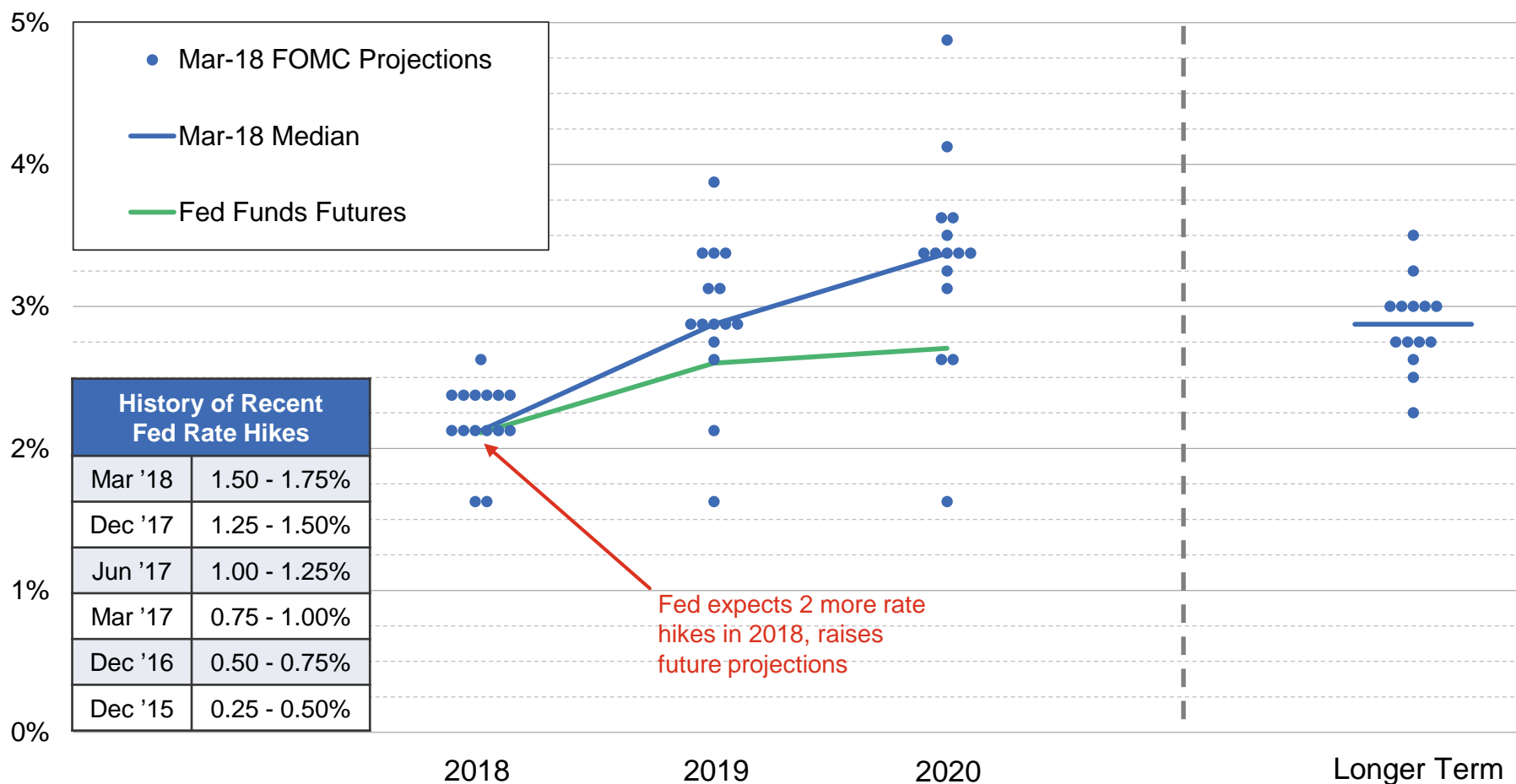
Sector Returns 1-5 Year Indices



Source: ICE BofAML Indices. MBS and ABS indices are 0-5 year, based on weighted average life. As of 3/31/2018.

FOMC “Dot Plot” – March 2018

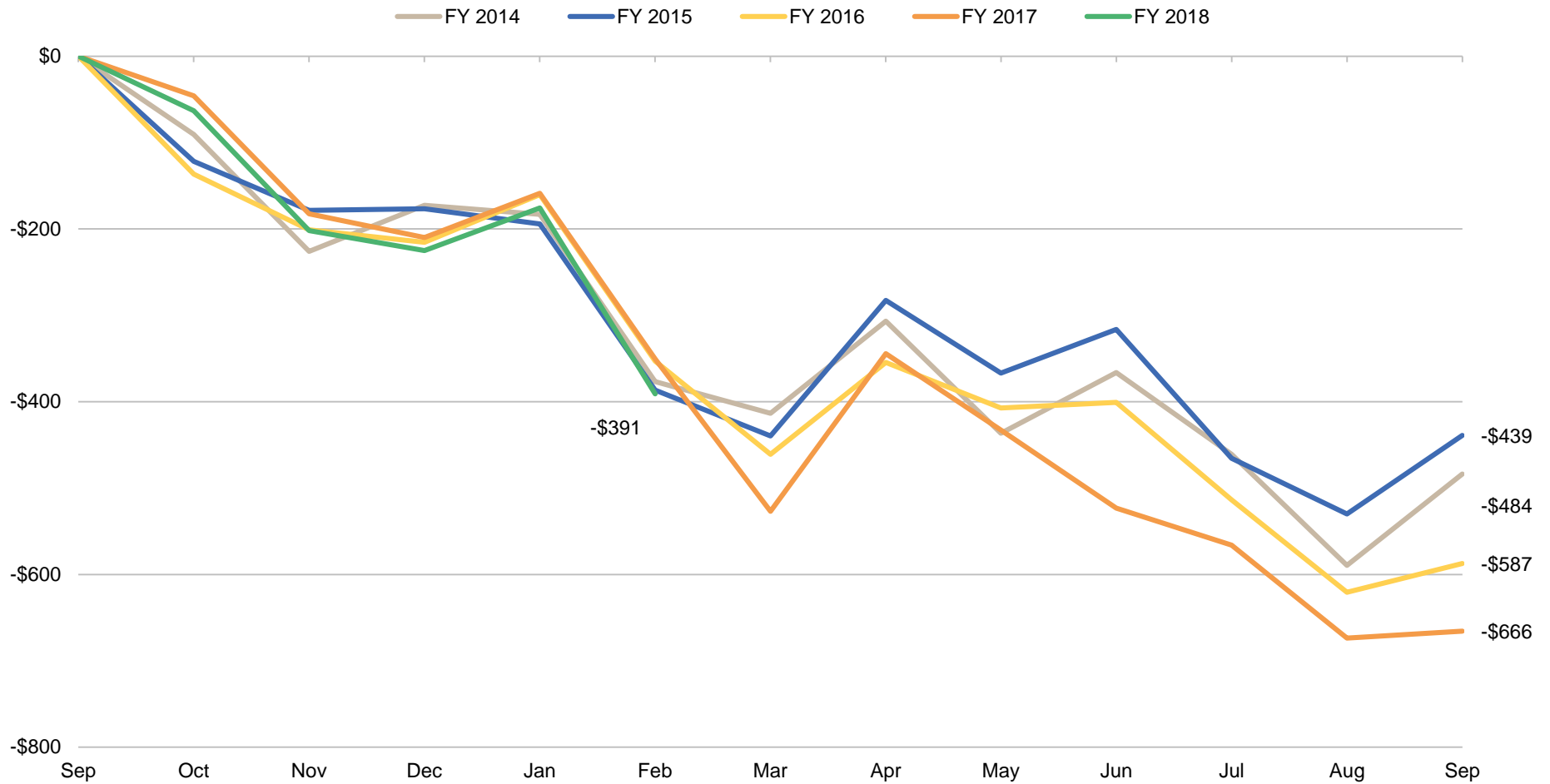
Fed Participants’ Assessments of “Appropriate” Monetary Policy



Source: Federal Reserve and Bloomberg. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end. Fed funds futures as of 3/21/18.

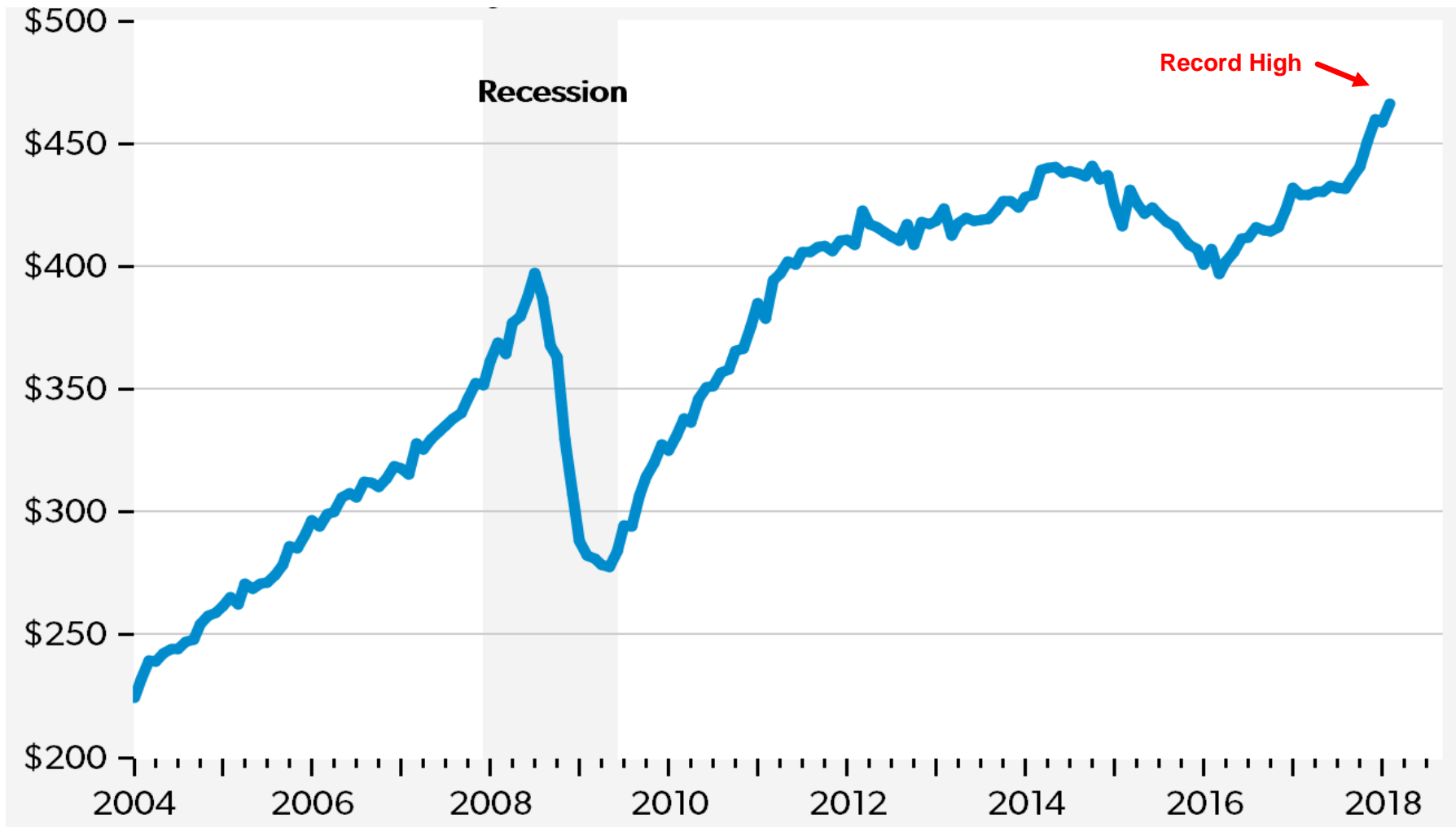
U.S. Federal Budget Deficit on Track to Increase in 2018

U.S. Budget Deficit: Cumulative Fiscal YTD (in billions)



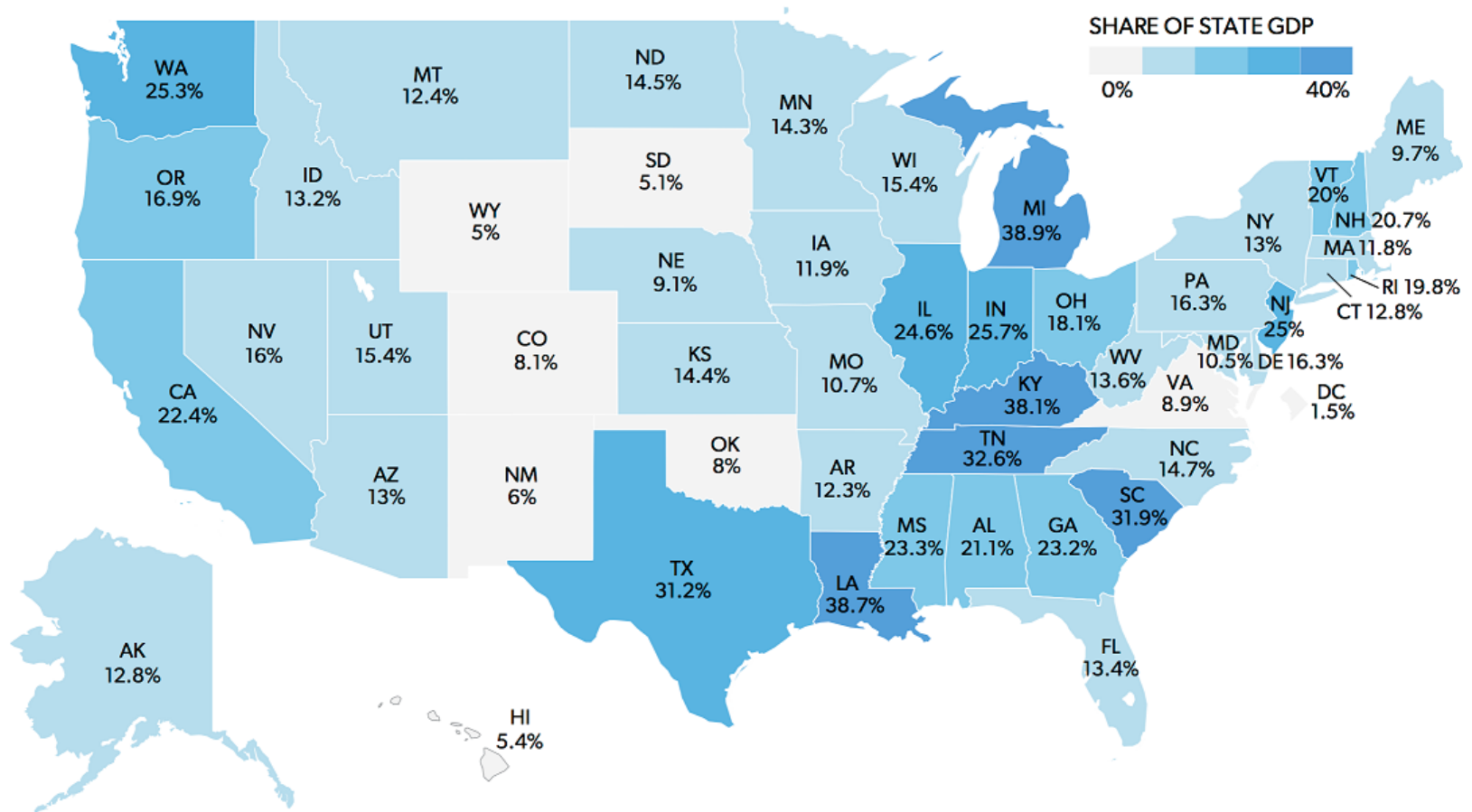
Source: Bloomberg, U.S. Office of Budget and Management. U.S. fiscal year ends September 30 of each year. YTD FY 2018 is as of February 2018.

Trade Focus: U.S. International Trade (Exports + Imports)



Source: U.S. Census Bureau and Bureau of Economic Analysis.

Trade Focus: International Trade as a Share of State GDP



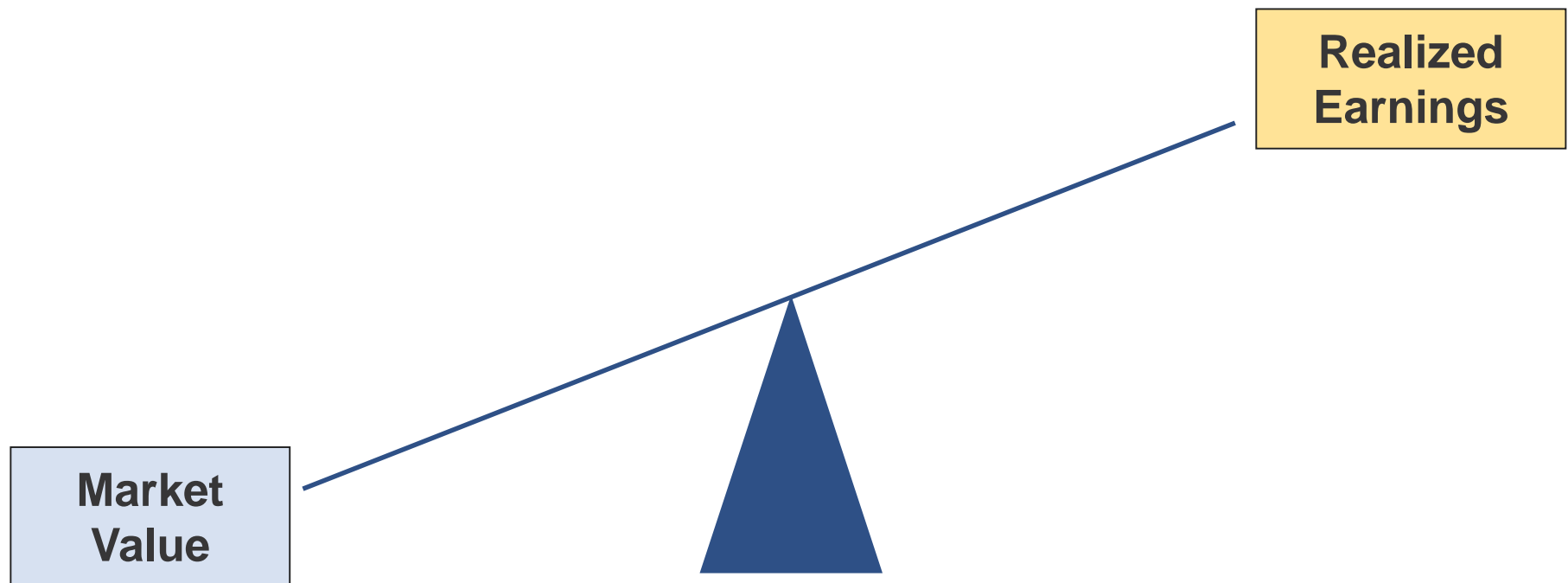
Source: U.S. Census Bureau and Bureau of Economic Analysis (2017 data).

The Impact of Rising Rates

- For fixed-income holdings, when interest rates rise. . .
- Market values of existing holdings decline, resulting in *unrealized* market value losses and possibly negative total return;

HOWEVER

- Realized earnings will increase over time as new securities are added at higher interest rates.



Portfolio Review

Portfolio Recap

- A long list of positive economic data remains a key driver of economic growth, consumer confidence, and business optimism.
 - GDP posted an upward revision of fourth-quarter GDP to 2.9%.
 - Estimates for 2018 GDP call for growth in the range of 2.7% to 2.8%.
 - Jobs growth continued to strengthen, averaging over 200,000 per month in the first quarter.
 - The unemployment rate remained at 4.1%—a 17-year low.
 - Productivity hit a 2-year high.
 - Manufacturing reached a 3-year high.
 - Consumer confidence rebounded after a dampened fourth quarter and now sits at a 14-year high.
 - Inflation, while below the Fed's target of 2%, inched higher by most measures.
- New Fed Chair Jay Powell made his first public address at February's semi-annual monetary policy report to Congress. His maiden testimony hinted at a continuance of gradual rate hikes while acknowledging that "the economic outlook remains strong" and the expectation for inflation to increase and closely approach the FOMC's 2% objective remains intact.
- The Fed remained true to its stated course, raising short-term rates by $\frac{1}{4}$ percent in March, and interest rates continued their ascent over the quarter. As a result, we strategically positioned portfolios with a defensive duration bias relative to benchmarks to help insulate market values in the well-choreographed interest rate environment. However, with rates at or near multi-year highs, there were also opportunities to capture higher yields selectively in some parts of the yield curve when rebalancing portfolios.

Portfolio Recap (Continued)

- ◆ The combined effects of less predictable U.S. politics and policy (e.g., tariffs, trade wars, Facebook, global relations, budget deficits, etc.) created an environment of heightened volatility. The “risk off” sentiment triggered wider credit spreads.
 - Wider spreads caused corporate-related investments to underperform for the quarter. While portfolios typically benefit from increased credit allocations, returns in the first quarter were negatively affected.
 - Federal agency yield spreads remained very narrow throughout the quarter. New issue agencies continued to be our preferred—in some cases only—outlet to add exposure at relatively attractive yields. Generally, the agency sector added modest positive excess returns in the first quarter (returns in excess of similar-duration Treasuries) across much of the yield curve, benefiting portfolio performance.
 - Supranational seasonal supply increased as expected in the first quarter, and we utilized the opportunity to increase allocations in the sector at attractive yield spreads. This incremental income helped boost sector returns.
 - After yield spreads in the corporate sector reached another new post-recession low in January, we shifted our generally constructive view of the corporate sector to a slightly more defensive posture by holding current positions (and letting them drift shorter over time) rather than adding to allocations. In the latter half of the quarter, the story shifted abruptly as market volatility pushed credit spreads markedly wider through quarter-end. As a result, we began to add corporate exposure (including negotiable CDs) more aggressively again in March.
 - Asset-backed securities (ABS) were also impacted by adverse spread widening during the quarter but prompted no change in our fundamental view of the sector. We continued to select ABS issues we found attractively priced during the quarter.

Sector Allocation and Compliance

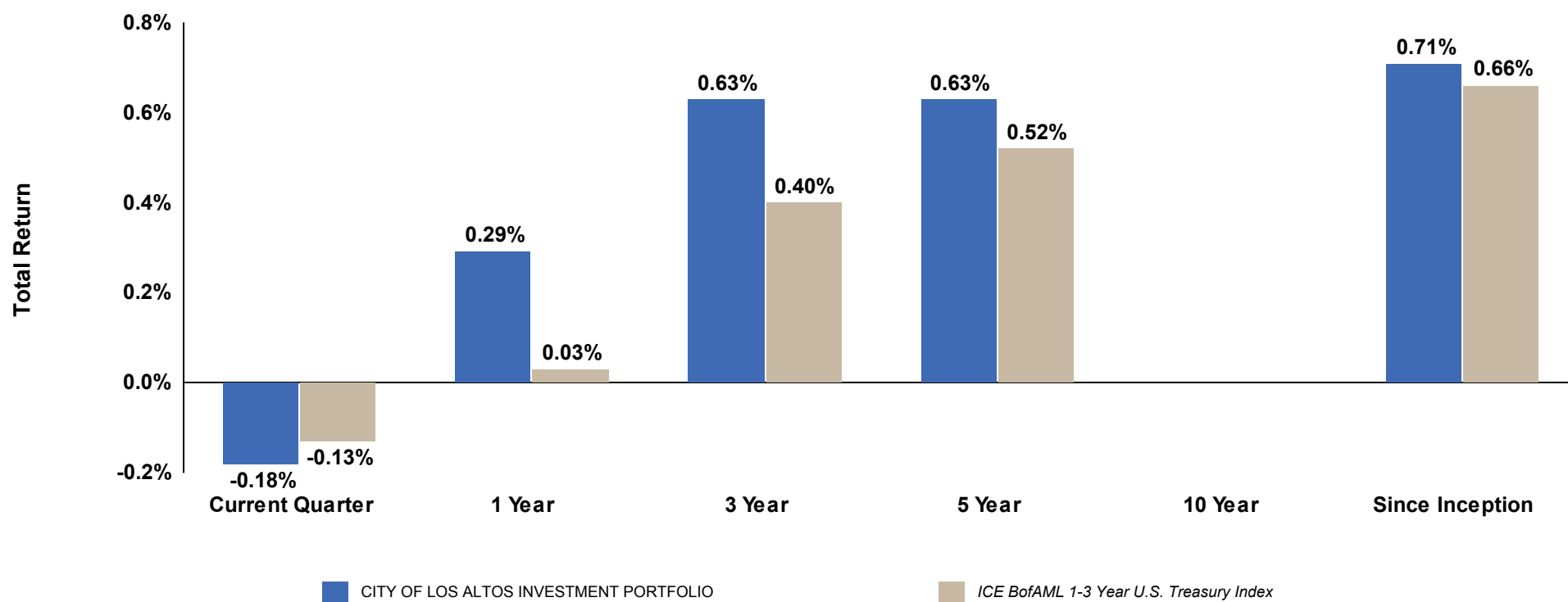
- The portfolio is in compliance with the City's Investment Policy and the California Government Code.

<u>Security Type</u>	<u>Market Value</u>	<u>% of Portfolio</u>	<u>% Change vs. 12/31/17</u>	<u>Permitted by Policy</u>	<u>In Compliance</u>
U.S. Treasury	\$15,603,981	29.1%	-4.8%	100%	✓
Federal Agency	\$8,513,256	15.9%	-2.8%	100%	✓
Supranationals	\$2,433,355	4.5%	+1.0%	10%	✓
Negotiable CDs	\$9,619,397	17.9%	+1.4%	30%	✓
Corporate Notes	\$12,208,665	22.8%	+4.6%	30%	✓
Asset-Backed Securities	\$5,234,635	9.8%	+0.8%	20%	✓
Securities Sub-Total	\$53,613,288	99.9%			
Accrued Interest	\$222,719				
Securities Total	\$53,836,007				
Money Market Fund	\$31,391	0.1%	-0.2%	20%	✓
Total Investments	\$53,867,398	100.0%			

As of 3/31/2018. Detail may not add to total due to rounding.

Portfolio Performance (Total Return)

Portfolio/Benchmark	Effective Duration	Current Quarter	Annualized Return				Since Inception (06/30/10) *
			1 Year	3 Year	5 Year	10 Year	
CITY OF LOS ALTOS INVESTMENT PORTFOLIO	1.75	-0.18%	0.29%	0.63%	0.63%	-	0.71%
ICE BofAML 1-3 Year U.S. Treasury Index	1.80	-0.13%	0.03%	0.40%	0.52%	-	0.66%
Difference		-0.05%	0.26%	0.23%	0.11%	-	0.05%



Portfolio performance is gross of fees unless otherwise indicated. *Since Inception performance is not shown for periods less than one year.

Portfolio Earnings
Quarter-Ended March 31, 2018

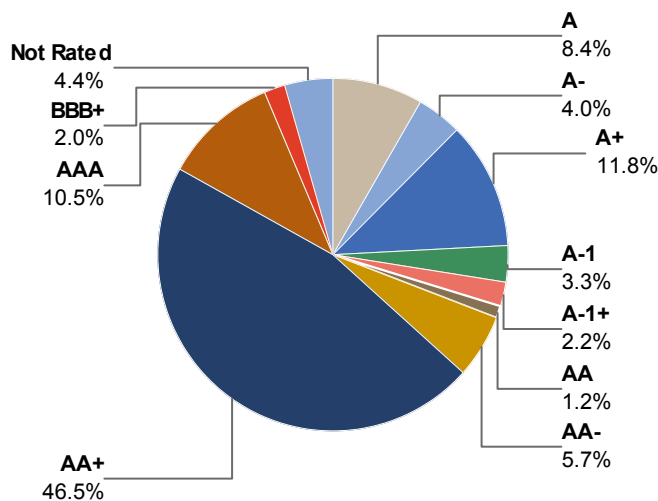
	Market Value Basis	Accrual (Amortized Cost) Basis
Beginning Value (12/31/2017)	\$53,646,917.93	\$54,044,625.87
Net Purchases/Sales	\$287,011.23	\$287,011.23
Change in Value	(\$320,641.15)	(\$49,120.47)
Ending Value (03/31/2018)	\$53,613,288.01	\$54,282,516.63
Interest Earned	\$223,306.95	\$223,306.95
Portfolio Earnings	(\$97,334.20)	\$174,186.48

Portfolio Statistics

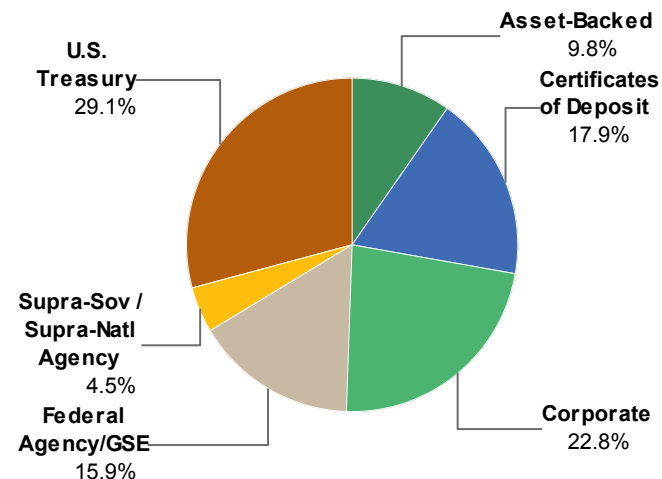
As of March 31, 2018

Par Value:	\$54,319,846
Total Market Value:	\$53,867,398
Security Market Value:	\$53,613,288
Accrued Interest:	\$222,719
Cash:	\$31,391
Amortized Cost:	\$54,282,517
Yield at Market:	2.39%
Yield at Cost:	1.75%
Effective Duration:	1.75 Years
Duration to Worst:	1.81 Years
Average Maturity:	2.00 Years
Average Credit: *	AA

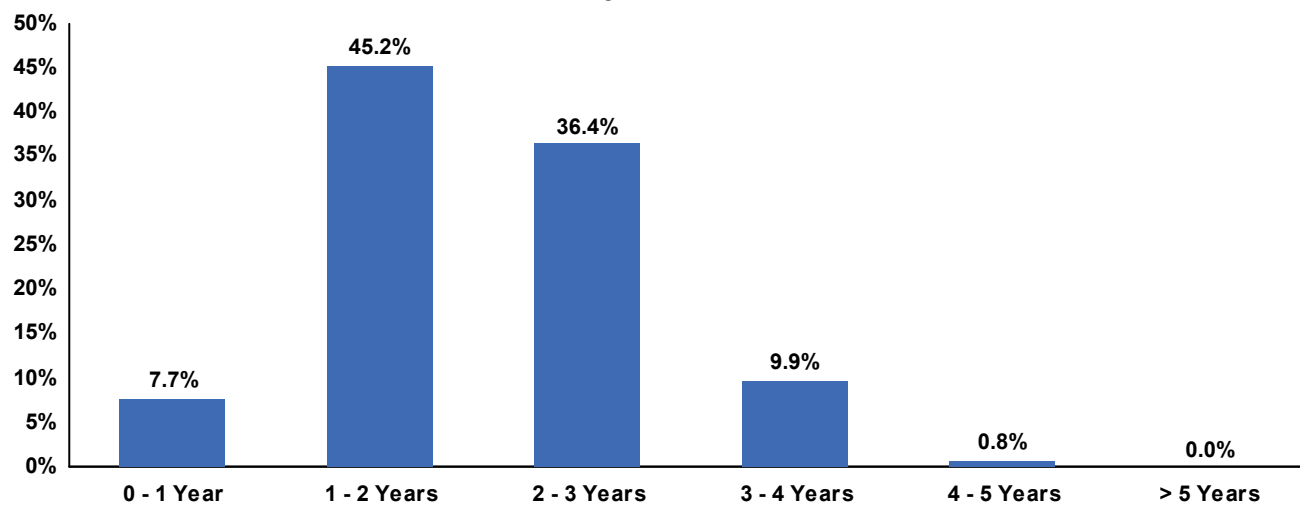
Credit Quality (S&P Ratings)



Sector Allocation



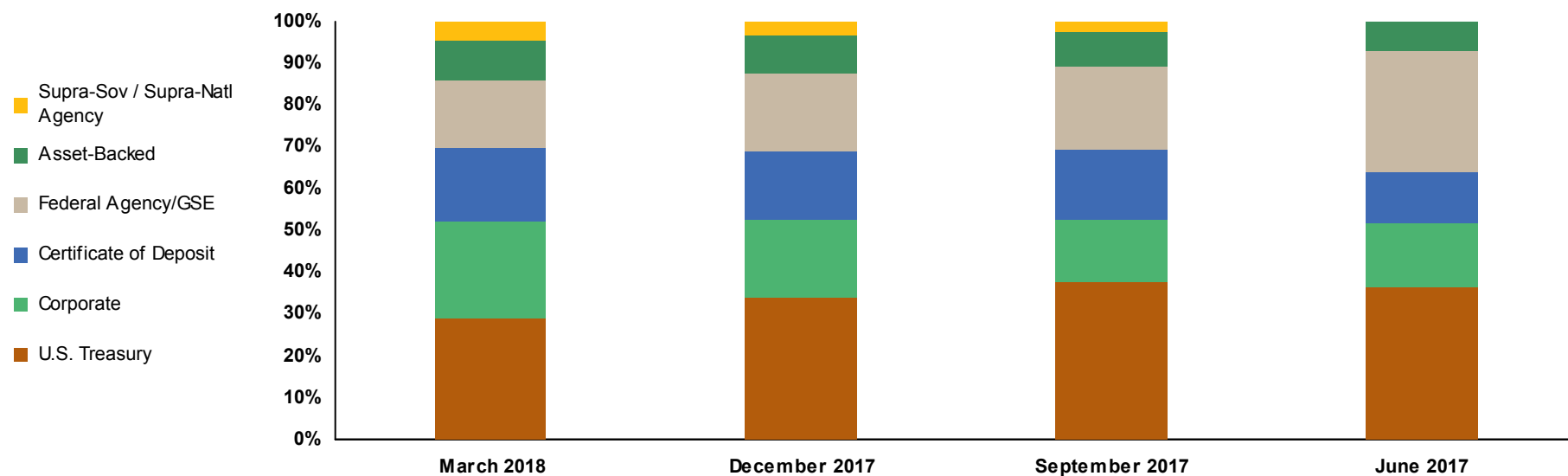
Maturity Distribution



* An average of each security's credit rating assigned a numeric value and adjusted for its relative weighting in the portfolio.

Sector Allocation

Sector	March 31, 2018		December 31, 2017		September 30, 2017		June 30, 2017	
	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total
U.S. Treasury	15.6	29.1%	18.3	34.0%	20.2	37.5%	18.5	36.4%
Corporate	12.2	22.8%	9.8	18.3%	8.1	15.1%	7.7	15.1%
Certificate of Deposit	9.6	17.9%	8.9	16.6%	8.9	16.6%	6.3	12.5%
Federal Agency/GSE	8.5	15.9%	10.0	18.7%	10.8	20.0%	14.7	29.0%
Asset-Backed	5.2	9.8%	4.8	8.9%	4.5	8.3%	3.5	7.0%
Supra-Sov / Supra-Natl Agency	2.4	4.5%	1.9	3.5%	1.4	2.5%	0.0	0.0%
Total	\$53.6	100.0%	\$53.6	100.0%	\$53.8	100.0%	\$50.7	100.0%

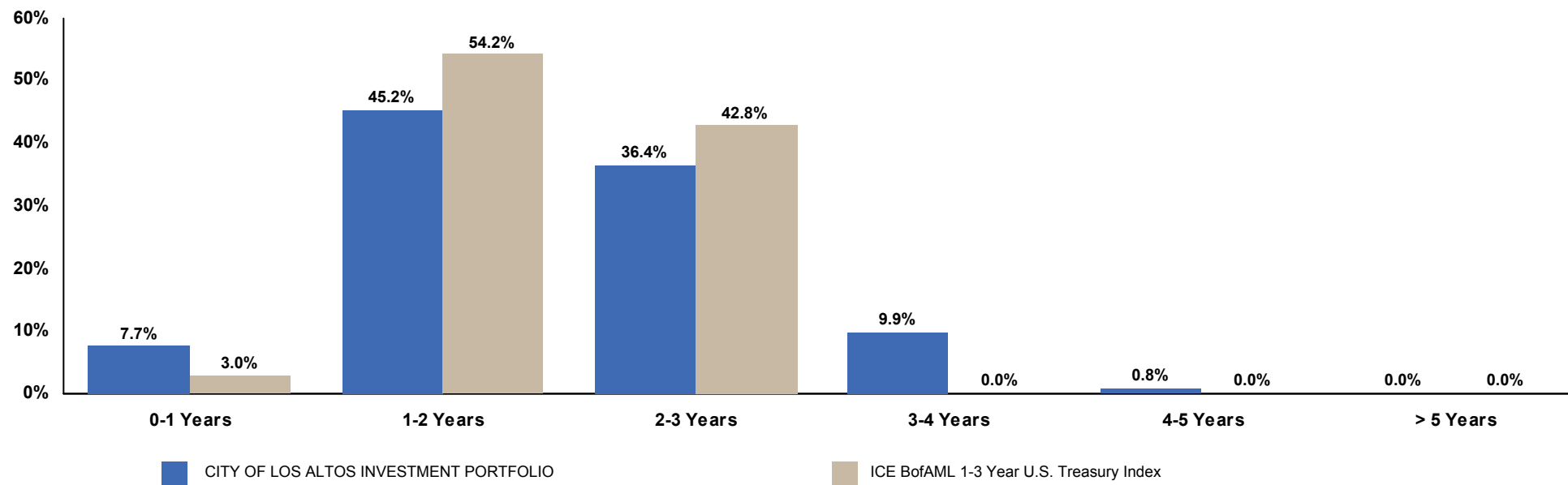


Detail may not add to total due to rounding.

Maturity Distribution

As of March 31, 2018

Portfolio/Benchmark	Yield at Market	Average Maturity	0-1 Years	1-2 Years	2-3 Years	3-4 Years	4-5 Years	>5 Years
CITY OF LOS ALTOS INVESTMENT PORTFOLIO	2.39%	2.00 yrs	7.7%	45.2%	36.4%	9.9%	0.8%	0.0%
ICE BofAML 1-3 Year U.S. Treasury Index	2.28%	1.93 yrs	3.0%	54.2%	42.8%	0.0%	0.0%	0.0%



Sector/Issuer Distribution

As of March 31, 2018

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
Asset-Backed			
ALLY AUTO RECEIVABLES TRUST	475,311	9.1%	0.9%
AMERICAN EXPRESS CO	492,651	9.4%	0.9%
CARMAX AUTO OWNER TRUST	371,181	7.1%	0.7%
CITIGROUP INC	645,033	12.3%	1.2%
CNH EQUIPMENT TRUST	216,359	4.1%	0.4%
FORD CREDIT AUTO OWNER TRUST	573,261	11.0%	1.1%
HONDA AUTO RECEIVABLES	590,355	11.3%	1.1%
HYUNDAI AUTO RECEIVABLES	428,337	8.2%	0.8%
JOHN DEERE OWNER TRUST	361,632	6.9%	0.7%
NISSAN AUTO RECEIVABLES	517,429	9.9%	1.0%
TOYOTA MOTOR CORP	563,084	10.8%	1.1%
Sector Total	5,234,635	100.0%	9.8%
Certificate of Deposit			
BANK OF MONTREAL	874,179	9.1%	1.6%
BANK OF NOVA SCOTIA	969,544	10.1%	1.8%
CANADIAN IMPERIAL BANK OF COMMERCE	872,559	9.1%	1.6%
CREDIT SUISSE GROUP	551,823	5.7%	1.0%
MITSUBISHI UFJ FINANCIAL GROUP INC	544,864	5.7%	1.0%
NORDEA BANK AB	873,075	9.1%	1.6%

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
SKANDINAVISKA ENSKILDA BANKEN AB	1,042,438	10.8%	1.9%
SUMITOMO MITSUI FINANCIAL GROUP INC	971,785	10.1%	1.8%
SVENSKA HANDELSBANKEN AB	870,699	9.1%	1.6%
SWEDBANK AB	541,107	5.6%	1.0%
UBS AG	553,972	5.8%	1.0%
WESTPAC BANKING CORP	953,354	9.9%	1.8%
Sector Total	9,619,397	100.0%	17.9%
Corporate			
AMERICAN EXPRESS CO	541,099	4.4%	1.0%
AMERICAN HONDA FINANCE	546,867	4.5%	1.0%
APPLE INC	540,713	4.4%	1.0%
BANK OF AMERICA CO	537,836	4.4%	1.0%
BB&T CORPORATION	543,702	4.5%	1.0%
CATERPILLAR INC	400,276	3.3%	0.7%
CHEVRON CORPORATION	321,327	2.6%	0.6%
CISCO SYSTEMS INC	196,803	1.6%	0.4%
DEERE & COMPANY	698,824	5.7%	1.3%
EXXON MOBIL CORP	271,088	2.2%	0.5%
GOLDMAN SACHS GROUP INC	544,516	4.5%	1.0%
HOME DEPOT INC	230,849	1.9%	0.4%
HONEYWELL INTERNATIONAL	148,028	1.2%	0.3%
HSBC HOLDINGS PLC	192,446	1.6%	0.4%
IBM CORP	816,581	6.7%	1.5%
INTEL CORPORATION	246,081	2.0%	0.5%

Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
JOHNSON & JOHNSON	113,126	0.9%	0.2%
JP MORGAN CHASE & CO	543,122	4.4%	1.0%
MICROSOFT CORP	212,856	1.7%	0.4%
MORGAN STANLEY	538,909	4.4%	1.0%
NATIONAL RURAL UTILITIES CO FINANCE CORP	229,366	1.9%	0.4%
PACCAR FINANCIAL CORP	341,223	2.8%	0.6%
PEPSICO INC	232,755	1.9%	0.4%
PFIZER INC	370,750	3.0%	0.7%
THE BANK OF NEW YORK MELLON CORPORATION	542,220	4.4%	1.0%
THE WALT DISNEY CORPORATION	578,621	4.7%	1.1%
TOYOTA MOTOR CORP	467,179	3.8%	0.9%
UNILEVER PLC	548,643	4.5%	1.0%
UNITED PARCEL SERVICE INC	312,970	2.6%	0.6%
VISA INC	147,630	1.2%	0.3%
WAL-MART STORES INC	252,259	2.1%	0.5%
Sector Total	12,208,665	100.0%	22.8%
Federal Agency/GSE			
FANNIE MAE	3,781,913	44.4%	7.1%
FEDERAL HOME LOAN BANKS	2,637,783	31.0%	4.9%
FREDDIE MAC	2,093,559	24.6%	3.9%
Sector Total	8,513,256	100.0%	15.9%
Supra-Sov / Supra-Natl Agency			
INTER-AMERICAN DEVELOPMENT BANK	540,427	22.2%	1.0%

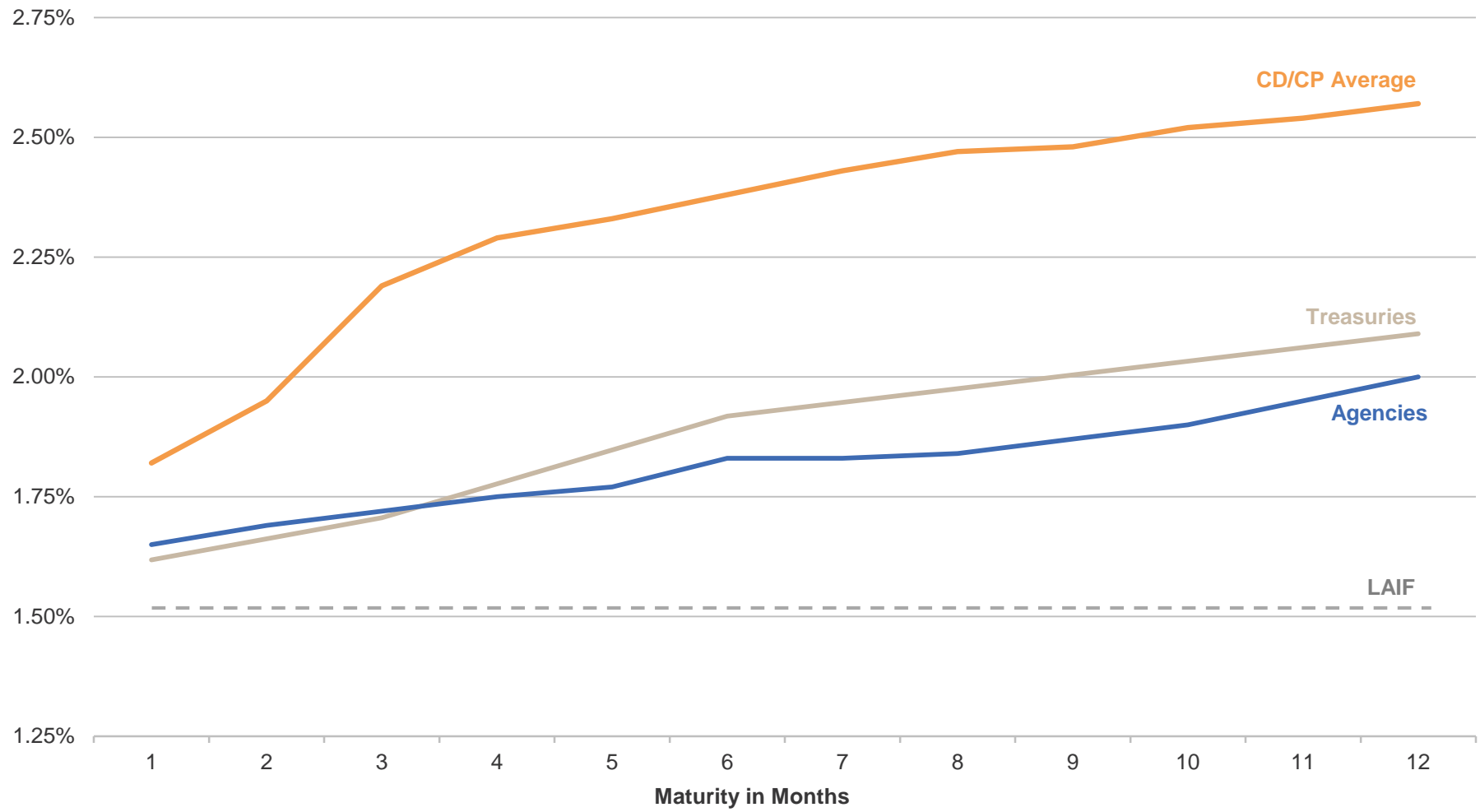
Sector / Issuer	Market Value (\$)	% of Sector	% of Total Portfolio
INTERNATIONAL FINANCE CORPORATION	548,010	22.5%	1.0%
INTL BANK OF RECONSTRUCTION AND DEV	1,344,918	55.3%	2.5%
Sector Total	2,433,355	100.0%	4.5%
U.S. Treasury			
UNITED STATES TREASURY	15,603,981	100.0%	29.1%
Sector Total	15,603,981	100.0%	29.1%
Portfolio Total	53,613,288	100.0%	100.0%

Investment Strategy Outlook

- The economic themes of the previous quarter have carried over into 2018: healthy job production, consistent GDP growth, positive corporate guidance, and heightened consumer confidence. However, where complacency had characterized the global markets quarter after quarter, volatility roared back in the first quarter. While rising volatility increases some market risks, it can also create investment opportunities.
- Our outlook for each of the major investment-grade fixed income sectors are as follows:
 - In the corporate sector, our view is that recent yield spread widening represents a modest normalization of spreads off of post-recession lows as opposed to a weakening in fundamentals. As such, wider spreads present an opportunity to selectively add to allocations that have become less expensive. While corporate fundamentals remain healthy and the outlook for the sector is still positive, careful issuer due diligence will drive selection. In particular, we are closely watching the supply/demand impacts of corporate profit repatriation (prompted by the December 2017 tax cuts) and signs of excessive balance sheet leverage in companies in certain industries.
 - Negotiable CDs and asset-backed securities remain attractively priced credit sectors, and we will continue to source new exposure.
 - Federal agency securities remain expensive, as spreads are in the low single digits across much of the yield curve; however, by quarter end, specific agency maturities (2- and 5-year) were more attractively priced, representing an opportunity to potentially increase allocations.
 - The expected spike in supranational issuance is approaching its seasonal slowdown. Over the next few months, this supply dynamic may nudge spreads temporarily wider and offer additional investment opportunities. Our current strategy calls for continuing to add to allocations of supranationals as an attractive alternative to Treasuries and agencies.
 - The short-term credit curve (under one year) steepened noticeably heading into the March Fed meeting and remained elevated through quarter end. With 6-month prime commercial paper and negotiable certificates of deposit spreads at 50 to 60 basis points over comparable Treasury securities, the sector appears very attractive and compensates investors for at least two more fed rate hikes in 2018.

Comparison of Short-Term Yields

Money Market Yield Curves



Source: PFM Trading Desk, Bloomberg, as of 3/31/18. CAMP and LAIF yield as of 3/31/18.

Yield Environment as of March 31, 2018

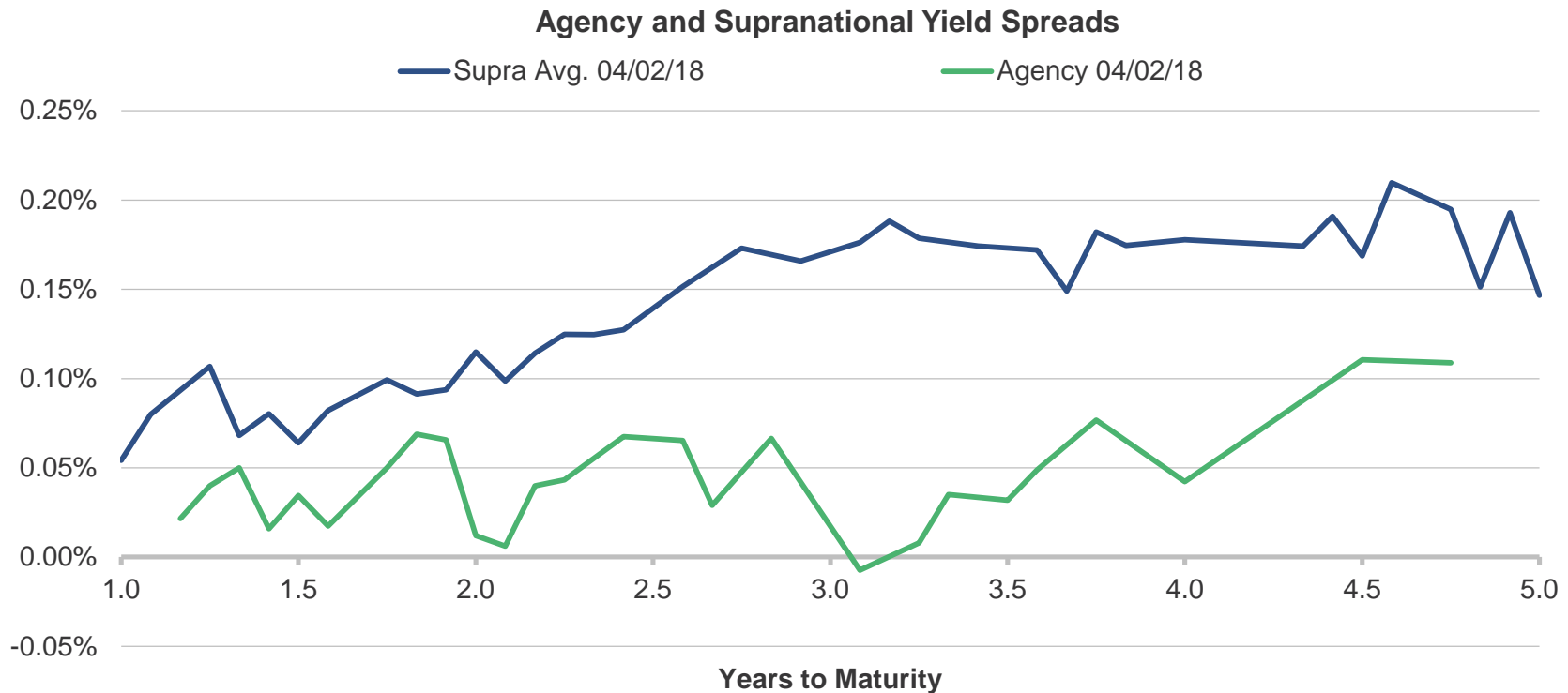
Maturity	Treasury	Federal Agency	AA Corporate	A Corporate
3-Month	1.70%	1.72%	2.11%	2.21%
6-Month	1.91%	1.85%	2.32%	2.39%
1-Year	2.08%	2.06%	2.54%	2.63%
2-Year	2.27%	2.35%	2.66%	2.82%
3-Year	2.38%	2.44%	2.82%	2.99%
5-Year	2.56%	2.66%	3.08%	3.22%

>3%!

Source: Bloomberg BVAL yield curves for Treasury and Corporate. TradeWeb for Federal Agency yields. 3 and 6 month corporate yields from commercial paper; A-1+ for AA and A-1 for A. Yields are for indicative purposes only; actual yields may vary by issue.

Supranationals Continue to Offer Value over Agencies

- Yield spreads for federal agency securities widened modestly in March, but remain narrow by historical standards.
- Supranationals continue to offer incremental value, with spreads of +10 to +20 basis points over agencies of similar maturity. We purchased a 3-year IFC security at a spread of +20 basis points to matched-maturity Treasuries.



Source: Bloomberg, as of 3/31/18, California Gov't Code Section 53601(q) permits investments in International Bank for Reconstruction and Development (World Bank), International Finance Corporation (IFC), and Inter-American Development Bank (IADB).

Transactions & Account Holdings

Quarterly Portfolio Transactions

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
BUY									
1/2/18	1/4/18	1,500,000	912828N89	US TREASURY NOTES	1.37%	1/31/21	1,478,799.25	2.05%	
1/3/18	1/8/18	205,000	24422ETZ2	JOHN DEERE CAPITAL CORP NOTES	2.35%	1/8/21	204,893.40	2.37%	
2/7/18	2/8/18	550,000	22549LFR1	CREDIT SUISSE NEW YORK CERT DEPOS	2.67%	2/7/20	550,000.00	2.67%	
2/13/18	2/15/18	550,000	61746BEA0	MORGAN STANLEY CORP NOTES	2.50%	4/21/21	545,114.17	3.06%	
2/14/18	2/16/18	75,000	06406FAA1	BANK OF NEW YORK MELLON CORP (CALLABLE)	2.50%	4/15/21	74,654.46	2.93%	
2/20/18	2/22/18	550,000	65590ASN7	NORDEA BANK AB NY CD	2.72%	2/20/20	550,000.00	2.72%	
2/21/18	2/26/18	230,000	63743HER9	NATIONAL RURAL UTIL COOP	2.90%	3/15/21	229,744.70	2.94%	
2/21/18	2/28/18	130,000	47788CAC6	JDOT 2018-A A3	2.66%	4/16/22	129,990.65	2.66%	
2/22/18	2/27/18	190,000	69371RN93	PACCAR FINANCIAL CORP NOTES	2.80%	3/1/21	189,906.90	2.82%	
2/22/18	2/28/18	235,000	43814UAC3	HAROT 2018-1 A3	2.64%	2/15/22	234,969.61	2.65%	
3/2/18	3/6/18	550,000	90275DHG8	UBS AG STAMFORD CT LT CD	2.90%	3/2/20	550,000.00	2.93%	
3/5/18	3/7/18	100,000	0258M0DX4	AMERICAN EXP (CALLABLE) CREDIT CORP NOTE	2.60%	9/14/20	100,393.44	2.95%	
3/5/18	3/7/18	50,000	46625HQJ2	JP MORGAN CHASE & CO CORP NT (CALLABLE)	2.55%	3/1/21	49,370.75	3.01%	
3/8/18	3/13/18	400,000	24422EUD9	JOHN DEERE CAPITAL CORP NOTES	2.87%	3/12/21	399,728.00	2.90%	
3/9/18	3/16/18	550,000	45950VLQ7	INTERNATIONAL FINANCE CORPORATION NOTE	2.63%	3/9/21	549,587.50	2.66%	
3/14/18	3/21/18	305,000	02582JHQ6	AMXCA 2018-1 A	2.67%	10/17/22	304,964.59	2.68%	
3/19/18	3/22/18	550,000	904764AZ0	UNILEVER CAPITAL CORP NOTES	2.75%	3/22/21	547,189.50	2.93%	
3/27/18	3/29/18	195,000	40428HPR7	HSBC USA INC NOTES	2.35%	3/5/20	192,821.20	3.03%	
Total BUY		6,915,000					6,882,128.12		

INTEREST

1/2/18	1/2/18	0	MONEY0002	MONEY MARKET FUND			52.02		
1/10/18	1/10/18	875,000	86958JHB8	SVENSKA HANDELSBANKEN NY LT CD	1.89%	1/10/19	8,452.50		
1/15/18	1/15/18	90,000	47787XAC1	JOHN DEERE ABS 2017-A A3	1.78%	4/15/21	133.50		

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
1/15/18	1/15/18	145,000	47788BAD6	JOHN DEERE ABS 2017-B A3	1.82%	10/15/21	219.92		
1/15/18	1/15/18	380,000	02007HAC5	ALLY ABS 2017-2 A3	1.78%	8/15/21	563.67		
1/15/18	1/15/18	190,000	02582JHG8	AMERICAN EXPRESS ABS 2017-4 A	1.64%	12/15/21	259.67		
1/15/18	1/15/18	282,716	14314JAB6	CARMAX ABS 2017-1 A2	1.54%	2/15/20	362.82		
1/15/18	1/15/18	305,000	34531EAD8	FORD ABS 2017-A A3	1.67%	6/15/21	424.46		
1/15/18	1/15/18	205,000	44931PAD8	HYUNDAI ABS 2017-A A3	1.76%	8/15/21	300.67		
1/15/18	1/15/18	275,000	65478GAD2	NISSAN ABS 2017-B A3	1.75%	10/15/21	401.04		
1/15/18	1/15/18	120,000	89238MAD0	TOYOTA ABS 2017-A A3	1.73%	2/15/21	173.00		
1/15/18	1/15/18	100,000	02007PAC7	ALLY ABS 2017-1 A3	1.70%	6/15/21	141.67		
1/15/18	1/15/18	335,295	12636WAB2	CNH 2017-A A2	1.64%	7/15/20	458.24		
1/15/18	1/15/18	230,000	44932GAD7	HYUNDAI ABS 2017-B A3	1.77%	1/15/22	339.25		
1/15/18	1/15/18	250,000	654747AD6	NISSAN ABS 2017-A A3	1.74%	8/15/21	362.50		
1/15/18	1/15/18	275,000	34532AAD5	FORDO 2017-C A3	2.01%	3/15/22	460.63		
1/15/18	1/15/18	450,000	89190BAD0	TOYOTA ABS 2017-B A3	1.76%	7/15/21	660.00		
1/15/18	1/15/18	175,000	14314RAH5	CARMX 2017-4 A2A	1.80%	4/15/21	262.50		
1/17/18	1/17/18	450,000	17305EGA7	CITIBANK ABS 2017-A2 A2	1.74%	1/17/21	3,915.00		
1/18/18	1/18/18	140,000	43814PAC4	HAROT 2017-3 A3	1.79%	9/18/21	208.83		
1/19/18	1/19/18	950,000	3137EAEB1	FHLMC REFERENCE NOTE	0.87%	7/19/19	4,156.25		
1/19/18	1/19/18	400,000	3137EAEB1	FHLMC REFERENCE NOTE	0.87%	7/19/19	1,750.00		
1/20/18	1/20/18	230,000	02665WBT7	AMERICAN HONDA FINANCE CORP NOTES	1.95%	7/20/20	2,242.50		
1/21/18	1/21/18	220,000	43814TAC6	HONDA ABS 2017-1 A3	1.72%	7/21/21	315.33		
1/23/18	1/23/18	500,000	46625HKA7	JPMORGAN CHASE & CO (CALLABLE)	2.25%	1/23/20	5,625.00		
1/23/18	1/23/18	200,000	38141GWP5	GOLDMAN SACHS GROUP INC CORP NOTE	1.95%	7/23/19	1,939.17		
1/30/18	1/30/18	1,075,000	3135G0T60	FNMA NOTES	1.50%	7/30/20	8,017.71		
1/31/18	1/31/18	1,300,000	912828H52	US TREASURY NOTES	1.25%	1/31/20	8,125.00		
1/31/18	1/31/18	950,000	912828XM7	US TREASURY NOTES	1.62%	7/31/20	7,718.75		
1/31/18	1/31/18	1,500,000	912828N89	US TREASURY NOTES	1.37%	1/31/21	10,312.50		
2/1/18	2/1/18	100,000	05531FAZ6	BRANCH BANKING & TRUST (CALLABLE) NOTES	2.15%	2/1/21	567.36		
2/1/18	2/1/18	0	MONEY0002	MONEY MARKET FUND			72.72		
2/2/18	2/2/18	1,000,000	3135G0N33	FNMA BENCHMARK NOTE	0.87%	8/2/19	4,375.00		

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
2/2/18	2/2/18	1,075,000	83050FXT3	SKANDINAV ENSKILDA BANKEN NY CD	1.84%	8/2/19	9,999.89		
2/6/18	2/6/18	215,000	594918BV5	MICROSOFT CORP NOTES	1.85%	2/6/20	1,988.75		
2/7/18	2/7/18	875,000	06427KRC3	BANK OF MONTREAL CHICAGO CERT DEPOS	1.88%	2/7/19	8,225.00		
2/7/18	2/7/18	965,000	96121T4A3	WESTPAC BANKING CORP NY CD	2.05%	8/3/20	9,891.25		
2/12/18	2/12/18	350,000	459200HT1	IBM CORP NOTE	1.95%	2/12/19	3,412.50		
2/15/18	2/15/18	380,000	02007HAC5	ALLY ABS 2017-2 A3	1.78%	8/15/21	563.67		
2/15/18	2/15/18	305,000	34531EAD8	FORD ABS 2017-A A3	1.67%	6/15/21	424.46		
2/15/18	2/15/18	190,000	02582JHG8	AMERICAN EXPRESS ABS 2017-4 A	1.64%	12/15/21	259.67		
2/15/18	2/15/18	254,821	14314JAB6	CARMAX ABS 2017-1 A2	1.54%	2/15/20	327.02		
2/15/18	2/15/18	275,000	34532AAD5	FORDO 2017-C A3	2.01%	3/15/22	460.63		
2/15/18	2/15/18	230,000	44932GAD7	HYUNDAI ABS 2017-B A3	1.77%	1/15/22	339.25		
2/15/18	2/15/18	272,128	12636WAB2	CNH 2017-A A2	1.64%	7/15/20	371.91		
2/15/18	2/15/18	175,000	14314RAH5	CARMX 2017-4 A2A	1.80%	4/15/21	262.50		
2/15/18	2/15/18	145,000	47788BAD6	JOHN DEERE ABS 2017-B A3	1.82%	10/15/21	219.92		
2/15/18	2/15/18	250,000	654747AD6	NISSAN ABS 2017-A A3	1.74%	8/15/21	362.50		
2/15/18	2/15/18	275,000	65478GAD2	NISSAN ABS 2017-B A3	1.75%	10/15/21	401.04		
2/15/18	2/15/18	450,000	89190BAD0	TOYOTA ABS 2017-B A3	1.76%	7/15/21	660.00		
2/15/18	2/15/18	100,000	02007PAC7	ALLY ABS 2017-1 A3	1.70%	6/15/21	141.67		
2/15/18	2/15/18	205,000	44931PAD8	HYUNDAI ABS 2017-A A3	1.76%	8/15/21	300.67		
2/15/18	2/15/18	120,000	89238MAD0	TOYOTA ABS 2017-A A3	1.73%	2/15/21	173.00		
2/15/18	2/15/18	90,000	47787XAC1	JOHN DEERE ABS 2017-A A3	1.78%	4/15/21	133.50		
2/18/18	2/18/18	140,000	43814PAC4	HAROT 2017-3 A3	1.79%	9/18/21	208.83		
2/21/18	2/21/18	220,000	43814TAC6	HONDA ABS 2017-1 A3	1.72%	7/21/21	315.33		
2/24/18	2/24/18	475,000	06406HCZ0	BNY MELLON (CALLABLE) CORP NOTE	2.15%	2/24/20	5,106.25		
2/26/18	2/26/18	950,000	3135G0J53	FNMA BENCHMARK NOTE	1.00%	2/26/19	4,750.00		
2/28/18	2/28/18	600,000	3135G0T29	FNMA NOTES	1.50%	2/28/20	4,500.00		
2/28/18	2/28/18	275,000	912828J50	US TREASURY NOTES	1.37%	2/29/20	1,890.63		
2/28/18	2/28/18	1,175,000	3135G0P49	FNMA NOTES	1.00%	8/28/19	5,875.00		
2/28/18	2/28/18	50,000	912828J50	US TREASURY NOTES	1.37%	2/29/20	343.75		
3/1/18	3/1/18	0	MONEY0002	MONEY MARKET FUND			117.10		

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
3/3/18	3/3/18	325,000	166764BP4	CHEVRON CORP NOTES	1.99%	3/3/20	3,235.38		
3/4/18	3/4/18	90,000	25468PDP8	WALT DISNEY COMPANY CORP NOTES	1.95%	3/4/20	877.50		
3/4/18	3/4/18	410,000	14913Q2A6	CATERPILLAR FINL SERVICE NOTE	1.85%	9/4/20	3,729.29		
3/4/18	3/4/18	275,000	459058GA5	INTL BANK OF RECON AND DEV GLOBAL NOTES	1.62%	9/4/20	2,296.25		
3/6/18	3/6/18	275,000	30231GAG7	EXXON MOBIL (CALLABLE) CORP NOTE	1.91%	3/6/20	2,629.00		
3/6/18	3/6/18	475,000	44932HAA1	IBM CREDIT CORP NOTE	1.62%	9/6/19	3,816.49		
3/12/18	3/12/18	550,000	45905UP32	INTL BANK OF RECONSTRUCTION AND DEV NOTE	1.56%	9/12/20	4,125.00		
3/14/18	3/14/18	100,000	0258M0DX4	AMERICAN EXP (CALLABLE) CREDIT CORP NOTE	2.60%	9/14/20	1,300.00		
3/15/18	3/15/18	175,000	14314RAH5	CARMX 2017-4 A2A	1.80%	4/15/21	262.50		
3/15/18	3/15/18	145,000	47788BAD6	JOHN DEERE ABS 2017-B A3	1.82%	10/15/21	219.92		
3/15/18	3/15/18	250,000	654747AD6	NISSAN ABS 2017-A A3	1.74%	8/15/21	362.50		
3/15/18	3/15/18	230,212	12636WAB2	CNH 2017-A A2	1.64%	7/15/20	314.62		
3/15/18	3/15/18	100,000	02007PAC7	ALLY ABS 2017-1 A3	1.70%	6/15/21	141.67		
3/15/18	3/15/18	450,000	89190BAD0	TOYOTA ABS 2017-B A3	1.76%	7/15/21	660.00		
3/15/18	3/15/18	380,000	02007HAC5	ALLY ABS 2017-2 A3	1.78%	8/15/21	563.67		
3/15/18	3/15/18	190,000	02582JHG8	AMERICAN EXPRESS ABS 2017-4 A	1.64%	12/15/21	259.67		
3/15/18	3/15/18	120,000	89238MAD0	TOYOTA ABS 2017-A A3	1.73%	2/15/21	173.00		
3/15/18	3/15/18	275,000	34532AAD5	FORDO 2017-C A3	2.01%	3/15/22	460.63		
3/15/18	3/15/18	90,000	47787XAC1	JOHN DEERE ABS 2017-A A3	1.78%	4/15/21	133.50		
3/15/18	3/15/18	235,000	43814UAC3	HAROT 2018-1 A3	2.64%	2/15/22	258.50		
3/15/18	3/15/18	305,000	34531EAD8	FORD ABS 2017-A A3	1.67%	6/15/21	424.46		
3/15/18	3/15/18	205,000	44931PAD8	HYUNDAI ABS 2017-A A3	1.76%	8/15/21	300.67		
3/15/18	3/15/18	230,000	44932GAD7	HYUNDAI ABS 2017-B A3	1.77%	1/15/22	339.25		
3/15/18	3/15/18	225,926	14314JAB6	CARMAX ABS 2017-1 A2	1.54%	2/15/20	289.94		
3/15/18	3/15/18	275,000	65478GAD2	NISSAN ABS 2017-B A3	1.75%	10/15/21	401.04		
3/18/18	3/18/18	140,000	43814PAC4	HAROT 2017-3 A3	1.79%	9/18/21	208.83		
3/20/18	3/20/18	200,000	17305EGH2	CCCIT 2017-A9 A9	1.80%	9/20/21	1,680.00		
3/20/18	3/20/18	200,000	17275RBG6	CISCO SYSTEMS INC CORP NOTES	1.40%	9/20/19	1,400.00		
3/21/18	3/21/18	220,000	43814TAC6	HONDA ABS 2017-1 A3	1.72%	7/21/21	315.33		
3/26/18	3/26/18	825,000	3130A9EP2	FHLB GLOBAL NOTES	1.00%	9/26/19	4,125.00		

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
3/31/18	3/31/18	840,000	912828SN1	US TREASURY NOTES	1.50%	3/31/19	6,300.00		
Total INTEREST							33,586,097	176,998.48	

PAYDOWNS

1/15/18	1/15/18	63,166	12636WAB2	CNH 2017-A A2	1.64%	7/15/20	63,166.25		0.00
1/15/18	1/15/18	27,895	14314JAB6	CARMAX ABS 2017-1 A2	1.54%	2/15/20	27,894.67		0.00
2/15/18	2/15/18	41,917	12636WAB2	CNH 2017-A A2	1.64%	7/15/20	41,916.59		0.00
2/15/18	2/15/18	28,895	14314JAB6	CARMAX ABS 2017-1 A2	1.54%	2/15/20	28,895.17		0.00
3/15/18	3/15/18	13,010	12636WAB2	CNH 2017-A A2	1.64%	7/15/20	13,009.63		0.00
3/15/18	3/15/18	28,282	14314JAB6	CARMAX ABS 2017-1 A2	1.54%	2/15/20	28,282.34		0.00
Total PAYDOWNS							203,165	203,164.65	0.00

SELL

1/2/18	1/4/18	425,000	912828A34	US TREASURY NOTES	1.25%	11/30/18	423,419.02	1.80%	(3,680.15)
1/2/18	1/4/18	950,000	912828A34	US TREASURY NOTES	1.25%	11/30/18	946,466.04	1.80%	(5,253.89)
1/3/18	1/8/18	200,000	912828A34	US TREASURY NOTES	1.25%	11/30/18	199,314.74	1.79%	(1,691.51)
2/7/18	2/8/18	325,000	89113WWJ1	TORONTO DOMINION BANK NY CERT DEPOS	1.48%	3/14/18	329,803.77	1.44%	(59.67)
2/7/18	2/8/18	75,000	912828A34	US TREASURY NOTES	1.25%	11/30/18	74,796.50	1.89%	(634.34)
2/13/18	2/15/18	550,000	3135G0G72	FNMA NOTES	1.12%	12/14/18	547,132.44	1.99%	(4,927.79)
2/14/18	2/16/18	75,000	912828A34	US TREASURY NOTES	1.25%	11/30/18	74,787.80	1.96%	(656.84)
2/20/18	2/22/18	550,000	65558LWA6	NORDEA BANK FINLAND NY CD	1.76%	11/30/18	550,460.17	2.16%	(1,798.50)
2/22/18	2/26/18	575,000	912828A34	US TREASURY NOTES	1.25%	11/30/18	573,570.65	1.98%	(4,970.55)
2/27/18	2/28/18	150,000	912828A75	US TREASURY NOTES	1.50%	12/31/18	149,722.18	2.02%	(995.51)
2/27/18	2/28/18	50,000	912828A34	US TREASURY NOTES	1.25%	11/30/18	49,886.95	1.97%	(423.28)
3/2/18	3/6/18	400,000	912828A75	US TREASURY NOTES	1.50%	12/31/18	399,342.98	2.03%	(2,651.84)
3/5/18	3/7/18	150,000	912828A75	US TREASURY NOTES	1.50%	12/31/18	149,765.69	2.03%	(987.43)

Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield at Market	Realized G/L (BV)
3/8/18	3/13/18	75,000	3135G0J53	FNMA BENCHMARK NOTE	1.00%	2/26/19	74,227.67	2.15%	(751.07)
3/8/18	3/13/18	325,000	912828A75	US TREASURY NOTES	1.50%	12/31/18	324,547.74	2.05%	(2,149.81)
3/9/18	3/16/18	500,000	3135G0J53	FNMA BENCHMARK NOTE	1.00%	2/26/19	494,947.78	2.15%	(4,955.44)
3/14/18	3/21/18	300,000	3135G0J53	FNMA BENCHMARK NOTE	1.00%	2/26/19	297,061.33	2.14%	(2,925.56)
3/19/18	3/22/18	75,000	3135G0J53	FNMA BENCHMARK NOTE	1.00%	2/26/19	74,248.67	2.18%	(750.30)
3/19/18	3/22/18	300,000	912828C65	US TREASURY NOTES	1.62%	3/31/19	300,734.93	2.15%	(3,335.45)
3/19/18	3/22/18	175,000	912828SN1	US TREASURY NOTES	1.50%	3/31/19	175,112.83	2.14%	(1,403.03)
3/27/18	3/29/18	190,000	912828H52	US TREASURY NOTES	1.25%	1/31/20	186,945.05	2.26%	(2,512.51)
Total SELL		6,415,000					6,396,294.93		-47,514.47



Managed Account Detail of Securities Held

For the Month Ending **March 31, 2018**

CITY OF LOS ALTOS INVESTMENT PORTFOLIO

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
U.S. Treasury Bond / Note											
US TREASURY NOTES DTD 04/02/2012 1.500% 03/31/2019	912828SN1	840,000.00	AA+	Aaa	03/02/17	03/02/17	842,592.19	1.35	34.43	841,253.44	834,782.76
US TREASURY NOTES DTD 04/30/2014 1.625% 04/30/2019	912828D23	1,060,000.00	AA+	Aaa	11/10/16	11/14/16	1,074,492.19	1.06	7,232.60	1,066,405.81	1,053,996.16
US TREASURY NOTES DTD 04/30/2014 1.625% 04/30/2019	912828D23	1,285,000.00	AA+	Aaa	06/27/16	06/29/16	1,318,329.69	0.70	8,767.82	1,297,767.66	1,277,721.76
US TREASURY NOTES DTD 10/31/2014 1.500% 10/31/2019	912828F62	125,000.00	AA+	Aaa	03/02/17	03/02/17	124,916.99	1.53	787.29	124,950.82	123,540.00
US TREASURY NOTES DTD 12/01/2014 1.500% 11/30/2019	912828G61	2,360,000.00	AA+	Aaa	12/01/16	12/05/16	2,363,687.50	1.45	11,864.84	2,362,075.81	2,330,960.20
US TREASURY NOTES DTD 02/02/2015 1.250% 01/31/2020	912828H52	1,110,000.00	AA+	Aaa	01/03/17	01/05/17	1,101,154.69	1.52	2,299.72	1,104,670.10	1,089,621.51
US TREASURY NOTES DTD 03/02/2015 1.375% 02/29/2020	912828J50	50,000.00	AA+	Aaa	02/01/17	02/03/17	49,697.27	1.58	59.78	49,809.71	49,150.40
US TREASURY NOTES DTD 03/02/2015 1.375% 02/29/2020	912828J50	275,000.00	AA+	Aaa	08/31/17	09/01/17	274,989.26	1.38	328.80	274,991.77	270,327.20
US TREASURY NOTES DTD 04/30/2015 1.375% 04/30/2020	912828K58	2,000,000.00	AA+	Aaa	07/13/17	07/13/17	1,992,109.38	1.52	11,546.96	1,994,114.06	1,961,640.00
US TREASURY NOTES DTD 06/01/2015 1.500% 05/31/2020	912828XE5	725,000.00	AA+	Aaa	10/04/17	10/05/17	723,442.38	1.58	3,644.92	723,728.10	712,369.05
US TREASURY NOTES DTD 06/30/2015 1.625% 06/30/2020	912828XH8	2,200,000.00	AA+	Aaa	06/26/17	06/28/17	2,207,906.25	1.50	8,986.88	2,205,947.88	2,165,968.20
US TREASURY NOTES DTD 07/31/2015 1.625% 07/31/2020	912828XM7	950,000.00	AA+	Aaa	07/05/17	07/07/17	950,593.75	1.60	2,558.70	950,457.26	934,747.75
US TREASURY NOTES DTD 11/30/2015 1.625% 11/30/2020	912828M98	565,000.00	AA+	Aaa	11/01/17	11/03/17	562,550.19	1.77	3,077.23	562,871.11	554,097.20
US TREASURY N/B DTD 12/31/2015 1.750% 12/31/2020	912828N48	800,000.00	AA+	Aaa	12/01/17	12/05/17	796,187.50	1.91	3,519.34	796,581.32	786,718.40



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CITY OF LOS ALTOS INVESTMENT PORTFOLIO

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
U.S. Treasury Bond / Note											
US TREASURY NOTES DTD 01/31/2016 1.375% 01/31/2021	912828N89	1,500,000.00	AA+	Aaa	01/02/18	01/04/18	1,470,000.00	2.05	3,418.51	1,472,278.68	1,458,340.50
Security Type Sub-Total		15,845,000.00					15,852,649.23	1.48	68,127.82	15,827,903.53	15,603,981.09
Supra-National Agency Bond / Note											
INTL BANK OF RECON AND DEV GLOBAL NOTES DTD 10/27/2016 1.125% 11/27/2019	459058FS7	550,000.00	AAA	Aaa	08/28/17	08/30/17	545,308.50	1.51	2,131.25	546,522.88	539,116.60
INTL BANK OF RECON AND DEV GLOBAL NOTES DTD 08/29/2017 1.625% 09/04/2020	459058GA5	275,000.00	AAA	Aaa	08/22/17	08/29/17	274,942.25	1.63	335.16	274,953.53	269,399.90
INTL BANK OF RECONSTRUCTION AND DEV NOTE DTD 09/19/2017 1.561% 09/12/2020	45905UP32	550,000.00	AAA	Aaa	09/12/17	09/19/17	548,680.00	1.64	453.12	548,911.04	536,401.25
INTER-AMERICAN DEVELOPMENT BANK DTD 11/08/2013 2.125% 11/09/2020	4581X0CD8	545,000.00	AAA	Aaa	10/02/17	10/10/17	550,051.66	1.81	4,568.16	549,293.34	540,427.45
INTERNATIONAL FINANCE CORPORATION NOTE DTD 03/16/2018 2.635% 03/09/2021	45950VLQ7	550,000.00	AAA	Aaa	03/09/18	03/16/18	549,587.50	2.66	603.85	549,592.95	548,009.55
Security Type Sub-Total		2,470,000.00					2,468,569.91	1.88	8,091.54	2,469,273.74	2,433,354.75
Federal Agency Bond / Note											
FREDDIE MAC NOTES DTD 03/21/2016 1.125% 04/15/2019	3137EADZ9	325,000.00	AA+	Aaa	05/26/16	05/31/16	325,250.25	1.10	1,685.94	325,091.76	321,538.43
FREDDIE MAC NOTES DTD 03/21/2016 1.125% 04/15/2019	3137EADZ9	450,000.00	AA+	Aaa	03/29/16	03/29/16	450,301.50	1.10	2,334.38	450,103.84	445,207.05
FHLB GLOBAL NOTE DTD 06/03/2016 1.125% 06/21/2019	3130A8DB6	775,000.00	AA+	Aaa	06/02/16	06/03/16	774,674.50	1.14	2,421.88	774,867.79	765,105.58



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Federal Agency Bond / Note											
FHLMC REFERENCE NOTE DTD 07/20/2016 0.875% 07/19/2019	3137EAEB1	400,000.00	AA+	Aaa	09/01/16	09/02/16	398,076.00	1.04	700.00	399,125.11	393,130.00
FHLMC REFERENCE NOTE DTD 07/20/2016 0.875% 07/19/2019	3137EAEB1	950,000.00	AA+	Aaa	07/19/16	07/20/16	947,701.00	0.96	1,662.50	948,994.96	933,683.75
FNMA BENCHMARK NOTE DTD 08/02/2016 0.875% 08/02/2019	3135G0N33	1,000,000.00	AA+	Aaa	07/29/16	08/02/16	998,320.00	0.93	1,434.03	999,246.13	982,016.00
FNMA NOTES DTD 09/02/2016 1.000% 08/28/2019	3135G0P49	1,175,000.00	AA+	Aaa	08/31/16	09/02/16	1,173,167.00	1.05	1,077.08	1,174,129.10	1,155,504.40
FHLB GLOBAL NOTES DTD 09/09/2016 1.000% 09/26/2019	3130A9EP2	825,000.00	AA+	Aaa	10/03/16	10/05/16	824,711.25	1.01	114.58	824,854.93	810,051.83
FEDERAL HOME LOAN BANK NOTES DTD 10/13/2017 1.500% 10/21/2019	3130ACM92	1,075,000.00	AA+	Aaa	10/12/17	10/13/17	1,073,097.25	1.59	7,525.00	1,073,532.13	1,062,625.68
FNMA NOTES DTD 02/28/2017 1.500% 02/28/2020	3135G0T29	600,000.00	AA+	Aaa	02/24/17	02/28/17	599,616.00	1.52	825.00	599,753.75	590,943.60
FNMA NOTES DTD 08/01/2017 1.500% 07/30/2020	3135G0T60	1,075,000.00	AA+	Aaa	08/31/17	09/01/17	1,075,279.50	1.49	2,732.29	1,075,227.67	1,053,449.48
Security Type Sub-Total		8,650,000.00					8,640,194.25	1.19	22,512.68	8,644,927.17	8,513,255.80
Corporate Note											
IBM CORP NOTE DTD 02/12/2014 1.950% 02/12/2019	459200HT1	350,000.00	A+	A1	02/17/16	02/22/16	353,307.50	1.62	928.96	350,977.54	347,961.25
PEPSICO INC CORP NOTE DTD 05/02/2017 1.550% 05/02/2019	713448DR6	235,000.00	A+	A1	04/27/17	05/02/17	234,823.75	1.59	1,507.59	234,903.62	232,755.28
PFIZER INC CORP NOTES DTD 06/03/2016 1.450% 06/03/2019	717081DU4	375,000.00	AA	A1	06/03/16	06/08/16	376,106.25	1.35	1,782.29	375,439.53	370,749.75
GOLDMAN SACHS GROUP INC CORP NOTE DTD 07/24/2017 1.950% 07/23/2019	38141GWP5	200,000.00	BBB+	A3	07/19/17	07/24/17	199,976.00	1.96	736.67	199,984.11	197,769.80
IBM CREDIT CORP NOTE DTD 09/08/2017 1.625% 09/06/2019	44932HAA1	475,000.00	A+	A1	09/05/17	09/08/17	474,639.00	1.66	536.02	474,739.78	468,619.80



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Corporate Note											
CISCO SYSTEMS INC CORP NOTES DTD 09/20/2016 1.400% 09/20/2019	17275RBG6	200,000.00	AA-	A1	09/20/16	09/23/16	200,216.00	1.36	85.56	200,107.22	196,803.20
WAL-MART STORES INC CORP NOTE DTD 10/20/2017 1.750% 10/09/2019	931142DY6	255,000.00	AA	Aa2	10/11/17	10/20/17	254,994.90	1.75	1,995.73	254,995.64	252,258.50
HONEYWELL INTERNATIONAL CORP NOTES DTD 10/30/2017 1.800% 10/30/2019	438516B08	150,000.00	A	A2	10/23/17	10/30/17	149,883.00	1.84	1,132.50	149,907.20	148,028.25
AMERICAN EXPRESS CREDIT (CALLABLE) CORP DTD 10/31/2016 1.700% 10/30/2019	0258M0EC9	450,000.00	A-	A2	01/31/17	02/03/17	446,580.00	1.99	3,208.75	448,008.97	442,228.95
AMERICAN HONDA FINANCE DTD 11/16/2017 2.000% 11/13/2019	02665WBZ3	325,000.00	A+	A2	11/13/17	11/16/17	324,818.00	2.03	2,437.50	324,851.60	321,786.73
JPMORGAN CHASE & CO (CALLABLE) DTD 01/23/2015 2.250% 01/23/2020	46625HKA7	500,000.00	A-	A3	06/15/17	06/20/17	501,885.00	2.10	2,125.00	501,312.78	493,924.50
MICROSOFT CORP NOTES DTD 02/06/2017 1.850% 02/06/2020	594918BV5	215,000.00	AAA	Aaa	01/30/17	02/06/17	214,855.95	1.87	607.67	214,910.38	212,856.02
BNY MELLON (CALLABLE) CORP NOTE DTD 02/24/2015 2.150% 02/24/2020	06406HCZ0	475,000.00	A	A1	03/29/17	03/30/17	476,695.75	2.02	1,049.62	476,106.67	468,681.55
CHEVRON CORP NOTES DTD 03/03/2017 1.991% 03/03/2020	166764BP4	325,000.00	AA-	Aa2	02/28/17	03/03/17	325,000.00	1.99	503.28	325,000.00	321,326.53
WALT DISNEY COMPANY CORP NOTES DTD 03/06/2017 1.950% 03/04/2020	25468PDP8	90,000.00	A+	A2	03/01/17	03/06/17	89,976.60	1.96	131.63	89,984.77	88,730.19
HSBC USA INC NOTES DTD 03/05/2015 2.350% 03/05/2020	40428HPR7	195,000.00	A	A2	03/27/18	03/29/18	192,515.70	3.03	330.96	192,522.70	192,446.28
EXXON MOBIL (CALLABLE) CORP NOTE DTD 03/06/2015 1.912% 03/06/2020	30231GAG7	275,000.00	AA+	Aaa	08/14/17	08/15/17	276,394.25	1.71	365.14	276,047.22	271,087.85
TOYOTA MOTOR CREDIT CORP (CALLABLE) DTD 04/17/2017 1.950% 04/17/2020	89236TDU6	150,000.00	AA-	Aa3	04/12/17	04/17/17	150,045.00	1.94	1,332.50	150,030.95	147,530.25
TOYOTA MOTOR CREDIT CORP (CALLABLE) DTD 04/17/2017 1.950% 04/17/2020	89236TDU6	325,000.00	AA-	Aa3	04/11/17	04/17/17	324,850.50	1.97	2,887.08	324,897.18	319,648.88



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Corporate Note											
GOLDMAN SACHS GROUP INC CORP NOTES DTD 01/23/2015 2.600% 04/23/2020	38148LAA4	350,000.00	BBB+	A3	11/01/17	11/03/17	352,639.00	2.28	3,993.89	352,211.02	346,746.05
APPLE INC BONDS DTD 05/11/2017 1.800% 05/11/2020	037833CS7	220,000.00	AA+	Aa1	05/04/17	05/11/17	219,775.60	1.84	1,540.00	219,840.84	216,459.10
INTEL CORP NOTES DTD 05/11/2017 1.850% 05/11/2020	458140AZ3	250,000.00	A+	A1	05/08/17	05/11/17	249,905.00	1.86	1,798.61	249,932.61	246,080.50
HOME DEPOT INC CORP NOTES DTD 06/05/2017 1.800% 06/05/2020	437076BQ4	235,000.00	A	A2	05/24/17	06/05/17	234,863.70	1.82	1,363.00	234,900.35	230,848.73
WALT DISNEY COMPANY CORP NOTES DTD 06/06/2017 1.800% 06/05/2020	25468PDU7	500,000.00	A+	A2	06/01/17	06/06/17	499,420.00	1.84	2,900.00	499,575.44	489,891.00
JOHN DEERE CAPITAL CORP NOTES DTD 06/22/2017 1.950% 06/22/2020	24422ETS8	100,000.00	A	A2	06/19/17	06/22/17	99,939.00	1.97	536.25	99,954.43	98,092.80
BRANCH BANKING & TRUST (CALLABLE) CORP DTD 06/29/2015 2.625% 06/29/2020	05531FAU7	450,000.00	A-	A2	03/17/17	03/22/17	454,144.50	2.33	3,018.75	452,850.68	446,230.35
AMERICAN HONDA FINANCE CORP NOTES DTD 07/20/2017 1.950% 07/20/2020	02665WBT7	230,000.00	A+	A2	07/17/17	07/20/17	229,767.70	1.98	884.54	229,820.51	225,080.76
CATERPILLAR FINL SERVICE NOTE DTD 09/07/2017 1.850% 09/04/2020	14913O2A6	410,000.00	A	A3	09/05/17	09/07/17	409,655.60	1.88	568.88	409,719.16	400,276.03
AMERICAN EXP (CALLABLE) CREDIT CORP NOTE DTD 09/14/2015 2.600% 09/14/2020	0258M0DX4	100,000.00	A-	A2	03/05/18	03/07/18	99,144.00	2.95	122.78	99,166.30	98,870.40
JOHNSON & JOHNSON CORP NOTE DTD 11/10/2017 1.950% 11/10/2020	478160CH5	115,000.00	AAA	Aaa	11/08/17	11/10/17	114,876.95	1.99	878.31	114,892.62	113,126.19
PACCAR FINANCIAL CORP NOTES DTD 11/13/2017 2.050% 11/13/2020	69371RN85	155,000.00	A+	A1	11/06/17	11/13/17	154,986.05	2.05	1,218.04	154,987.79	151,898.45
APPLE INC DTD 11/13/2017 2.000% 11/13/2020	037833DJ6	330,000.00	AA+	Aa1	11/06/17	11/13/17	329,722.80	2.03	2,530.00	329,757.33	324,254.37



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Corporate Note											
VISA INC (CALLABLE) CORP NOTES DTD 12/14/2015 2.200% 12/14/2020	92826CAB8	150,000.00	A+	A1	08/25/17	08/30/17	151,650.00	1.85	980.83	151,356.95	147,630.00
JOHN DEERE CAPITAL CORP NOTES DTD 01/08/2018 2.350% 01/08/2021	24422ETZ2	205,000.00	A	A2	01/03/18	01/08/18	204,893.40	2.37	1,110.70	204,901.35	201,808.36
BRANCH BANKING & TRUST (CALLABLE) NOTES DTD 10/26/2017 2.150% 02/01/2021	05531FAZ6	100,000.00	A-	A2	11/16/17	11/20/17	99,480.00	2.32	358.33	99,536.64	97,471.60
JP MORGAN CHASE & CO CORP NT (CALLABLE) DTD 03/01/2016 2.550% 03/01/2021	46625HOJ2	50,000.00	A-	A3	03/05/18	03/07/18	49,349.50	3.01	106.25	49,363.52	49,197.10
PACCAR FINANCIAL CORP NOTES DTD 02/27/2018 2.800% 03/01/2021	69371RN93	190,000.00	A+	A1	02/22/18	02/27/18	189,906.90	2.82	502.44	189,909.78	189,324.55
JOHN DEERE CAPITAL CORP NOTES DTD 03/13/2018 2.875% 03/12/2021	24422EUD9	400,000.00	A	A2	03/08/18	03/13/18	399,728.00	2.90	575.00	399,732.36	398,923.20
NATIONAL RURAL UTIL COOP DTD 02/26/2018 2.900% 03/15/2021	63743HER9	230,000.00	A	A2	02/21/18	02/26/18	229,744.70	2.94	648.47	229,752.94	229,365.89
UNILEVER CAPITAL CORP NOTES DTD 03/22/2018 2.750% 03/22/2021	904764AZ0	550,000.00	A+	A1	03/19/18	03/22/18	547,189.50	2.93	378.13	547,212.08	548,642.60
UNITED PARCEL SERVICE CORPORATE BOND DTD 11/14/2017 2.050% 04/01/2021	911312BP0	320,000.00	A+	A1	11/09/17	11/14/17	319,494.40	2.10	2,496.44	319,546.80	312,970.24
BANK OF NEW YORK MELLON CORP (CALLABLE) DTD 02/19/2016 2.500% 04/15/2021	06406FAA1	75,000.00	A	A1	02/14/18	02/16/18	74,024.25	2.93	864.58	74,062.23	73,538.70
MORGAN STANLEY CORP NOTES DTD 04/21/2016 2.500% 04/21/2021	61746BEA0	550,000.00	BBB+	A3	02/13/18	02/15/18	540,760.00	3.06	6,111.11	541,122.24	538,908.70
BANK OF AMERICA CORP (CALLABLE) DTD 09/18/2017 2.328% 10/01/2021	06051GGS2	550,000.00	A-	A3	11/27/17	11/29/17	547,409.50	2.46	6,864.37	547,639.83	537,835.65
Security Type Sub-Total		12,380,000.00					12,370,033.20	2.14	66,034.15	12,366,473.66	12,208,664.88

PFM Asset Management LLC



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Certificate of Deposit											
NORDEA BANK FINLAND NY CD DTD 12/05/2016 1.760% 11/30/2018	65558LWA6	325,000.00	A-1+	P-1	12/01/16	12/05/16	325,000.00	1.74	1,938.44	325,000.00	324,740.65
CANADIAN IMPERIAL BANK NY CD DTD 12/05/2016 1.760% 11/30/2018	13606A5Z7	875,000.00	A-1	P-1	12/01/16	12/05/16	874,317.50	1.78	5,176.11	874,771.25	872,558.75
SVENSKA HANDELSBANKEN NY LT CD DTD 01/12/2017 1.890% 01/10/2019	86958JHB8	875,000.00	A-1+	P-1	01/10/17	01/12/17	875,000.00	1.91	3,720.94	875,000.00	870,698.50
BANK OF MONTREAL CHICAGO CERT DEPOS DTD 02/09/2017 1.880% 02/07/2019	06427KRC3	875,000.00	A-1	P-1	02/08/17	02/09/17	875,000.00	1.90	2,467.50	875,000.00	874,179.25
BANK OF NOVA SCOTIA HOUSTON LT CD DTD 04/06/2017 1.910% 04/05/2019	06417GUE6	975,000.00	A+	A1	04/05/17	04/06/17	975,000.00	1.91	9,207.79	975,000.00	969,543.90
SUMITOMO MITSUI BANK NY CD DTD 05/04/2017 2.050% 05/03/2019	86563YVNO	975,000.00	A	A1	05/03/17	05/04/17	975,000.00	2.05	8,272.60	975,000.00	971,785.43
SKANDINAV ENSKILDA BANKEN NY CD DTD 08/04/2017 1.840% 08/02/2019	83050FXT3	1,075,000.00	A+	Aa3	08/03/17	08/04/17	1,074,580.75	1.85	3,186.78	1,074,718.96	1,042,437.62
BANK OF TOKYO-MITSUBISHI NY CD DTD 09/27/2017 2.070% 09/25/2019	06539RGM3	550,000.00	A	A1	09/25/17	09/27/17	550,000.00	2.07	5,882.25	550,000.00	544,863.55
CREDIT SUISSE NEW YORK CERT DEPOS DTD 02/08/2018 2.670% 02/07/2020	22549LFR1	550,000.00	A	A1	02/07/18	02/08/18	550,000.00	2.67	2,161.96	550,000.00	551,822.70
NORDEA BANK AB NY CD DTD 02/22/2018 2.720% 02/20/2020	65590ASN7	550,000.00	AA-	Aa3	02/20/18	02/22/18	550,000.00	2.72	1,620.67	550,000.00	548,334.05
UBS AG STAMFORD CT LT CD DTD 03/06/2018 2.900% 03/02/2020	90275DHG8	550,000.00	A+	Aa3	03/02/18	03/06/18	550,000.00	2.93	1,151.94	550,000.00	553,971.55
WESTPAC BANKING CORP NY CD DTD 08/07/2017 2.050% 08/03/2020	96121T4A3	965,000.00	AA-	Aa3	08/03/17	08/07/17	965,000.00	2.05	2,967.38	965,000.00	953,354.38
SWEDBANK (NEW YORK) CERT DEPOS DTD 11/17/2017 2.270% 11/16/2020	87019U6D6	550,000.00	AA-	Aa3	11/16/17	11/17/17	550,000.00	2.30	4,681.88	550,000.00	541,106.50
Security Type Sub-Total		9,690,000.00					9,688,898.25	2.09	52,436.24	9,689,490.21	9,619,396.83



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Asset-Backed Security / Collateralized Mortgage Obligation												
CARMAX ABS 2017-1 A2 DTD 01/31/2017 1.540% 02/15/2020		14314JAB6	197,643.52	NR	Aaa	01/25/17	01/31/17	197,643.46	1.60	135.28	197,643.51	197,102.29
CNH 2017-A A2 DTD 03/22/2017 1.640% 07/15/2020		12636WAB2	217,202.17	AAA	NR	03/15/17	03/22/17	217,193.83	1.80	158.32	217,195.99	216,359.23
CITIBANK ABS 2017-A2 A2 DTD 01/26/2017 1.740% 01/17/2021		17305EGA7	450,000.00	AAA	Aaa	01/19/17	01/26/17	449,913.83	1.75	1,609.50	450,000.00	447,440.54
TOYOTA ABS 2017-A A3 DTD 03/15/2017 1.730% 02/15/2021		89238MAD0	120,000.00	AAA	Aaa	03/07/17	03/15/17	119,985.88	1.74	92.27	119,987.43	118,741.21
JOHN DEERE ABS 2017-A A3 DTD 03/02/2017 1.780% 04/15/2021		47787XAC1	90,000.00	NR	Aaa	02/22/17	03/02/17	89,987.18	1.79	71.20	89,987.98	89,034.22
CARMX 2017-4 A2A DTD 10/25/2017 1.800% 04/15/2021		14314RAH5	175,000.00	AAA	NR	10/17/17	10/25/17	174,987.16	1.79	140.00	174,988.66	174,078.49
ALLY ABS 2017-1 A3 DTD 01/31/2017 1.700% 06/15/2021		02007PAC7	100,000.00	NR	Aaa	01/24/17	01/31/17	99,991.26	1.70	75.56	99,993.72	99,003.71
FORD ABS 2017-A A3 DTD 01/25/2017 1.670% 06/15/2021		34531EAD8	305,000.00	NR	Aaa	01/18/17	01/25/17	304,998.87	1.67	226.38	304,999.27	301,704.60
TOYOTA ABS 2017-B A3 DTD 05/17/2017 1.760% 07/15/2021		89190BAD0	450,000.00	AAA	Aaa	05/09/17	05/17/17	449,965.49	1.76	352.00	449,967.01	444,342.78
HONDA ABS 2017-1 A3 DTD 03/28/2017 1.720% 07/21/2021		43814TAC6	220,000.00	NR	Aaa	03/21/17	03/28/17	219,986.91	1.72	105.11	219,986.91	217,535.10
HYUNDAI ABS 2017-A A3 DTD 03/29/2017 1.760% 08/15/2021		44931PAD8	205,000.00	AAA	NR	03/22/17	03/29/17	204,983.42	1.76	160.36	204,983.42	202,158.45
NISSAN ABS 2017-A A3 DTD 03/28/2017 1.740% 08/15/2021		654747AD6	250,000.00	NR	Aaa	03/21/17	03/28/17	249,973.53	1.74	193.33	249,976.14	246,744.48
ALLY ABS 2017-2 A3 DTD 03/29/2017 1.780% 08/15/2021		02007HAC5	380,000.00	NR	Aaa	03/21/17	03/29/17	379,955.20	1.79	300.62	379,966.00	376,307.35
HAROT 2017-3 A3 DTD 09/29/2017 1.790% 09/18/2021		43814PAC4	140,000.00	AAA	NR	09/25/17	09/29/17	139,984.84	1.94	90.49	139,986.64	137,916.94



Managed Account Detail of Securities Held

For the Month Ending **March 31, 2018**

CITY OF LOS ALTOS INVESTMENT PORTFOLIO

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
Asset-Backed Security / Collateralized Mortgage Obligation											
CCCIT 2017-A9 A9 DTD 10/02/2017 1.800% 09/20/2021	17305EGH2	200,000.00	AAA	NR	09/25/17	10/02/17	199,985.10	1.80	110.00	199,987.09	197,592.32
JOHN DEERE ABS 2017-B A3 DTD 07/15/2017 1.820% 10/15/2021	47788BAD6	145,000.00	NR	Aaa	07/11/17	07/18/17	144,989.39	1.82	117.29	144,991.07	142,804.25
NISSAN ABS 2017-B A3 DTD 08/23/2017 1.750% 10/15/2021	65478GAD2	275,000.00	NR	Aaa	08/16/17	08/23/17	274,984.63	1.75	213.89	274,986.79	270,684.95
AMERICAN EXPRESS ABS 2017-4 A DTD 05/30/2017 1.640% 12/15/2021	02582JHG8	190,000.00	AAA	NR	05/22/17	05/30/17	189,969.56	1.65	138.49	189,974.83	188,151.93
HYUNDAI ABS 2017-B A3 DTD 08/16/2017 1.770% 01/15/2022	44932GAD7	230,000.00	AAA	Aaa	08/09/17	08/16/17	229,960.14	1.78	180.93	229,965.60	226,178.90
HAROT 2018-1 A3 DTD 02/28/2018 2.640% 02/15/2022	43814UAC3	235,000.00	AAA	Aaa	02/22/18	02/28/18	234,969.61	2.65	275.73	234,970.17	234,902.90
FORDO 2017-C A3 DTD 11/21/2017 2.010% 03/15/2022	34532AAD5	275,000.00	AAA	NR	11/14/17	11/21/17	274,950.42	2.02	245.67	274,954.32	271,556.70
JDOT 2018-A A3 DTD 02/28/2018 2.660% 04/16/2022	47788CAC6	130,000.00	NR	Aaa	02/21/18	02/28/18	129,990.65	2.66	297.77	129,990.97	129,793.82
AMXCA 2018-1 A DTD 03/21/2018 2.670% 10/17/2022	02582JHO6	305,000.00	NR	Aaa	03/14/18	03/21/18	304,964.59	2.68	226.21	304,964.80	304,499.50
Security Type Sub-Total		5,284,845.69					5,284,314.95	1.88	5,516.40	5,284,448.32	5,234,634.66
Managed Account Sub-Total		54,319,845.69					54,304,659.79	1.75	222,718.83	54,282,516.63	53,613,288.01
Securities Sub-Total		\$54,319,845.69					\$54,304,659.79	1.75%	\$222,718.83	\$54,282,516.63	\$53,613,288.01
Accrued Interest											\$222,718.83
Total Investments											\$53,836,006.84

IMPORTANT DISCLOSURES

This material is based on information obtained from sources generally believed to be reliable and available to the public; however, PFM Asset Management LLC cannot guarantee its accuracy, completeness or suitability. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. All statements as to what will or may happen under certain circumstances are based on assumptions, some, but not all of which, are noted in the presentation. Assumptions may or may not be proven correct as actual events occur, and results may depend on events outside of your or our control. Changes in assumptions may have a material effect on results. Past performance does not necessarily reflect and is not a guaranty of future results. The information contained in this presentation is not an offer to purchase or sell any securities.

- Market values that include accrued interest are derived from closing bid prices as of the last business day of the month as supplied by Interactive Data, Bloomberg, or Telerate. Where prices are not available from generally recognized sources, the securities are priced using a yield based matrix system to arrive at an estimated market value.
- In accordance with generally accepted accounting principles, information is presented on a trade date basis; forward settling purchases are included in the monthly balances, and forward settling sales are excluded.
- Performance is presented in accordance with the CFA Institute's Global Investment Performance Standards (GIPS). Unless otherwise noted, performance is shown gross of fees. Quarterly returns are presented on an unannualized basis. Returns for periods greater than one year are presented on an annualized basis. Past performance is not indicative of future returns.
- Bank of America/Merrill Lynch Indices provided by Bloomberg Financial Markets.
- Money market fund/cash balances are included in performance and duration computations.
- Standard & Poor's is the source of the credit ratings. Distribution of credit rating is exclusive of money market fund/LGIP holdings.
- Callable securities in the portfolio are included in the maturity distribution analysis to their stated maturity date, although, they may be called prior to maturity.
- MBS maturities are represented by expected average life.

GLOSSARY

- **ACCRUED INTEREST:** Interest that is due on a bond or other fixed income security since the last interest payment was made.
- **AGENCIES:** Federal agency securities and/or Government-sponsored enterprises.
- **AMORTIZED COST:** The original cost of the principal of the security is adjusted for the amount of the periodic reduction of any discount or premium from the purchase date until the date of the report. Discount or premium with respect to short-term securities (those with less than one year to maturity at time of issuance) is amortized on a straight line basis. Such discount or premium with respect to longer-term securities is amortized using the constant yield basis.
- **BANKERS' ACCEPTANCE:** A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill as well as the insurer.
- **COMMERCIAL PAPER:** An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory.
- **CONTRIBUTION TO DURATION:** Represents each sector or maturity range's relative contribution to the overall duration of the portfolio measured as a percentage weighting. Since duration is a key measure of interest rate sensitivity, the contribution to duration measures the relative amount or contribution of that sector or maturity range to the total rate sensitivity of the portfolio.
- **DURATION TO WORST:** A measure of the sensitivity of a security's price to a change in interest rates, stated in years, computed from cash flows to the maturity date or to the put date, whichever results in the highest yield to the investor.
- **EFFECTIVE DURATION:** A measure of the sensitivity of a security's price to a change in interest rates, stated in years.
- **EFFECTIVE YIELD:** The total yield an investor receives in relation to the nominal yield or coupon of a bond. Effective yield takes into account the power of compounding on investment returns, while nominal yield does not.
- **FDIC:** Federal Deposit Insurance Corporation. A federal agency that insures bank deposits to a specified amount.
- **INTEREST RATE:** Interest per year divided by principal amount and expressed as a percentage.
- **MARKET VALUE:** The value that would be received or paid for an investment in an orderly transaction between market participants at the measurement date.
- **MATURITY:** The date upon which the principal or stated value of an investment becomes due and payable.
- **NEGOTIABLE CERTIFICATES OF DEPOSIT:** A CD with a very large denomination, usually \$1 million or more, that can be traded in secondary markets.
- **PAR VALUE:** The nominal dollar face amount of a security.

GLOSSARY

- **PASS THROUGH SECURITY:** A security representing pooled debt obligations that passes income from debtors to its shareholders. The most common type is the mortgage-backed security.
- **REPURCHASE AGREEMENTS:** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date.
- **SETTLE DATE:** The date on which the transaction is settled and monies/securities are exchanged. If the settle date of the transaction (i.e., coupon payments and maturity proceeds) occurs on a non-business day, the funds are exchanged on the next business day.
- **TRADE DATE:** The date on which the transaction occurred; however, the final consummation of the security transaction and payment has not yet taken place.
- **UNSETTLED TRADE:** A trade which has been executed; however, the final consummation of the security transaction and payment has not yet taken place.
- **U.S. TREASURY:** The department of the U.S. government that issues Treasury securities.
- **YIELD:** The rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.
- **YTM AT COST:** The yield to maturity at cost is the expected rate of return based on the original cost, the annual interest receipts, maturity value, and the time period from purchase date to maturity, stated as a percentage on an annualized basis.
- **YTM AT MARKET:** The yield to maturity at market is the rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.



CONSENT CALENDAR

Agenda Item # 5

AGENDA REPORT SUMMARY

Meeting Date: June 26, 2018

Subject: Investment Policy Update

Prepared by: Sharif Etman, Administrative Services Director

Approved by: Chris Jordan, City Manager

Attachment(s):

1. Investment Policy (with track changes to highlight edits)

Initiated by:

City Council, Staff and the Financial Commission

Previous Council Consideration:

October 25, 2016

Fiscal Impact:

None

Environmental Review:

Not applicable

Policy Question(s) for Council Consideration:

- Does the Council wish to adopt the recommended investment strategies contained within the revised Investment Policy?

Summary:

- Revised investment strategies have been recommended by the Financial Commission following direction from Council to analyze said strategies.

Staff Recommendation:

Move to adopt the revised Investment Policy



Subject: Investment Policy Update

Purpose

To consider the revised Investment Policy.

Background

The City's Investment Policy sets forth guidelines that ensure the City's funds are invested in compliance with State Law and in a prudent manner. The Policy is reviewed on an annual basis.

Discussion/Analysis

The Investment Policy is reviewed on an annual basis by the Financial Commission. The last recommended change to the policy was approved in October of 2016.

The Financial Commission is recommending minor changes to the Investment Policy after discussion with PFM Asset Management (PFM) for 2018. The recommended changes to the Investment Policy represent a more diverse, while still fiscally prudent, approach to investing the City's funds. Changes recommended to the October 2016 version of the Investment Policy include:

- Municipal Obligations – further defining the credit rating allowed
- Negotiable Certificate of Deposit – further defining the credit rating allowed
- Corporate Medium-Term Notes – Increasing City policy limitation from four years to five years; further defining the credit rating allowed
- Commercial Paper – Increasing the number of days from 180 to 270 days; increasing the percentage allowed in the portfolio from 15% to 25%; updating the credit rating allowed

All the recommended changes are within California Code Limitations.

Options

- 1) Adopt the revised Investment Policy

Advantages: Allows the City to invest its funds in a broader way to maximize the City's return on investment, while still maintaining fiscally prudent investments

Disadvantages: None identified

- 2) Provide direction on additional changes / edits to the Investment Policy

Advantages: Additional changes in allowable investments could result in greater return on the City's investments



Subject: Investment Policy Update

Disadvantages: These investments could result in greater risk of loss of City funds

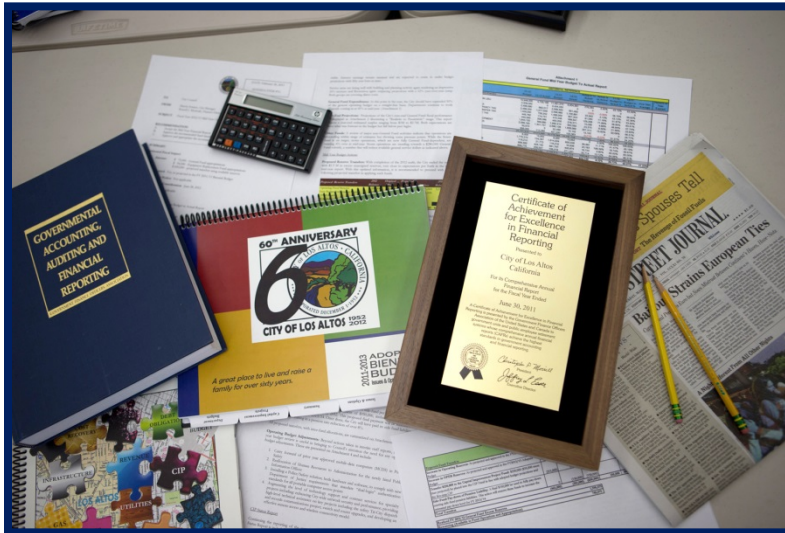
3) Do not adopt the revised Investment Policy

Advantages: None identified

Disadvantages: The City's investments will remain governed by the 2016 Investment Policy which was determined to be outdated and was recommended by the Financial Commission for changes.

Recommendation

The Financial Commission and staff recommend Option 1.



CITY OF LOS ALTOS INVESTMENT POLICY

JUNE 2018 ~~OCTOBER 2016~~

A. INTRODUCTION

This document sets forth policies designed to ensure that the City's public funds are invested prudently, efficiently, and in compliance with legal requirements. It was developed in accordance with California Government Code Sections 53600 *et seq.* and is reviewed by the Financial Commission and adopted by City Council each fiscal year.

This document discusses the most important elements of investment management in one comprehensive centralized format and is organized into the following areas of discussion:

- A. Introduction
- B. Scope
- C. Prudent Investor Standard
- D. Objectives
- E. Guiding Principles
- F. Delegation of Authority
- G. Financial Commission Oversight
- H. Ethics and Conflict of Interest
- I. Safekeeping and Custody
- J. Reporting Requirements
- K. Maximum Maturity
- L. Permitted Investment Instruments
- M. Prohibited Investment Instruments
- N. Glossary of Investment Terms

B. SCOPE

This policy covers all public funds under the direction of the Administrative Services/Finance Director within the following fund types:

- Governmental Funds
- Proprietary Funds
- Fiduciary Funds

The investment of bond proceeds is governed separately by the provisions of the relevant bond documents.

C. PRUDENT INVESTOR STANDARD

All persons involved in investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing the City's investment portfolio shall act with the care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the City, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the City.

D. OBJECTIVES

The primary objectives, in order of their priority, of the City's investment program shall be:

Safety - The preservation of the principal of the City's overall investment portfolio is the foremost objective of the investment program.

Liquidity - The City's investment portfolio will remain sufficiently liquid to meet its cash flow requirements.

Return on Investment - The City's investment portfolio shall be designed with the objective of attaining a reasonable and prudent rate of return consistent with the risk constraints and liquidity demands imposed by its safety objective and cash flow requirements.

E. GUIDING PRINCIPLES

The following guiding principles are important in the pursuit of such objectives:

Minimizing Liquidity, Credit and Market Risks: Investment decisions should minimize liquidity, credit or market risks in the following ways:

Liquidity Risk - The risk that the investment portfolio will not provide adequate cash liquidity for operations shall be mitigated by structuring the portfolio so that securities mature at the same time that major cash outflows occur, thus minimizing the need to sell securities prior to their scheduled maturity date unless market conditions present favorable repositioning opportunities.

Credit Risk - The risk of loss of principal associated with the failure of any one security issuer shall be mitigated by investing in only very safe highly-rated securities and prudently diversifying the investment portfolio to avoid concentrating investments in specific security types, maturity durations, or in individual financial institutions.

Market Risk - The risk of market value fluctuations arising from overall changes in the general level of interest rates shall be mitigated through maintaining prudent duration levels, staggering investment maturity dates evenly over a desired overall duration target and prohibiting the taking of short positions (selling securities that the City does not own) and interest rate sensitive derivative instruments. It is explicitly recognized herein, however, that in a diversified portfolio occasional measured losses are inevitable and must be considered within the context of the overall portfolio's structure and expected investment return, with the proviso that adequate diversification and credit analysis have been implemented.

Market Average Rate of Return: The investment portfolio shall be managed to attain a market average rate of return based upon a benchmark that is appropriate for a fund of like character and aims and commensurate with the portfolio's current investment strategy.

Non-Speculative Approach: This policy specifically prohibits all speculative investment practices, including, but not limited to, those that seek to gain or profit through transactions of high and unusual risk, or that utilize securities whose price is dependent upon or derived from one or more underlying assets (Derivatives).

Professionalism and Public Trust: The City's investment portfolio is subject to public review and evaluation and shall be designed and managed with the high degree of professionalism that is worthy of the public trust.

F. DELEGATION OF AUTHORITY

The management responsibility for the City's investment program has been delegated to the Administrative Services/Finance Director. The Administrative Services/Finance Director shall monitor and review all investments for consistency with this policy, and may delegate investment decision-making and execution authority to investment advisors in accordance with an agreement as authorized by the City Council. The investment advisor shall follow and comply with this policy and all other written instructions provided by the City. The Administrative Services/Finance Director may, in writing, further delegate such investment authority to designated management staff in the Executive and/or Finance Department in the event of the Administrative Services/Finance Director's absence or other unavailability. The Administrative Services/Finance Director shall prepare and file documents with all financial institutions with which the City conducts investment activities certifying the names of those persons authorized to effect transactions on behalf of the City.

G. FINANCIAL COMMISSION OVERSIGHT

The Financial Commission consists of citizen members appointed by the City Council. The Financial Commission shall meet periodically, at least quarterly, to review general investment strategies and monitor the results of the City's investment portfolio in coordination with the Administrative Services/Finance Director and/or finance staff designee. The Financial Commission shall also review any proposed changes to this policy before they are submitted to the City Council for final adoption.

H. ETHICS AND CONFLICT OF INTEREST

All persons involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the City's investment program or which could impair their ability to make impartial decisions.

I. SAFEKEEPING AND CUSTODY

All investments of the City's investment portfolio shall have the City of Los Altos as the registered owner, and all interest and principal payments and withdrawals shall indicate the City of Los Altos as the payee.

All securities shall be safely kept with a qualified financial institution, contracted independently by the City as a third party. All securities shall be acquired by the safekeeping institution on a "delivery-vs.-payment" (DVP) basis. In other words, the security must be delivered before funds are released. The DVP basis for delivery applies also to the delivery and safekeeping of repurchase agreement collateral.

J. REPORTING REQUIREMENTS

The Finance Director will present to the City Council quarterly investment reports, which will present an overall summary of investment performance and include the following type of information:

- Description of investment instruments held
- Interest rate and yield to maturity
- Maturity dates
- Purchase price
- Par value
- Current market value as of the date of the report, including the source of such valuation
- Overall portfolio yield based on cost
- Total return (Quarterly)
- Benchmark comparisons
- Detailed transaction reports shall be made available upon request by any governing member or member of the public

K. MAXIMUM MATURITY

The City may not invest in a security with a maturity date that exceeds five years from the date of purchase.

L. PERMITTED INVESTMENT INSTRUMENTS

The California Government Code in section 53600 *et seq.* sets certain limits on the investment instruments, credit criteria, maximum maturity dates, concentration percentages and other conditions of eligibility in which a government agency's funds may be invested. However, this policy sets limits on the investment of the City's investment portfolio that are more restrictive than such California law. The California Code limits and the more restrictive limits applicable to this policy are listed and summarized in the attached **Exhibit A** (City of Los Altos Allowable Investments). The City's investment portfolio may be invested only in those instruments permitted in **Exhibit A**.

It is important to note that from time to time the City may be invested in a security whose rating is downgraded subsequent to the original date of purchase. The Finance Director, directly or indirectly through the delegation of authority to the investment advisor, shall monitor the status of security ratings. When the City uses the services of outside investment advisors and a rating of a prior-purchased security drops below the minimum allowed rating category for that given investment type, the investment advisor shall immediately notify the Finance Director and recommend a plan of action.

M. PROHIBITED INVESTMENT INSTRUMENTS

Investment of the City's investment portfolio in any of the following identified instruments is specifically prohibited:

- **Reverse Repurchase Agreements** - Differs from a Repurchase Agreement in the sense that a reverse repurchase agreement is one that sells security positions in return for cash with an agreement to repurchase the securities for an agreed upon price.
- **Derivatives** - Financial instruments whose values are based on or determined by another security, financial instrument or index, including instruments used for hedging.
- **California State and Local Agency Obligations** - Obligations of the State of California or any local agency within the state, including bonds payable solely out of revenues from a revenue producing property owned, controlled or operated by the state or any local agency or by a department, board, agency or authority of the state or any local agency. Nothing in this section shall be construed to exclude the City's participation in the Local Agency Investment Fund (LAIF) operated by the State of California Treasurer's Office.
- **Other State Obligations** - Registered debt obligations of any of the other 49 United States beyond California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority.
- **Prohibited Investments Cited in California Government Code Section 53601.6 including, but not limited to:**
 - Inverse Floaters
 - Range Notes
 - Mortgage Derivatives or other similar asset backed securities
 - Interest Only Strips
 - Zero Interest Coupon Securities

N. GLOSSARY OF INVESTMENT TERMS

Exhibit B contains a glossary of key investment terms that may be used in this policy.

Exhibit A
City of Los Altos Allowable Investments

Exhibit A

City of Los Altos Allowable Investments

Investment Instruments	Calif. Code Limitation	City Policy Limitation
Collateralized Bank Deposits	No term 100% of portfolio	No term 100% of portfolio
State of California - Local Agency Investment Fund (LAIF)	No term 100% of portfolio Max \$65 million	No term 100% of portfolio Max \$65 million
Money Market Mutual Funds (SEC Rule 2a7)	No term 20% of portfolio 10% per issuer	Overnight 20% of portfolio Major US owned Calif. institution 10% of portfolio per issuer
U.S. Treasuries	5 years 100% of portfolio	5 years 100% of portfolio
Federal Agencies (including, mortgage-backed securities, callable securities)	5 years 100% of portfolio	5 years 100% of portfolio 20% of portfolio per issuer 35% of portfolio in callables
Municipal Obligations (including notes issued by the State of California, California local agencies, and the other 49 states)	5 years 100% of portfolio	5 years 30% of portfolio Credit rating of no less than the A category <u>of "A" or its equivalent or higher</u> by a <u>nationally recognized statistical-rating organization (NRSRO)</u> Other ¹
Bank /Time Certificates of Deposit	5 years 100% of portfolio	3 years 50% of portfolio 10% of portfolio per issuer Major US owned Calif. institution FDIC/NCUA Insured and/or collateralized in Treasuries and Agencies
Negotiable Certificates of Deposit	5 years 30% of portfolio	3 years 30% of portfolio 3% of portfolio per issuer Credit rating of no less than the A category (of "A" or A-1 for short-term securities) <u>its equivalent or higher</u> by any two nationally recognized statistical rating organizations (NRSROs) <u>a NRSRO</u>
Corporate Medium Term Notes	5 years 30% of portfolio	4 5 years 30% of portfolio 3% of portfolio per issuer

¹Municipal bonds must also be either (1) a general obligation bond whose principal and interest payments are secured by the full faith and credit of the issuer and supported by either the issuer's unlimited or limited taxing power, or (2) an essential service bond secured with revenue from a water, sewer, power or electric system.

Investment Instruments	Calif. Code Limitation	City Policy Limitation
	Credit rating of no less than A by any NRSRO	Credit rating of no less than the A category <u>of "A" or its equivalent or higher</u> by any two NRSROs <u>a NRSRO</u>
Repurchase Agreements	1 year 100% of portfolio 102% Collateral	180 days 20% of portfolio 10% of portfolio per issuer 102% Collateral Treasuries/Agencies Major US owned Calif. financial institution
Bankers' Acceptances	180 days 40% of portfolio 30% per issuer	180 days 20% of portfolio 10% of portfolio per issuer Major US owned Calif. institution
Commercial Paper	270 days 25% of portfolio 10% per issuer	180 270 days 15 25% of portfolio 5% of portfolio per issuer Credit rating of no less than A1/P1 "A-1" <u>or its equivalent or higher</u> by an NRSRO.
Obligations issued by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank	5 years 30% of portfolio Credit rating of no less than AA by an NRSRO	5 years 10% of portfolio Credit rating of no less than AAA by an NRSRO
Asset-Backed Securities ²	5 years 30% of portfolio Credit rating of no less than AA by an NRSRO	5 years 20% of portfolio Security shall be rated AAA by an NRSRO Issuer shall have a credit rating of no less than the A category by an NRSRO 3% of portfolio per issuer
Local Government Investment Pools	100% of portfolio Advisor requirements	Not permitted

² Asset-Backed Securities shall not include mortgage related products issued by commercial entities. Investments in asset-backed securities shall generally be limited to those in "senior" tranches.

Exhibit B
Glossary of Investment Terms

Exhibit B

Glossary of Investment Terms

Agency - See "Federal Agency."

Asset-Backed Securities (ABS) - Securities whose income payments and hence value is derived from and collateralized (or "backed") by a specified pool of underlying assets which are receivables. Pooling the assets into financial instruments allows them to be sold to general investors, a process called securitization, and allows the risk of investing in the underlying assets to be diversified because each security will represent a fraction of the total value of the diverse pool of underlying assets. The pools of underlying assets can comprise common payments credit cards, auto loans, mortgage loans, and other types of assets. Interest and principal is paid to investors from borrowers who are paying down their debt.

Bankers' Acceptance (BA's) - A draft or bill of exchange drawn upon and accepted by a bank frequently used to finance the shipping of international goods. Used as a short-term credit instrument, bankers' acceptances are traded at a discount from face value as a money market instrument in the secondary market on the basis of the credit quality of the guaranteeing bank.

Benchmark - A market index used as a comparative basis for measuring the performance of an investment portfolio. A performance benchmark should represent a close correlation to investment guidelines, risk tolerance, and duration of the actual portfolio's investments.

Certificate of Deposit (CD) - Bank obligation issued by a financial institution generally offering a fixed rate of return (coupon) for a specified period of time (maturity). Can be as long as ten years to maturity, but most CDs purchased by public agencies are one year and under.

Collateral - Investment securities or other property that a borrower pledges to secure repayment of a loan, secure deposits of public monies, or provide security for a repurchase agreement.

Commercial Paper - Short-term unsecured promissory note issued by a company or financial institution that is issued at a discount and matures for par or face value. This instrument usually matures at a maximum maturity of 270 days and bears a short-term debt rating by one or more Nationally Recognized Statistical Rating Organization (NRSRO).

Corporate Medium Term Notes - A debt instrument issued by a corporation with a maturity of greater than one year and less than ten years. Used frequently to refer to corporate notes of medium maturity (five years and under).

Custody - Safekeeping services offered by a bank, financial institution or trust company, referred to as the "custodian." Service normally includes the holding and reporting of the customer's securities, the collection and disbursement of income, securities settlement and market values.

Delivery Versus Payment (DVP) - The settlement procedure in which securities are delivered versus payment of cash, but only after cash has been received. Most security transactions, including those through the Federal Reserve Securities Wire system and DTC, are done DVP as a protection for both the buyer and seller of securities.

Depository Trust Company (DTC) - A firm through which members can use a computer to arrange for securities to be delivered to other members without physical delivery of certificates. A member of the Federal Reserve System and owned mostly by the New York Stock Exchange, the Depository Trust Company uses computerized debit and credit entries. Most corporate securities, commercial paper, CDs, and BAs clear through DTC.

Derivative - A financial instrument whose value is based on or determined by another security, financial instrument, or index.

Diversification - Dividing investment funds among a variety of security types, maturities, industries, and issuers offering potentially independent returns.

Federal Agency - These are Federal government sponsored and/or owned entities created by the U.S. Congress, generally for the purpose of acting as a financial intermediary by borrowing in the marketplace and directing proceeds to specific areas of the economy considered to otherwise have restricted access to credit markets. The largest federal agencies are Fannie Mae, Freddie Mac, FHLB, FFCB, and TVA.

Federal Reserve System (the Fed) - The independent central bank system of the United States that establishes and conducts the nation's monetary policy. This is accomplished in three major ways: (1) raising or lowering bank reserve requirements, (2) raising or lowering the target Federal Reserve Funds Rate and Discount Rate, and (3) in open market operations by buying and selling government securities. The Federal Reserve System is made up of twelve Federal Reserve District Banks, their branches, and many national and state banks throughout the nation. It is headed by the seven member Board of Governors known as the "Federal Reserve Board" and led by its Chairman.

Federal Treasuries - A collective term used to describe debt instruments backed by the U.S. Government and issued through the U.S. Department of the Treasury that includes Treasury bills, Treasury notes, and Treasury bonds. Also a benchmark term used as a basis by which the yields of non-Treasury securities are compared (e.g., "trading at 50 basis points over Treasuries").

Fiduciary Funds - Term used when a governmental unit acts in a fiduciary capacity such as a trustee or agent. The government unit is responsible for handling the assets placed under its control.

Government Sponsored Enterprise (GSE) - A privately owned entity subject to federal regulation and supervision, created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy such as students, farmers, and homeowners. GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government. For this reason, these securities will offer a yield premium over Treasuries. Examples of GSEs include: FHLB, FHLMC, FNMA, and SLMA.

Governmental Funds - Term used in Government Accounting to apply to all funds except for the profit and loss funds (e.g., enterprise fund, internal service fund) and trust and agency funds. Examples of governmental funds are the general fund, special assessment fund, and capital projects fund. Governmental funds use the modified accrual accounting method.

Government Instrumentalities (Supranationals) - Entities formed by two or more central governments with the purpose of promoting economic development for the member countries. Supranational institutions finance their activities by issuing debt, such as supranational bonds. Examples of supranational institutions include the European Investment Bank and the World Bank. Similarly to the government bonds, the bonds issued by these institutions are considered direct obligations of the issuing nations and have a high credit rating.

Index - A compilation of statistical data that tracks changes in the economy or in financial markets.

Interest-Only (IO) Strips - A security based solely on the interest payments from the bond. After the principal has been repaid, interest payments stop and the value of the security falls to nothing. Therefore, IOs are considered risky investments and are usually associated with mortgage-backed securities.

Inverse Floater - A floating rate security structured in such a way that it reacts inversely to the direction of interest rates. Considered risky as their value moves in the opposite direction of normal fixed income investments and whose interest rate can fall to zero.

Investment Advisor - A company that provides professional advice managing investment portfolios offers investment recommendations and/or research in exchange for a management fee.

Liquidity – This is a measure of the relative ease of converting an asset into cash without significant loss of value and the level of cash and near-cash items in a portfolio of assets. This term also describes the marketability of money market security correlating to the narrowness of the spread between bid and ask prices.

Local Agency Investment Fund (LAIF) - Special fund in the California State Treasurer’s Office which local agencies may access to deposit funds for short-term investment and reinvestment.

Market Value - The fair market value of a security or commodity or the price at which a willing buyer and seller would pay for a security.

Maturity Date - Date on which principal payment of a financial obligation is due.

Money Market Mutual Fund (2a-7) - A type of mutual fund that invests solely in money market instruments, such as Treasury bills, commercial paper, bankers' acceptances, and repurchase agreements. Money market mutual funds are registered with the SEC under the Investment Company Act of 1940 and are subject “rule 2a-7” which significantly limits average maturity and credit quality of holdings.

Mortgage-Backed Securities (MBS) - Mortgage-backed securities represent an ownership interest in a pool of mortgage loans made by financial institutions, such as savings and loans, commercial banks, or mortgage companies, to finance the borrower's purchase of a home or other real estate. The majority of MBS are issued and/or guaranteed by GNMA, FNMA and FHLMC. There are a variety of MBS structures, some of which can be very risky and complicated. All MBS have reinvestment risk as actual principal and interest payments are dependent on the payment of the underlying mortgages which can be prepaid by mortgage holders to refinance at lower rates or simply because the underlying property was sold.

Mortgage Pass-Through Securities - A pool of residential mortgage loans with the monthly interest and principal distributed to investors on a pro-rata basis. Largest issuer is GNMA.

Municipal Note/Bond - Debt issued by a state or local government unit or public agency. The vast majority of municipals are exempt from state and federal income tax, although some non-qualified issues are taxable.

Mutual Fund - Portfolio of securities professionally managed by a registered investment company that issues shares to investors. Many different types of mutual funds exist (bond, equity, money market fund); all except money market funds operate on a variable net asset value (NAV).

NRSRO - “Nationally Recognized Statistical Rating Organization.” An entity designated as a rating organization that the SEC has recognized as having a strong national presence in the U.S. NRSROs provide credit ratings on corporate and bank debt issues. Only ratings of an NRSRO may be used for the regulatory purposes of rating. They include Moody’s, Standard & Poor’s, and Fitch among others.

Par Value - Face value, stated value or maturity value of a security.

Principal - Face value of a financial instrument on which interest accrues which may be less than par value if some principal has been repaid or retired. For a transaction, principal is par value as a factor of price and includes any premium or discount.

Proprietary Funds - In governmental accounting, one having profit and loss aspects; therefore it uses the *accrual* rather than modified accrual accounting method. The two types of proprietary funds are the Enterprise Fund and the Internal Service Fund.

Prudent Investor Standard - Standard that requires that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. This standard is more stringent than the “prudent person” standard as it implies a level of knowledge commensurate with the responsibility at hand.

Range Note - A type of structured note that accrues interest daily at a set coupon rate that is tied to an index. Most range notes have two coupon levels; a higher accrual rate for the period the index is within a designated range, the lower accrual rate for the period that the index falls outside the designated range. This lower rate may be zero and may result in zero earnings.

Rate of Return - Amount of income received from an investment, expressed as a percentage of the amount invested.

Repurchase Agreement (Repo) - A short-term investment vehicle in which an investor agrees to buy securities from a counterparty and simultaneously agrees to resell the securities back to the counterparty at an agreed upon time and for an agreed upon price. The difference between the purchase price and the sale price represents interest earned on the agreement. In effect, it represents a collateralized loan to the investor, where the securities are the collateral. Can be DVP, where securities are delivered to the investor’s custodial bank, or “tri-party” where the securities are delivered to a third-party intermediary. Any type of security can be used as “collateral,” but only some types provide the investor with special bankruptcy protection under the law. Repos should be undertaken only when an appropriate approved banking master repurchase agreement is in place.

Reverse Repurchase Agreement (Reverse Repo) - This is a repo from the point of view of the original seller of securities. Used by dealers to finance their inventory of securities by essentially borrowing at short-term rates. Can also be used to leverage a portfolio and in this sense, can be considered risky if used improperly.

Safekeeping - Service offered for a fee, usually by financial institutions, for the holding of securities and other valuables. Safekeeping is a component of custody services.

Total Return - Investment performance measured over a period of time that includes coupon interest, interest on interest, and both realized and unrealized gains or losses. Total return includes, therefore, any market value appreciation/depreciation on investments held at period end.

Yield to Maturity (YTM) - Calculated return on an investment, assuming all cash flows from the security are reinvested at the same original yield. Can be higher or lower than the coupon rate depending on market rates and whether the security was purchased at a premium or discount. There are different conventions for calculating YTM for various types of securities.



PUBLIC HEARING

Agenda Item # 6

AGENDA REPORT SUMMARY

Meeting Date: June 26, 2018

Subject: Ordinance No. 2018-445: Sanitary Sewer Rates

Prepared by: Christopher Lamm, Engineering Services Manager

Reviewed by: Susanna Chan, Public Works Director

Approved by: Chris Jordan, City Manager

Attachment(s):

1. Ordinance No. 2018-445
2. Staff Report to Council – March 13, 2018

Initiated by:

City Council – March 13, 2018 (Discussion Item #9)

Previous Council Consideration:

March 13, 2018

Fiscal Impact:

Revenue for the Sewer Enterprise Fund based on proposed rates has been incorporated into the FY 2018/19 budget.

Environmental Review:

Not applicable.

Policy Question(s) for Council Consideration:

- Not Applicable

Summary:

- Conduct a public hearing on proposed sanitary sewer rates and introduce and waive further reading of Ordinance No. 2018-445

Staff Recommendation:

Introduce and waive further reading of Ordinance No. 2018-445 establishing the rates of the Sewer Service Charge for Fiscal Year 2018-19 and subsequent Fiscal Years



Subject: Ordinance No. 2018-445: Sanitary Sewer Rates

Purpose

Conduct a public hearing on proposed rates and introduce and waive further reading of Ordinance No. 2018-445

Background

Los Altos Municipal Code Chapter 10.12 authorizes the City to impose sewer service charges to fund costs associated with the City's sanitary sewer system. The City Council passed Ordinance No. 2013-394 in July 2013 that established sewer rates that were applied for the five-year period beginning July 1, 2013. The rates increase from year to year during years two through five of the five-year period to reflect historic trends in inflation associated with the sewer system.

The prior five-year period comes to a close in July 2018. Therefore, the City performed a review of the sewer rate structure and calculation methodology with the assistance of consulting firm NBS. On March 13, 2018, the City Council approved the report for the Sewer Rate Study prepared by NBS. The report recommended continuing to use the existing sewer rate calculation methodology for the five-year period from FY 2018/19 through FY 2022/23.

Discussion/Analysis

The requested action is to introduce and waive first reading of Ordinance No. 2018-445 pertaining to Sewer Service Charges for fiscal year 2018/19 and subsequent four fiscal years. Once adopted, no further action need be taken by the City Council to cause the rates in the proposed ordinance to become effective for the periods stated.

The proposed ordinance updates information and references from the 2013 ordinance and includes current rates calculated using the existing methodology. The proposed ordinance also authorizes future rate increases to be adopted by a resolution of the City Council approved by two-thirds of the members of the City Council as authorized pursuant to Health and Safety Code section 5471 et seq. as amended commencing in January 2017, and includes a process for satisfying sewer sub-metering requirements (for customers that want to have unit-specific property tax bills) as discussed in the March 13, 2018 staff report and in the approved Sewer Rate Study (included here for reference, Attachment 2).

Notice of the Public Hearing scheduled for this meeting was mailed to rate payers on May 11, 2018. On July 10th, 2018, the City Council may adopt the proposed ordinance, so long as there is no majority protest from affected property owners during the June 26, 2018 Public Hearing.

Options

- 1) Approve Staff Report Recommendation



Subject: Ordinance No. 2018-445: Sanitary Sewer Rates

Advantages: The rate report and expected revenues resulting from the posted rates are consistent with the City's FY 2018/19 budget. The amendments to the Municipal Code are beneficial to the City and certain condominium owners

Disadvantages: None

2) Do not approve sewer service charges

Advantages: None

Disadvantages: The City would not have adequate funding to finance O&M and CIP Projects of the Sewer Fund. The City would have to adopt an ordinance to approve future rate increases, and certain condominium owners would not be able to use their sub-metered water use to have their individual water usage used to calculate their estimated sewer use

Recommendation

The staff recommends Option 1.

ORDINANCE NO. 2018-445

**AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF LOS ALTOS
ESTABLISHING THE RATES OF THE SEWER SERVICE CHARGE FOR
FISCAL YEAR 2018-19 AND SUBSEQUENT FISCAL YEARS AND AMENDING
SECTION 10.12.110 AND 10.12.130 OF, AND ADDING SECTION 10.12.137 TO,
ARTICLE 3 OF CHAPTER 10.12 OF THE LOS ALTOS MUNICIPAL CODE**

WHEREAS, pursuant to Article 3 of Chapter 10.12 of the Los Altos Municipal Code, the City of Los Altos imposes a Sewer Service Charge upon parcels connected to the sewer system; and

WHEREAS, the purpose of the Sewer Service Charge is to fund costs associated with providing sewer service; and

WHEREAS, the City engaged NBS (the “Rate Consultant”) to prepare a rate study recommending a revision to the Sewer Service Charge that would fairly and equitably spread the costs of sewer system operation across parcels using sewer service and would meet the requirements of California law; and

WHEREAS, the Rate Consultant has prepared a rate study entitled “Sewer Rate Study” dated February 7, 2018 (the “Study”), which is on file in the Office of the City Clerk, available for public inspection, and incorporated herein by reference; and

WHEREAS, the Study proposed new rates for the Sewer Service Charges, to become effective over a five year period (collectively, the “Rate Structure”); and

WHEREAS, on March 13, 2018, the City Council approved the Sewer Rate Study Report prepared by NBS. The report recommended continuing to use the existing sewer rate calculation methodology for the five-year period from fiscal year (FY) 2018/19 through FY 2022/23; and

WHEREAS, the City caused notice of the proposed rates for the Sewer Service Charges and a Public Hearing at which the rates would be considered to be mailed to the record owner of each parcel upon which the Sewer Service Charges were proposed to be imposed; and

WHEREAS, such notice was given pursuant to section 6 of article XIII D of the California Constitution (“Proposition 218”), the Proposition 218 Omnibus Implementation Act (Section 53750 *et seq.* of the California Government Code) (the “Act”), and applicable law; and

WHEREAS, on June 26, 2018, at 7:00 PM, in the City Council Chambers located at One North San Antonio Road, Los Altos, California, 94022, the City Council held the Public Hearing at which the City Council heard all oral testimony and received all written comments with respect to the proposed rates for the Sewer Service Charges and considered all written protests against the proposed rates for the Sewer Service Charges; and

WHEREAS, the City Council has determined that written protests against the proposed rates for the Sewer Service Charges have not been presented by a majority the record owners of the parcels upon which the Sewer Service Charges are proposed to be imposed; and

WHEREAS, the City Council desires to implement the rates for the Sewer Service Charges consistent with the recommendation of the Study and as set forth in Section 4 of this Ordinance; and

WHEREAS, the City is also proposing to amend the Municipal Code to allow future rate increases in the City's Sewer Service Charges to be adopted by a resolution of the City Council pursuant to the authority granted in Health and Safety Code section 5471 et seq., and to allow the owners of two or more condominium units that are connected to and served by the same single master water meter and are collectively billed for their water use by the California Water Service Company (or its successor), to request to be billed based on sub-metered water usage for their sewer use charges; and

WHEREAS, this Ordinance is exempt from environmental review pursuant to Section 15061(b)(3) of the State Guidelines implementing the California Environmental Quality Act of 1970, as amended.

NOW THEREFORE, the City Council of the City of Los Altos does hereby ordain as follows:

SECTION 1. AFFIRMATION OF RECITALS. Each of the recitals set forth above is true and correct in all respects and are incorporated herein as findings and determinations of the City Council.

SECTION 2. APPROVAL OF RATE STUDY. The Study is hereby approved by the City Council in the form on file in the Office of the City Clerk and available for public inspection.

SECTION 4. RATES. The maximum rates of the Sewer Service Charges imposed pursuant to Section 10.12.120 of the Municipal Code and the effective dates are set forth in the table below are hereby adopted.

	August 10, 2018	July 1, 2019	July 1, 2020	July 1, 2021	July 1, 2023
\$/EDU	\$267.69	\$275.72	\$283.99	\$292.51	\$301.29
\$/HCF	\$2.15	\$2.21	\$2.28	\$2.35	\$2.42

No further action need be taken by the City Council to cause the rates established by this Section to become effective. However, the City Council may, pursuant to Section 10.12.130, as amended by this Ordinance, adopt a resolution that delays the effective date of a scheduled rate adjustment, eliminates such adjustment, or implements increases in the rates

of the Sewer Service Charges that are less than the authorized maximum rates set forth above.

SECTION 5. RATE ADJUSTMENTS. The Sewer Service Charge rate adjustment schedule set forth in Section 4 of this Ordinance was approved by the City Council following a public hearing that was noticed and conducted pursuant to Proposition 218 and the Act. Consequently, so long as revised rates established in the future by the City Council do not exceed the maximum rates set forth in Section 4, such revision shall not constitute an “increase” of the applicable Sewer Service Charge rates for purposes of the Proposition 218 or the Act. Such rate revisions shall not, therefore, require additional compliance with the procedural requirements of the Proposition 218 or of the Act. The City Council hereby authorizes and directs the City Manager to implement and take all actions necessary to effectuate the rates for the Sewer Service Charges set forth herein.

SECTION 6. PRIOR SEWER SERVICE CHARGES. Notwithstanding the provisions of this Ordinance, Sewer Service Charges levied for fiscal years prior to Fiscal Year 2018-19 shall remain governed by the provisions of Chapter 10.12 of the Municipal Code as they existed prior to the effective date of this Ordinance and remain in effect until otherwise modified in accordance with this Ordinance.

SECTION 7. FINDINGS. The City Council, based upon the Study and upon such other testimony provided to it at the Hearing finds as follows:

- (a) Revenues derived from the Sewer Service Charges, as imposed pursuant to this Ordinance, will not exceed the funds required to provide sewer service to the parcels subject to the Sewer Service Charges.
- (b) Revenues derived from the Sewer Service Charges cannot, pursuant to Section 10.12.220 of the Municipal Code, be used for any purpose other than that for which the Sewer Service Charges are imposed.
- (c) The amount of the Sewer Service Charges imposed upon each parcel do not exceed the proportional cost of sewer service attributable to that parcel.
- (d) The Sewer Service Charges are only imposed upon parcels that are actually connected to the sewer system, and which therefore either use, or have immediate ability to use, the sewer services.
- (e) Sewer services are not a general governmental services as that term is used in California Constitution article XIII D, section 6(b)(5).

SECTION 8. AMENDMENTS TO LOS ALTOS MUNICIPAL CODE.

(a) Subdivision A of Section 10.12.110 of Article 3 of Chapter 10.12 of the Los Altos Municipal Code is hereby amended to read as follows:

A. “Actual water consumption,” with respect to a parcel, shall mean the water consumption indicated for that parcel on the records of the California Water Service Company (or its successor) or such other water utility as serves the parcel. Provided, however, with respect to a condominium unit that has an assigned County assessor’s parcel number, a water sub-meter, and the owner of the property has requested and been authorized by the City to be billed based on sub-metered water usage, “actual water consumption” shall be determined in accordance with Section 10.12.137 of this article.

(b) Section 10.12.130 of Article 3 of Chapter 10.12 of the Los Altos Municipal Code is hereby amended to read as follows:

10.12.130. Rates.

The rates of the sewer service charges shall be stated as a rate per equivalent dwelling unit, plus a rate per unit of estimated sewer use, and shall be established by a resolution adopted by the City Council pursuant to Section 5471 of the California Health and Safety Code.

(c) Section 10.12.137 is hereby added to Article 3 of Chapter 10.12 of the Municipal Code to read as follows:

10.12.137. Billing of Master Metered Condominium Units with Water Sub-Meters.

Notwithstanding any other provision of this article, and except as provided herein, the owners of two or more condominium units that are connected to and served by the same single master water meter and are collectively billed for their water use by the California Water Service Company (or its successor), may request to be billed based on sub-metered water usage for their sewer use charges, provided that: (i) each of the condominium units has an assigned County assessor’s parcel number; (ii) each of the condominium units has a separate water sub-meter; and (iii) all of the owners of the condominium units that are connected to the same single master water meter agree in writing to be billed separately for sewer service.

Actual water consumption for each condominium unit shall mean each condominium unit’s sub-metered water consumption for the entire prior calendar year.

The owner of each condominium unit authorized to be billed based on sub-metered water usage for sewer service pursuant to this section 10.12.137 shall, at his or her sole expense, cause his or her sub-meter to be read monthly by a licensed professional in accordance with the California Division of Measurement Standards and to cause such professional to submit to the City the sub-metered water consumption data of his or her condominium for each month of the calendar year. The total calendar year water consumption data of all of the owners of the condominium units shall equal the total metered water consumption of the single master meter for the condominium units reported by the California Water Service Company (or its successor) for the same period. The City shall not be responsible for reconciling the total sub-metered water consumption data reported by the condominium unit owners with the metered water consumption data reported by the California Water Service Company (or its successor). If the water consumption data reported by the

condominium owners cannot be reconciled with the metered water consumption data reported by the California Water Service Company (or its successor), then the sewer use of such condominium owners shall be calculated in accordance with the provisions of section 10.12.140 of this article.

At his/her sole expense, each condominium owner authorized to be billed for sewer service pursuant to this section 10.12.137 shall annually cause his or her sub-meter to be inspected, tested, and verified by a licensed professional in accordance with the California Division of Measurement Standards. No later than March 15 of each year, each condominium owner shall submit to the City Public Works Department the results of the inspection, testing, and verification of his or sub-meter.

For the purposes of this section 10.12.137 and section 10.12.140 of this article, the sewer use for each condominium unit upon which a sewer service charge for that parcel shall be calculated for a fiscal year shall be estimated by multiplying by twelve (12) the average actual monthly water consumption for each condominium unit during the three (3) wet season months for the prior calendar year. One (1) unit of sewer use shall be assigned for each one hundred (100) cubic feet of water use. Provided, however, that if any owner of a condominium unit authorized to be billed for sewer service pursuant to this section 10.12.137 fails to comply with any of the requirements of this section 10.12.137, then the sewer use of all condominium owners within the same condominium complex shall be calculated in accordance with the provisions of section 10.12.140 of this article.

All other provisions of this article governing sewer service charges not in conflict with this section 10.12.137 shall apply to each owner of a condominium unit authorized to be billed for sewer service in accordance with this section 10.12.137.

SECTION 9. PUBLICATION. This ordinance shall be published as provided in Government Code section 36933.

SECTION 10. SEVERABILITY. If any section, subsection, subdivision, sentence, clause, or phrase in this Ordinance or any part thereof is for any reason held to be unconstitutional or invalid, ineffective by any court of competent jurisdiction, such decision shall not affect the validity or effectiveness of the remaining portions of this Ordinance or any part thereof. The City Council declares that it would have adopted each section irrespective of the fact that any one or more subsections, subdivisions, sentences, clauses, or phrases be declared unconstitutional, invalid, or ineffective.

SECTION 12. EFFECTIVE DATE. This ordinance shall be effective upon the commencement of the thirty-first day following the adoption date.

The foregoing ordinance was duly and properly introduced at a regular meeting of the City Council of the City of Los Altos held on _____, 2018 and was thereafter, at a regular meeting held on _____, 2018 passed and adopted by the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

Jean Mordo, MAYOR

Attest:

Jon Maginot, CMC, CITY CLERK



DISCUSSION ITEMS

Agenda Item # 9

AGENDA REPORT SUMMARY

Meeting Date: March 13, 2018

Subject: Sanitary Sewer Rate Study

Prepared by: Christopher Lamm, Engineering Services Manager

Reviewed by: Susanna Chan, Public Works Director

Approved by: Chris Jordan, City Manager

Attachment:

1. Sewer Rate Study

Initiated by:

City Council

Previous Council Consideration:

April 23, 2013

Fiscal Impact:

Sewer charges constitute the majority revenue for the City's sanitary sewer enterprise fund. The attached report describes the fund and impacts of the recommended rate increases.

Environmental Review:

Not applicable

Policy Question(s) for Council Consideration:

- None

Summary:

- The City of Los Altos retained NBS in 2017 to perform a comprehensive Sewer Rate Structure Analysis and for the administration of Proposition 218 Process.
- It is recommended that the existing methodology (annual fixed or based charge per equivalent dwelling unit plus a single volumetric rate based on average winter water consumption) be used to calculate the sewer rate charges for FY 2018/19 through FY 2022/23. Rate increases per year will be 2.5% the first year and 3% the four following years.
- Sub metering would allow the City's multi-family residential and commercial condominium customers to have more control over their annual sewer bills by promoting awareness of actual water consumption. Sub metering could apply to 9 percent of the City's sewer accounts.

Staff Recommendation:

Move to approve the Sewer Rate Study Report prepared by NBS



Subject: Sanitary Sewer Rate Study

Purpose

Approve the Sewer Rate Study Report prepared by NBS.

Background

On April 23, 2013, Council approved a Sewer Rate Study Report prepared by Harris and Associates, using a hybrid sewer service charge model. The 5-year rate study report recommended rate increases from FY 2014/15 – FY 2017/18 ranged from 5.0% - 7.0% per year. These rates were adopted and adjusted through the Proposition 218 process. The hybrid methodology approved in 2013 includes a fixed or base charge plus a water consumption charge that is calculated using the three wettest months of the previous calendar year. The sewer charges calculated with the hybrid model ensure that operation and maintenance (O & M) costs as well as Capital Improvement costs for the City's sanitary sewer system are being met. Additionally, the sewer charges cover the old and new debt service obligations from revenue bonds issued by Palo Alto for the Regional Water Quality Control Plant (RWQCP). Fiscal year 2017/18 is the last year of the approved sewer charges that were adopted by Council in 2013. The City must conduct a new sewer rate study in order to be able to charge sewer rates. A sewer rate study can establish new rates for up to the next five fiscal years (FY 2018/19 through FY 2022/23).

Discussion/Analysis

The City of Los Altos retained NBS in 2017 to perform a comprehensive Sewer Rate Structure Analysis and for the administration of Proposition 218 Process. The City recommends adopting rate increases for the next five years to ensure that all O & M and Capital Improvement costs are funded. It is recommended that the existing methodology (annual fixed or based charge per equivalent dwelling unit plus a single volumetric rate based on average winter water consumption) be used to calculate the sewer rate charges for FY 2018/19 through FY 2022/23.

Due to existing reserve levels exceeding reserve targets, rate increases per year will be 2.5% the first year and 3% the four following years with capital improvement costs being funded primarily by reserves until the 5th year of the rate study.

Sub Metering

Some residential customers have expressed interest in using water sub meter data used for sewer billing purposes. Currently, only water usage information obtained from the water supplier (California Water Service Company or Purisima Water District) is used when calculating sewer charges. Overall charges are then divided equally among condominium dwelling units. Water sub meters would allow the City's multi-family residential and commercial condominium customers to have more control over their sewer bills, and encourages water conservation. Sub metering will also improve sewer billing equity for multifamily residents and commercial condominium customers.



Subject: Sanitary Sewer Rate Study

Customers that want to have unit-specific property tax bills would need to satisfy all the sewer sub metering requirements:

- Customers must have an existing assessor's parcel number (APN) associated with it. If a sub meter does not have an APN, only the property owner will receive a charge from the City.
- Monthly water consumption data for each submetered unit for the entire prior calendar year is required to apply sub metered sewer charges to each dwelling unit's bill.
- Sub metering service providers must submit data to the City no later than March 15th each year.
- All condominiums, apartments or otherwise individual units served by one master meter should be sub metered (i.e. there should not be a mixture of units that are metered and not metered).
- Water consumption data reported for all sub meters must equal master meter water consumption for the same time period. The City is not responsible for reconciliation of water consumption data for sub metered units.
- Sub meters shall be inspected, tested, and verified for commercial purposes pursuant to all California state laws.

The Financial Commission approve the sewer rate study report prepared by NBS at their February 15, 2018 meeting.

Options

- 1) Approve the Sewer Rate Study Report prepared by NBS.

Advantages: Rate increases per year will be 2.5% the first year and 3% the four following years. The sewer fund will use some existing reserves to fund annual capital improvement projects through year 5 of the rate study when goal reserves are met.

Disadvantages: None

- 2) Don't approve the Sewer Rate Study Report prepared by NBS.

Advantages: Sewer rates for FY 2018/19 would remain unchanged.



Subject: Sanitary Sewer Rate Study

Disadvantages: While reserves would allow the City to continue to operate the sanitary system program in the short term, eventually, greater rate increases would be needed to ensure financial stability within the sewer fund.

Recommendation

The staff recommends Option 1.



Los
Altos

CITY OF LOS ALTOS

Report for:

Sewer Rate Study

February 27, 2018

OFFICE LOCATIONS:

Temecula – Corporate Headquarters
32605 Temecula Parkway, Suite 100
Temecula, CA 92592

San Francisco – Regional Office
870 Market Street, Suite 1223
San Francisco, CA 94102

California Satellite Offices
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ATTACHMENT 1

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Section 1. EXECUTIVE SUMMARY

Background

The City of Los Altos has a sewer collection system that serves the residents and business within the City, as well as a portion of the Town of Los Altos Hills. The sewer collection system has 140 miles of pipes; wastewater is then conveyed via a sewer trunk line to the Palo Alto Regional Water Quality Control Plant (RWQCP) for treatment. The City is one of several partner agencies that send wastewater to the RWQCP for treatment and disposal.

Purpose

The City of Los Altos (City) retained NBS in 2017 to perform a comprehensive sewer rate study for a number of reasons, including developing rates that support the sewer utility's long-term financial health, reflect the cost of providing service to each customer class, and are defensible and equitable. This report is provided in part to assist the City in its effort to communicate transparently with the residents and businesses it serves.

In developing new sewer rates, NBS worked cooperatively with City staff in selecting appropriate rate alternatives. Based on input from City staff, the proposed rates are summarized in this study.

Key Findings

REVENUE REQUIREMENTS

As a part of this rate study, NBS projected revenues and expenditures on a cash flow basis for the next twenty years. Ongoing rehabilitation and replacement projects are expected to draw down existing reserves. Capital and operational reserve funding targets incorporated input from City staff and are intended to meet the utility's specific financial objectives. The amount of rate revenue required, that will allow reserves to be maintained at the recommended levels, is known as the *net revenue requirement*.

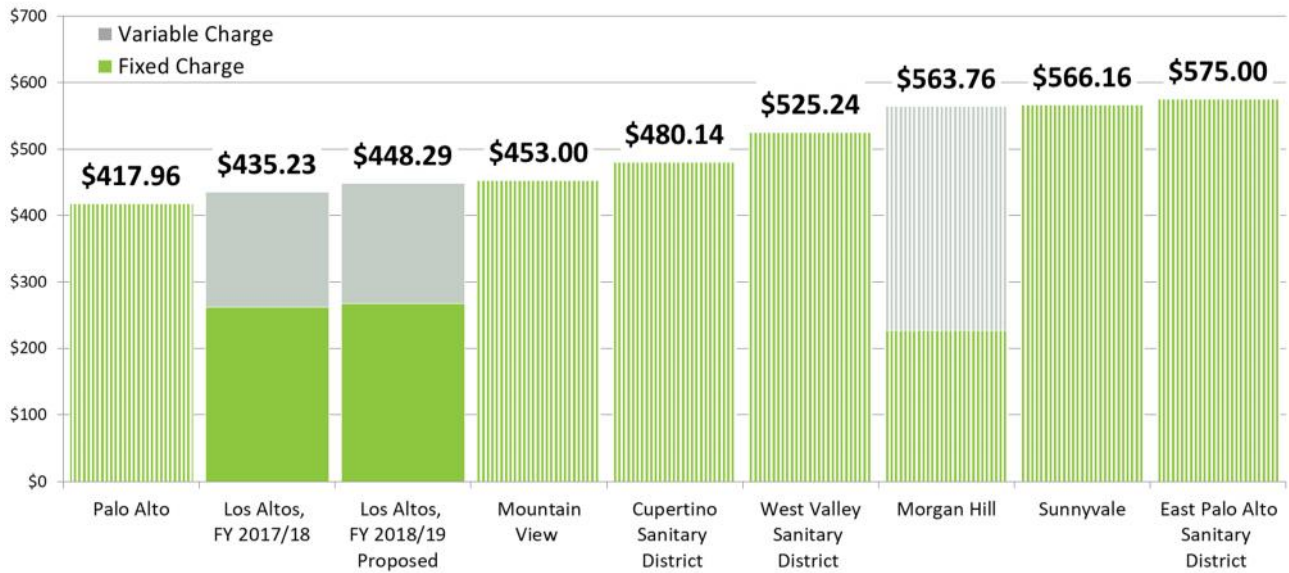
To keep meeting net revenue requirements, moderate rate adjustments – or more accurately, adjustments in the total revenue collected from rates – are recommended over the next five years.

SEWER RATES

The current sewer rate design includes an annual fixed service charge per equivalent dwelling unit (EDU) and a single volumetric rate based on average winter water consumption. After thorough discussion and review of rate alternatives, City staff decided to maintain the existing rate structure.

Figure 1 below shows the estimated annual sewer bill for a typical single-family customer in the City compared to annual bills in other nearby communities. Even after rates are adjusted, residential customer bills in Los Altos still compare favorably with other communities in the region. Many of these other communities may have, or may currently be going through a rate study process; and as such, sewer rates in these communities may be higher in the future.

FIGURE 1. REGIONAL SEWER BILL COMPARISON FOR SFR CUSTOMERS



Sewer rate calculation assumes a winter-based average consumption of 84 HCF Annually

FIXED CHARGES

Fixed charges can be called base charges, minimum charges, etc. Although fixed charges are typically a significant percentage of a utility’s overall costs, utilities rarely collect 100 percent of their fixed costs through fixed charges. In general, customers prefer that charges include a volumetric component, as there is an inherent and widely recognized equity in a “pay-for-what-you-use” philosophy. Fixed charges are often charged on a per equivalent dwelling unit (EDU), or per account basis.

VARIABLE CHARGES

In contrast, variable costs such as the cost of electricity and chemicals used in the treatment facilities tend to change with the quantity of wastewater treated. For sewer utilities, variable charges are often based on winter water consumption and charged on a dollar-per-unit cost (per 100 cubic feet, or hcf, in the City’s case). Variable sewer rate structures typically include one rate (\$/hcf); sometimes variable rates are specific to customer classes (i.e. residential, commercial, etc.). The intent with a rate structure that varies by customer class is to reflect the cost of service differences between customer classes in rates, with respect to the amount of wastewater treated (flow based costs) as well as the costs of treating the level of sewer “strength” (i.e., the amount of chemical oxygen demand (COD) and total suspended solids (TSS) components). The cost per unit does not change with consumption, and provides a simple and straightforward approach from the perspective of customer understanding, rate administration, and customer billing.

Study Recommendations

NBS recommends the City take the following actions:

- ▮ Adopt the long-range financial plan presented in this report.
- ▮ Adopt the recommended reserve fund target balances.
- ▮ Adopt the proposed sewer rates.
- ▮ Conduct a legal review of the rate study.
- ▮ Proceed with Prop 218 noticing requirements and 45-day protest period.
- ▮ Assuming a successful Prop 218 process (that is, there is no majority protest of the rates), adopt the rates summarized in this report.

Section 2. SEWER RATE STUDY

Key Sewer Rate Study Issues

The sewer rate study was undertaken with the goal of maintaining the strong financial health of the City's sewer utility. Additional study goals included reviewing the existing sewer rate structure and developing rate alternatives that promote equity among customer classes. The City has had various types of sewer rates over the last two decades – 100% fixed, 100% volumetric, and now a combination of the two.

NBS developed several rate alternatives as requested by City staff over the course of this study, although staff chose to maintain the existing rate structure. All rate alternatives developed in this study relied on industry standard cost of service principles. The fixed and variable charges were developed based on the net revenue requirements, number of customer accounts and EDU's, water consumption and other City'-provided information. Detailed tables showing the systematic development of the analysis are presented in Appendix B – Sewer Rate Study Summary Tables.

Financial Plan

To identify the sewer utility's long-term financial needs, including funding for capital improvement projects, NBS developed a 20-year financial plan that forecasts sewer revenues, expenditures, and projected reserves. This plan is based on the City's current operating budget for the utility, discussions with City staff, and related information such as capital improvement plans and financial statements.

KEY ASSUMPTIONS

The following are the key assumptions used in the rate analysis:

- ▮ **Funding Capital Projects** – The analysis assumes that capital project costs will be funded with reserves over the next five years.
- ▮ **Reserve Targets** – NBS has developed reserve targets that are based on the City's specific needs and accommodate the timing of annual billing on the tax roll.
- ▮ **Inflation and Growth Projections** – The following inflation factors were applied to revenues and expenditures in the analysis:
 - ▮ General inflation is 3.0 percent annually.
 - ▮ Labor cost inflation is 4.0 percent annually.
 - ▮ PERS Obligation inflation is 22.35 percent in FY 2018/19 and decreases to 11.5 percent by FY 2022/23. Long-term inflation is held at 5.57 percent per year.
 - ▮ Energy cost inflation is 5.0 percent annually.
 - ▮ Palo Alto RWQCP cost inflation is approximately 4.0 percent annually (ranges from 3.64-4.06 percent).
 - ▮ No customer growth is anticipated.

The City of Palo Alto also provided a 10-year projection of costs for the Regional Water Quality Control Plant (RWQCP). The RWQCP cost projection includes the City's share of annual operating costs, debt service payments and capital improvement costs. RWQCP costs are allocated to the City of Los Altos based

on annual metered flow sent to the treatment plant; typically, the City represents around 10 percent of total RWQCP flows.

KEY OBJECTIVES

This financial plan addresses three primary objectives:

1. **Meeting Operating Costs:** The sewer utility must generate enough revenue to cover the expenses of sewer operations, including: administration, maintenance of the collection system, and RWQCP treatment costs. Operating costs are approximately \$3.6 million in FY 2018/19.
2. **Meeting Capital Improvement Costs:** The sewer utility plans to adequately fund necessary capital improvements, which includes roughly \$16.9 million in planned capital improvements for the current fiscal year through the end of FY 2022/23.
3. **Maintaining Reserve Funds:** Currently, the sewer utility's reserves are higher than target levels. Recommended rate adjustments will help maintain healthy unrestricted and restricted reserve fund balances over the next ten years. After discussions with City staff, the following reserve targets were established for this analysis:
 - N **Operating Reserve** equal to about 50 percent of the utility's budgeted annual operating expenses. This reserve target is equal to a six-month (or 180-day) cash cushion for normal operations. In FY 2018/19 the operating reserve target is \$1.8 million. This reserve is intended to ensure financial stability in the event of any short-term fluctuation in revenues and/or expenditures. Also of note, since the City collects sewer rates on the tax roll (and not on a monthly billing cycle), a higher reserve fund level will help carry the utility through semi-annual payments from Santa Clara County.
 - N **Capital Rehabilitation and Replacement (R&R) Reserve** equal to average annual capital expenditures serves as a starting point for supporting long-term capital needs. For FY 2018/19, this reserve target is \$2.3 million. The primary purpose of a capital reserves is to set aside a cash resource to address long-term capital rehabilitation and replacement needs.
 - N **City of Palo Alto RWQCP Reserve** is a new, recommended reserve target intended to accumulate funds equal to one year of CIP costs that the City pays to Palo Alto (for RWQCP costs). Target reserve level is initially set at \$300,000.
 - N **Debt Reserves** for the sewer utility's existing debt obligations has a target level of \$462,000 in FY 2018/19 and increases to approximately \$570,000 by FY 2019/20. The City does not have any direct debt issuances; debt service obligations are through the City's partnership with Palo Alto's RWQCP. Debt reserves increase in anticipation of new bonds being issued for projects at the RWQCP. Debt reserve funds are typically considered restricted funds.

Figure 2 summarizes the sources and uses of funds and net revenue requirements for the next five years. Figure 3 summarizes the utility's projected reserve funds and target balances for the next five years.

FIGURE 2. SUMMARY OF SEWER REVENUE REQUIREMENTS

Summary of Sources and Uses of Funds and Net Revenue Requirements	Budget	Projected				
	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
Sources of Wastewater Funds						
Rate Revenue Under Prevailing Rates	\$ 6,000,000	\$ 6,000,000	\$ 6,000,000	\$ 6,000,000	\$ 6,000,000	\$ 6,000,000
Additional Revenue from Rate Increases (1)	-	150,000	334,500	524,535	720,271	921,879
Sewer Service Charge not on Tax Roll	400,000	400,000	400,000	400,000	400,000	400,000
Non-Rate Revenues	52,100	31,835	43,216	60,539	79,377	96,888
Total Sources of Funds	\$ 6,452,100	\$ 6,581,835	\$ 6,777,716	\$ 6,985,074	\$ 7,199,648	\$ 7,418,767
Uses of Wastewater Funds						
Operating Expenses	\$ 3,606,883	\$ 3,619,614	\$ 3,771,246	\$ 3,918,434	\$ 4,084,011	\$ 4,254,008
Debt Service	126,204	245,630	452,269	465,652	470,458	470,650
Rate-Funded Capital Expenses	-	-	-	-	-	-
Total Use of Funds	\$ 3,733,087	\$ 3,865,244	\$ 4,223,515	\$ 4,384,086	\$ 4,554,469	\$ 4,724,658
Projected Annual Rate Increase	0.00%	2.50%	3.00%	3.00%	3.00%	3.00%
Cumulative Rate Increases	0.00%	2.50%	5.58%	8.74%	12.00%	15.36%
Rate Revenue with Annual Rate Increase(s)	\$ 6,000,000	\$ 6,150,000	\$ 6,334,500	\$ 6,524,535	\$ 6,720,271	\$ 6,921,879
Surplus (Deficiency) before Rate Increase	2,719,013	2,716,590	2,554,202	2,600,988	2,645,179	2,694,109
Surplus (Deficiency) after Rate Increase	2,719,013	2,866,590	2,888,702	3,125,523	3,365,450	3,615,988
Net Revenue Requirement (2)	\$ 3,280,987	\$ 3,433,410	\$ 3,780,298	\$ 3,923,547	\$ 4,075,092	\$ 4,227,771

1. Assumes new rates are implemented July 1, 2018.

2. Total Use of Funds less non-rate revenues. This is the annual amount needed from wastewater rates.

FIGURE 3. SUMMARY OF SEWER RESERVE FUNDS

Beginning Reserve Fund Balances and Recommended Reserve Targets	Budget	Projected				
	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
Un-Restricted Reserves						
Operating Reserve						
Ending Balance	\$ 1,803,400	\$ 1,809,800	\$ 1,885,600	\$ 1,959,200	\$ 2,042,000	\$ 2,127,000
Recommended Minimum Target	\$ 1,803,400	\$ 1,809,800	\$ 1,885,600	\$ 1,959,200	\$ 2,042,000	\$ 2,127,000
Capital Rehabilitation & Replacement Reserve						
Ending Balance	\$ 7,370,829	\$ 6,833,467	\$ 6,186,286	\$ 5,978,465	\$ 5,709,024	\$ 5,335,105
Recommended Minimum Target	\$ 2,300,000	\$ 2,370,000	\$ 2,440,000	\$ 2,510,000	\$ 2,590,000	\$ 2,670,000
City of Palo Alto RWQCP R&R Reserve						
Ending Balance	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 310,000	\$ 320,000
Recommended Minimum Target	\$ 300,000	\$ 290,000	\$ 290,000	\$ 300,000	\$ 310,000	\$ 320,000
Restricted Reserves						
Debt Reserve						
Ending Balance	\$ 126,850	\$ 462,690	\$ 568,436	\$ 568,436	\$ 568,272	\$ 568,272
Recommended Minimum Target	\$ 126,411	\$ 462,690	\$ 568,436	\$ 568,436	\$ 568,272	\$ 568,272
Total Ending Balance	\$ 9,601,078	\$ 9,405,958	\$ 8,940,321	\$ 8,806,100	\$ 8,629,296	\$ 8,350,377
Recommended Minimum Target	\$ 4,529,811	\$ 4,932,490	\$ 5,184,036	\$ 5,337,636	\$ 5,510,272	\$ 5,685,272

A summary of the entire 20-year financial plan, showing revenue requirements, revenues, and recommended rate increases is presented in Appendix B, along with a summary of the City's capital improvement program.

Cost-of-Service Summary

Once the revenue requirements are determined, the cost-of-service analysis distributes the revenue requirements to cost classification components. These include the estimated amount of effluent (flow or volume), effluent strengths (COD and TSS), and customer-related costs (e.g., billing and administrative costs). Figure 4 shows the net revenue requirements of \$6,150,000 to be collected from sewer rates.

FIGURE 4. RATE REVENUE REQUIREMENTS BY COST CLASSIFICATION

Cost Classification Components	Volume	Treatment		Customer Related	Cost-of-Service Net Revenue Requirement
		COD	TSS		
Net Revenue Requirements	\$ 4,272,233	\$ 864,045	\$ 864,045	\$ 149,676	\$ 6,150,000
<i>% of Net Revenue Requirements</i>	<i>69.5%</i>	<i>14.0%</i>	<i>14.0%</i>	<i>2.4%</i>	<i>100.0%</i>

Actual sewer flow data from 2016 and 2017 was used in the Study. The City uses average winter water consumption from the previous calendar year (lowest water consumption for three months) to estimate annual sewer usage¹.

Figure 5 shows winter-average flow by customer class. The City’s sewer customer classes are represented by the following types of customers: residential, multi-family residential, commercial, and public/institutional.

FIGURE 5. SUMMARY OF ESTIMATED FLOW TO TREATMENT PLANT

Customer Class	Number of Accounts	Annual Winter-Average Based Volume (HCF)	Percentage of Adjusted Volume
Residential			
Single Family Home	10,330	893,765	78.3%
Multifamily Residence (2 units)	65	7,884	0.7%
Multifamily Residence (3-4 units) & Multifamily Residence (5+ units)	35	21,748	1.9%
Condominium Unit	1,029	52,954	4.6%
Commercial	490	135,753	11.9%
Public/Institutional	45	30,028	2.6%
Grand Total:	11,994	1,142,132	100.0%

1. Data Source: Los Altos Combined Levy data 1516 to 1718.xlsx;
Restaurant information: March 2017.xlsx and April and May 2-17.xlsx FOG reports.

Figure 6 compares the total number of accounts and equivalent dwelling units (EDUs) by customer class. EDUs are assigned to customers based on average winter water consumption. Typically, a single-family residential customer represents one EDU. Multi-family residential customers are assigned one EDU per unit (i.e. a triplex would be equal to three EDUs). Commercial customer EDUs are recalculated annually based on water consumption².

¹ The City bills sewer usage on a per unit basis; one estimated sewer unit is equal to 748 gallons or one (1) hundred cubic feet (hcf).

² See City of Los Altos Ordinance No. 2013-394; Section 10.12.140, Estimation of Sewer Use.

FIGURE 6. SUMMARY OF SEWER CUSTOMER ACCOUNTS AND EQUIVALENT DWELLING UNITS (EDU'S)

Customer Class	Number of Accounts (1)	Percent of Total	Number of Equivalent Dwelling Units (1)	Percent of Total
Residential				
Single Family Home	10,330	86.1%	10,330	74.9%
Multifamily Residence (2 units)	65	0.5%	130	0.9%
Multifamily Residence (3-4 units) & Multifamily Residence (5+ units)	35	0.3%	554	4.0%
Condominium Unit	1,029	8.6%	1,029	7.5%
Commercial	490	4.1%	1,464	10.6%
Public/Institutional	45	0.4%	277	2.0%
Total:	11,994	100%	13,785	100%
Vacant	15	0.00%	-	0.00%
N/A	3	0.00%	-	0.00%
Grand Total:	12,012	0.00%	13,785	0.00%

1. Data Source: Los Altos Combined Levy data 1516 to 1718.xlsx.

Fixed and Variable Charges

The City's sewer rates consist of a fixed annual base charge per equivalent dwelling unit (EDU), and a volumetric rate for all water consumed. Water consumption charges are based on average winter water use from the prior year (using the three wettest months)³.

The existing rate structure collects 40 percent of revenue from volumetric charges and 60 percent of revenue from fixed charges; City Staff has decided to maintain this revenue allocation in the proposed rates. Figure 7 calculates the fixed charge per EDU; and Figure 8 calculates the volumetric charge per HCF. Figure 9 shows the current and proposed sewer rates through FY 2022/23.

FIGURE 7. SEWER RATE CALCULATION FOR FY 2018/19 – FIXED CHARGES

Fixed Charges (per EDU)	Total Revenue Requirements	Percent of Total Rev. Req't. to be Collected from Fixed Charges	Amount to be Collected from Fixed Charges	Number of Equivalent Dwelling Units	Rate per EDU
	A	B	C = A * B	D	E = C / D
All Customers	\$6,150,000	60%	\$3,690,000	13,785	\$267.69

FIGURE 8. SEWER RATE CALCULATION FOR FY 2018/19 – VOLUMETRIC CHARGES

Volumetric Charges (per HCF)	Total Revenue Requirements	Percent of Total Rev. Req't. to be Collected from Volumetric Charges	Amount to be Collected from Volumetric Charges	Annual Billable Volume (hcf)	Rate per HCF
	F	G = 1 - B	H = F * G	I	J = H / I
All Customers	\$6,150,000	40%	\$2,460,000	1,142,132	\$2.15

³ Average winter consumption is recalculated each year using the most recent winter water consumption.

FIGURE 9. CURRENT (FY 2017/18) AND PROPOSED SEWER RATES (FY 2018/19 – FY 2022/23)

Sewer Rate Schedule	Current Rates	Proposed Yearly Sewer Rates				
		Year 1	Year 2	Year 3	Year 4	Year 5
		FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
Annual Fixed Service Charge per EDU	\$261.35	\$267.69	\$275.72	\$283.99	\$292.51	\$301.29
Volumetric Rate (\$/hcf) (1, 2)	\$2.07	\$2.15	\$2.21	\$2.28	\$2.35	\$2.42

1. One Unit is equal to one HCF (Hundred Cubic Feet) or 748 gallons.
2. Rates are charged based on average winter water consumption (three lowest months from previous year).

Customer Bill Comparisons

RESIDENTIAL SEWER CUSTOMERS

Figure 10 compares typical single-family annual sewer bills over the next five years, under the current and proposed rates. Similarly, Figure 11 compares typical multi-family annual sewer bills over the next five years, under the current and proposed rates.

FIGURE 10. ANNUAL SINGLE-FAMILY SEWER BILL COMPARISON

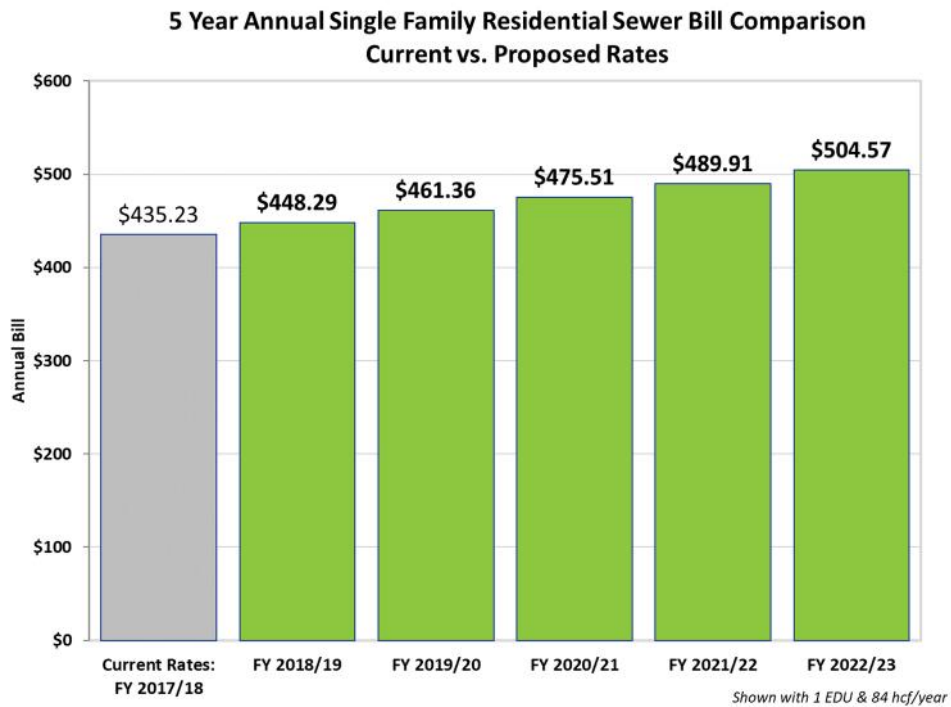
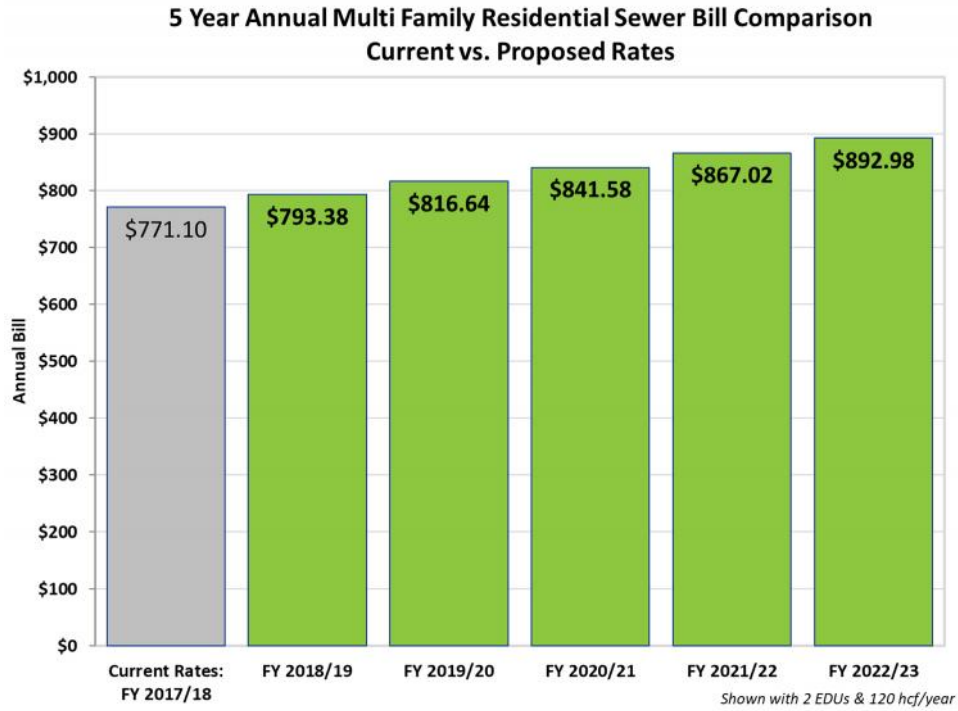


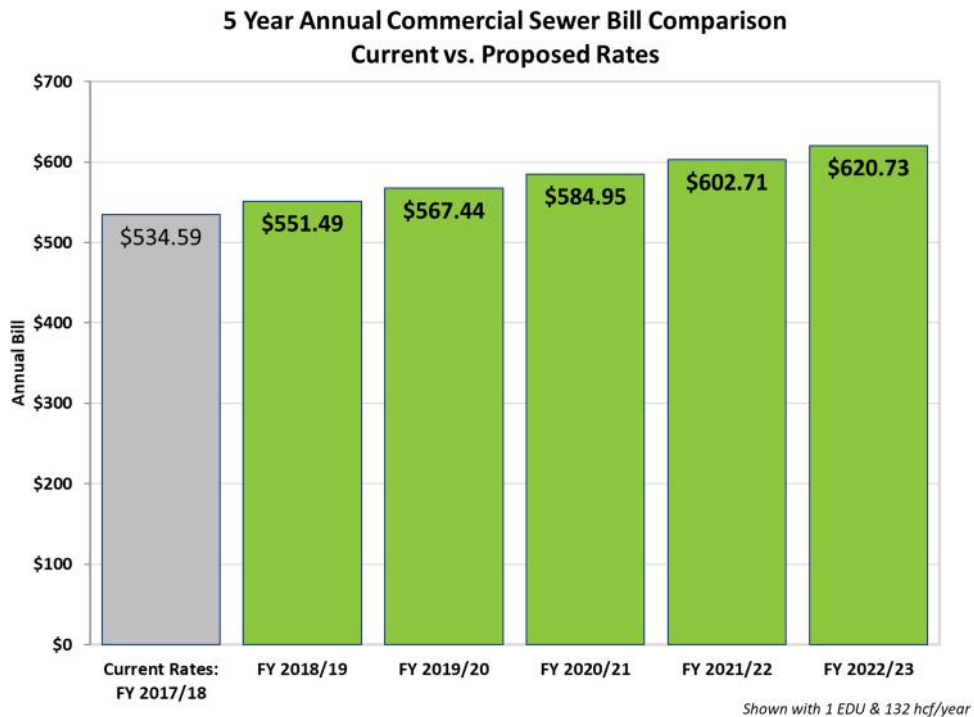
FIGURE 11. ANNUAL MULTI-FAMILY SEWER BILL COMPARISON (2 UNITS)



COMMERCIAL SEWER CUSTOMERS

Figure 12 compares typical commercial annual sewer bills over the next five years, under the current and proposed rates.

FIGURE 12. ANNUAL COMMERCIAL SEWER BILL COMPARISON



Section 3. NEXT STEPS

Next Steps

A public hearing and protest balloting process are the next steps required to adopt new sewer rates. As a part of this process, NBS recommends the City take the following actions:

- ▮ **Approve and Accept This Study Report:** NBS recommends the City Council formally approve and adopt this report and its recommendations. This will provide the documentation and administrative record necessary to adopt and implement the proposed sewer rates.
- ▮ **Implement Proposed Rates:** Based on successfully meeting the Proposition 218 balloting requirements, the City Council should proceed with implementing the rates proposed in this report for the next five years (see Figure 9). These rates are intended to ensure the continued financial health of the City's sewer utility.
- ▮ **Further Evaluate the Cost of Service for Each Customer Class:** NBS recommends that the City take the steps necessary to implement full cost of service based sewer rates at a later date, that reflect the cost of providing sewer collection and treatment services to various customer classes. This process would include developing a rate structure that varies by customer class.

ANNUALLY REVIEW RATES AND REVENUE

Any time an agency adopts new utility rates, particularly when facing significant future capital costs, those new rates should be closely monitored over the next several years to ensure the revenue generated is sufficient to meet the annual revenue requirements. Changing economic and water consumption patterns underscore the need for this review, as well as potential and unseen changing revenue requirements, particularly those related to capital improvement and repair and replacement costs that can significantly affect annual cash flows.

PRINCIPAL ASSUMPTIONS AND CONSIDERATIONS

In preparing this report and the recommendations included herein, NBS has relied on a number of principal assumptions and considerations with regard to financial matters, including the City's utility budgets, capital improvement plans, the number of customer accounts, water consumption records, and other conditions and events projected to occur in the future. This information and these assumptions were provided by sources we believe to be reliable, although NBS has not independently verified this data.

While we believe NBS' use of such information and assumptions is reasonable for the purpose of this report and its recommendations, some assumptions will invariably not materialize as stated herein or may vary significantly due to unanticipated events and circumstances. Therefore, the actual results can be expected to vary from those projected to the extent that actual future conditions differ from those assumed by us or provided to us by others.

Section 4. APPENDIX A – ABBREVIATIONS & ACRONYMS⁴

AAF	Average Annual Flow
Alt.	Alternative
Avg.	Average
AWWA	American Water Works Association
BMP	Best Management Practice
BOD	Biochemical Oxygen Demand
CA	Customer
CAP	Capacity
CCI	Construction Cost Index
COD	Chemical Oxygen Demand
COM	Commodity
Comm.	Commercial
COS	Cost of Service
COSA	Cost of Service Analysis
CPI	Consumer Price Index
CIP	Capital Improvement Program
DU	Dwelling Unit
Excl.	Exclude
ENR	Engineering News Record
EDU	Equivalent Dwelling Unit
Exp.	Expense
FY	Fiscal Year (e.g., July 1st to June 30th)
FY 2017/18	July 1, 2017 through June 30, 2018
GPD	Gallons per Day
GPM	Gallons per Minute
HCF	Hundred Cubic Feet; equal to 748 gallons or 1 CCF
Ind.	Industrial
LAIF	Local Agency Investment Fund
Lbs.	Pounds
MFR	Multi-Family Residential
MGD	Million Gallons per Day
MG/L	Milligrams per Liter
Mo.	Month
Muni.	Municipal
NH ₃	Ammonia
N/A	Not Available or Not Applicable
O&M	Operational & Maintenance Expenses
Prop 13	Proposition 13 (1978) – Article XIII A of the California Constitution which limits taxes on real property to 1 percent of the full cash value of such property.
Prop 218	Proposition 218 (1996) – State Constitutional amendment expanded restrictions of local government revenue collections.
Req't	Requirement
Res.	Residential
Rev.	Revenue
R&R	Rehabilitation & Replacement
SFR	Single Family Residential
TSS / SS	Total Suspended Solids
V. / Vs. /vs.	Versus
WWTP	Waste Water Treatment Plant

4 This appendix identifies abbreviations and acronyms that may be used in this report. This appendix has not been viewed, arranged, or edited by an attorney, nor should it be relied on as legal advice. The intent of this appendix is to support the recognition and analysis of this report. Any questions regarding clarification of this document should be directed to staff or an attorney specializing in this particular subject matter.

Section 5. **APPENDIX B – SEWER RATE STUDY SUMMARY TABLES**

TABLE 1
FINANCIAL PLAN AND SUMMARY OF REVENUE REQUIREMENTS

RATE REVENUE REQUIREMENTS SUMMARY	Budget	Projected					Projected				
	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Sources of Funds (Sewer Revenues) (1)											
<i>Rate Revenue:</i>											
Sewer Service Charge on Tax Roll	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Revenue from Rate Increases (2)	-	150,000	334,500	524,535	720,271	921,879	1,198,754	1,486,705	1,786,173	2,097,620	2,421,524
Subtotal: Rate Revenue After Rate Increases	6,000,000	6,150,000	6,334,500	6,524,535	6,720,271	6,921,879	7,198,754	7,486,705	7,786,173	8,097,620	8,421,524
<i>Non-Rate Revenue:</i>											
Sewer Service Charge not on Tax Roll	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000
Other Revenues	16,000	-	-	-	-	-	-	-	-	-	-
Interest Income (3)	36,100	31,835	44,012	61,733	80,968	98,877	114,319	128,880	143,822	139,573	135,879
Subtotal: Rate Revenue After Rate Increases	452,100	431,835	444,012	461,733	480,968	498,877	514,319	528,880	543,822	539,573	535,879
Total Sources of Funds	\$ 6,452,100	\$ 6,581,835	\$ 6,778,512	\$ 6,986,268	\$ 7,201,239	\$ 7,420,756	\$ 7,713,073	\$ 8,015,584	\$ 8,329,995	\$ 8,637,193	\$ 8,957,403
Uses of Funds											
<i>Operating Expenses (4):</i>											
Salaries and Benefits	\$ 783,446	\$ 824,767	\$ 869,114	\$ 911,457	\$ 958,061	\$ 1,004,269	\$ 1,048,014	\$ 1,091,881	\$ 1,137,613	\$ 1,185,288	\$ 1,234,992
Utilities	56,100	57,983	59,932	61,951	64,041	66,205	68,447	70,768	73,173	75,663	78,243
Repair and Services	241,693	250,381	259,387	268,722	278,400	288,433	298,835	309,618	320,797	332,388	344,404
Equipment	76,000	78,280	80,628	83,047	85,539	88,105	90,748	93,470	96,275	99,163	102,138
City of Palo Alto RWQCP O&M	2,449,644	2,408,203	2,502,184	2,593,257	2,697,970	2,806,996	2,920,636	3,039,090	3,162,459	3,291,044	3,422,072
Subtotal: Operating Expenses	\$ 3,606,883	\$ 3,619,614	\$ 3,771,246	\$ 3,918,434	\$ 4,084,011	\$ 4,254,008	\$ 4,426,679	\$ 4,604,828	\$ 4,790,316	\$ 4,983,546	\$ 5,181,850
<i>Other Expenditures:</i>											
Existing Debt Service - Palo Alto RWQCP	\$ 126,204	\$ 245,630	\$ 452,269	\$ 465,652	\$ 470,458	\$ 470,650	\$ 470,567	\$ 494,662	\$ 494,866	\$ 494,342	\$ 494,037
Existing Debt Service - City of Los Altos	-	-	-	-	-	-	-	-	-	-	-
Future Debt Service	-	-	-	-	-	-	-	-	-	-	-
Rate-Funded Capital Expenses	-	-	-	-	-	-	324,492	838,747	1,275,255	1,767,275	2,238,250
Subtotal: Other Expenditures	\$ 126,204	\$ 245,630	\$ 452,269	\$ 465,652	\$ 470,458	\$ 470,650	\$ 795,059	\$ 1,333,409	\$ 1,770,121	\$ 2,261,617	\$ 2,732,287
Total Uses of Sewer Funds	\$ 3,733,087	\$ 3,865,244	\$ 4,223,515	\$ 4,384,086	\$ 4,554,469	\$ 4,724,658	\$ 5,221,738	\$ 5,938,237	\$ 6,560,437	\$ 7,245,163	\$ 7,914,137
Annual Surplus/(Deficit)	\$ 2,719,013	\$ 2,716,590	\$ 2,554,997	\$ 2,602,182	\$ 2,646,770	\$ 2,696,098	\$ 2,491,335	\$ 2,077,347	\$ 1,769,558	\$ 1,392,030	\$ 1,043,267
Net Revenue Req't. <i>(Total Uses less Non-Rate Revenue)</i>	\$ 3,280,987	\$ 3,433,410	\$ 3,779,503	\$ 3,922,353	\$ 4,073,501	\$ 4,225,781	\$ 4,707,419	\$ 5,409,357	\$ 6,016,615	\$ 6,705,590	\$ 7,378,258
Total Rate Revenue After Rate Increases	\$ 6,000,000	\$ 6,150,000	\$ 6,334,500	\$ 6,524,535	\$ 6,720,271	\$ 6,921,879	\$ 7,198,754	\$ 7,486,705	\$ 7,786,173	\$ 8,097,620	\$ 8,421,524
Projected Annual Rate Revenue Increase	0.00%	2.50%	3.00%	3.00%	3.00%	3.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Cumulative Increase from Annual Revenue Increases	0.00%	2.50%	5.58%	8.74%	12.00%	15.36%	19.98%	24.78%	29.77%	34.96%	40.36%
Debt Coverage After Rate Increase	22.54	12.06	6.65	6.59	6.63	6.73	6.98	6.90	7.15	7.39	7.64

1. Revenue are Budgeted for FY 2017/18.
2. Revenue from rate increases assumes an implementation date of July 1, 2018 for new rates.
For each year thereafter, the assumption is that new rates will be implemented on July 1st. Rate revenue collected on property tax bills.
3. Interest earnings beginning in FY 2018/19 are calculated based on historical LAIF returns.
4. Operating Expenses for FY 2017/18 are Budget Expenses.

TABLE 2
RESERVE FUND SUMMARY

SUMMARY OF CASH ACTIVITY	Budget	Projected									
	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Total Beginning Cash (1)	\$ 9,293,454										
Un-Restricted Reserves:											
Operating Reserve											
Beginning Reserve Balance (2)	\$ 1,803,400	\$ 1,803,400	\$ 1,809,800	\$ 1,885,600	\$ 1,959,200	\$ 2,042,000	\$ 2,127,000	\$ 2,213,300	\$ 2,302,400	\$ 2,395,200	\$ 2,491,800
Plus: Net Cash Flow (After Rate Increases)	2,719,013	2,716,590	2,554,997	2,602,182	2,646,770	2,696,098	2,491,335	2,077,347	1,769,558	1,392,030	1,043,267
Plus: Transfer of Debt Reserve Surplus	-	440	1,518	3,070	4,256	5,114	6,224	80,477	6,714	6,714	6,714
Plus: Transfer of Capital R&R Reserve Surplus	-	-	-	-	-	-	-	-	-	-	-
Less: Transfer Out to Debt Service Reserve	-	(176,687)	(105,745)	-	-	-	-	-	-	-	-
Less: Transfer Out to City of Palo Alto RWQCP R&R Reserve	-	-	-	-	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	-	(10,000)
Less: Transfer Out to Capital Replacement Reserve	(2,719,013)	(2,533,943)	(2,374,970)	(2,531,652)	(2,558,227)	(2,606,212)	(2,401,260)	(2,058,724)	(1,673,472)	(1,302,144)	(940,881)
Ending Operating Reserve Balance	\$ 1,803,400	\$ 1,809,800	\$ 1,885,600	\$ 1,959,200	\$ 2,042,000	\$ 2,127,000	\$ 2,213,300	\$ 2,302,400	\$ 2,395,200	\$ 2,491,800	\$ 2,590,900
Target Ending Balance (6 months of O&M)	\$ 1,803,400	\$ 1,809,800	\$ 1,885,600	\$ 1,959,200	\$ 2,042,000	\$ 2,127,000	\$ 2,213,300	\$ 2,302,400	\$ 2,395,200	\$ 2,491,800	\$ 2,590,900
Capital Rehabilitation & Replacement Reserve											
Beginning Reserve Balance (2)	\$ 7,063,643	\$ 7,370,829	\$ 6,992,621	\$ 6,345,439	\$ 6,137,618	\$ 5,868,177	\$ 5,494,258	\$ 5,151,260	\$ 4,888,724	\$ 4,583,472	\$ 4,302,144
Plus: Grant Proceeds	-	-	-	-	-	-	-	-	-	-	-
Plus: Transfer of Operating Reserve Surplus	2,719,013	2,533,943	2,374,970	2,531,652	2,558,227	2,606,212	2,401,260	2,058,724	1,673,472	1,302,144	940,881
Plus: Transfer of City of Palo Alto RWQCP R&R Reserve Surplus	-	-	-	-	-	-	-	-	-	-	-
Less: Transfer Out to Operating Replacement Reserve	-	-	-	-	-	-	-	-	-	-	-
Less: Transfer Out for Capital Projects	(2,411,827)	(2,912,151)	(3,022,151)	(2,739,473)	(2,827,667)	(2,980,131)	(2,744,258)	(2,321,260)	(1,978,724)	(1,583,472)	(1,212,144)
Ending Capital Rehab & Replacement Reserve Balance	\$ 7,370,829	\$ 6,992,621	\$ 6,345,439	\$ 6,137,618	\$ 5,868,177	\$ 5,494,258	\$ 5,151,260	\$ 4,888,724	\$ 4,583,472	\$ 4,302,144	\$ 4,030,881
Capital R&R Reserve (based on estimated annual CIP expenditure)	\$ 2,300,000	\$ 2,370,000	\$ 2,440,000	\$ 2,510,000	\$ 2,590,000	\$ 2,670,000	\$ 2,750,000	\$ 2,830,000	\$ 2,910,000	\$ 3,000,000	\$ 3,090,000
City of Palo Alto RWQCP R&R Reserve											
Beginning Reserve Balance (2)	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 310,000	\$ 320,000	\$ 330,000	\$ 340,000	\$ 350,000	\$ 350,000
Plus: Transfer of Operating Reserve Surplus	-	-	-	-	10,000	10,000	10,000	10,000	10,000	-	10,000
Less: Transfer Out for Capital Projects	-	-	-	-	-	-	-	-	-	-	-
Ending Capital Rehab & Replacement Reserve Balance	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 310,000	\$ 320,000	\$ 330,000	\$ 340,000	\$ 350,000	\$ 350,000	\$ 360,000
RWQCP R&R Reserve (1 year CIP costs)	\$ 300,000	\$ 290,000	\$ 290,000	\$ 300,000	\$ 310,000	\$ 320,000	\$ 330,000	\$ 340,000	\$ 350,000	\$ 350,000	\$ 360,000
Ending Balance - Excl. Restricted Reserves	\$ 9,474,229	\$ 9,102,421	\$ 8,531,039	\$ 8,396,818	\$ 8,220,177	\$ 7,941,258	\$ 7,694,560	\$ 7,531,124	\$ 7,328,672	\$ 7,143,944	\$ 6,981,781
Min. Target Ending Balance -Excl. Restricted Reserves	\$ 4,403,400	\$ 4,469,800	\$ 4,615,600	\$ 4,769,200	\$ 4,942,000	\$ 5,117,000	\$ 5,293,300	\$ 5,472,400	\$ 5,655,200	\$ 5,841,800	\$ 6,040,900
Ending Surplus/(Deficit) Compared to Reserve Targets	\$ 5,070,829	\$ 4,632,621	\$ 3,915,439	\$ 3,627,618	\$ 3,278,177	\$ 2,824,258	\$ 2,401,260	\$ 2,058,724	\$ 1,673,472	\$ 1,302,144	\$ 940,881

TABLE 3
RESERVE FUND SUMMARY

SUMMARY OF CASH ACTIVITY	Budget	Projected									
	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Restricted Reserves:											
Connection Fee Reserve											
Beginning Reserve Balance	\$ -	\$ 30,000	\$ 40,104	\$ 50,305	\$ 60,682	\$ 71,289	\$ 82,180	\$ 93,413	\$ 105,047	\$ 117,148	\$ 129,491
Plus: Interest Earnings	-	104	201	377	607	891	1,233	1,635	2,101	2,343	2,590
Plus: Connection Fee Revenue	30,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Less: Use of Reserves for Capital Projects	-	-	-	-	-	-	-	-	-	-	-
Ending Connection Fee Fund Balance	\$ 30,000	\$ 40,104	\$ 50,305	\$ 60,682	\$ 71,289	\$ 82,180	\$ 93,413	\$ 105,047	\$ 117,148	\$ 129,491	\$ 142,081
Target Ending Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Bond Project Fund											
Beginning Reserve Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Plus: SRF Loan Funding Proceeds	-	-	-	-	-	-	-	-	-	-	-
Plus: Revenue Bond Proceeds	-	-	-	-	-	-	-	-	-	-	-
Less: Use of Bond & Loan Funds for Capital Projects	-	-	-	-	-	-	-	-	-	-	-
Ending Bond Project Fund Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Target Ending Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Reserve											
Beginning Reserve Balance	\$ 126,411	\$ 126,850	\$ 303,537	\$ 409,282	\$ 409,282	\$ 409,119	\$ 409,119	\$ 409,031	\$ 335,713	\$ 335,713	\$ 335,713
Plus: Reserve Funding from Operating Reserve	-	176,687	105,745	-	-	-	-	-	-	-	-
Plus: Reserve Funding from Future Debt Obligations	-	-	-	-	-	-	-	-	-	-	-
Plus: Interest Earnings	439	440	1,518	3,070	4,093	5,114	6,137	7,158	6,714	6,714	6,714
Less: Transfer of Surplus to Operating Reserve	-	(440)	(1,518)	(3,070)	(4,256)	(5,114)	(6,224)	(80,477)	(6,714)	(6,714)	(6,714)
Ending Debt Reserve Balance	\$ 126,850	\$ 303,537	\$ 409,282	\$ 409,282	\$ 409,119	\$ 409,119	\$ 409,031	\$ 335,713	\$ 335,713	\$ 335,713	\$ 335,713
Target Ending Balance	\$ 126,411	\$ 303,537	\$ 409,282	\$ 409,282	\$ 409,119	\$ 409,119	\$ 409,031	\$ 335,713	\$ 335,713	\$ 335,713	\$ 335,713
Ending Balance - Restricted Reserves	\$ 156,850	\$ 343,641	\$ 459,587	\$ 469,964	\$ 480,408	\$ 491,299	\$ 502,444	\$ 440,760	\$ 452,861	\$ 465,204	\$ 477,794
Min. Target Ending Balance - Restricted Reserves	\$ 126,411	\$ 303,537	\$ 409,282	\$ 409,282	\$ 409,119	\$ 409,119	\$ 409,031	\$ 335,713	\$ 335,713	\$ 335,713	\$ 335,713
Ending Surplus/(Deficit) Compared to Reserve Targets	\$ 30,439	\$ 40,104	\$ 50,305	\$ 60,682	\$ 71,289	\$ 82,180	\$ 93,413	\$ 105,047	\$ 117,148	\$ 129,491	\$ 142,081
Annual Interest Earnings Rate (3)	0.35%	0.35%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%	2.00%	2.00%

RESERVE FUND SUMMARY FOOTNOTES

1. The beginning Cash balance is equal to the amount in the Sewer Fund, per the 2016 Audited Financial Statement (source: email sent August 31, 2017).
2. NBS assumes total unrestricted cash of \$9,293,454 is first used to fully fund operating reserve. The remainder is placed in Capital Rehabilitation & Replacement Reserve and City of Palo Alto R&R Reserve.
3. Historical interest earning rates were referenced on the California Treasurer's Office website for funds invested in LAIF. Future years earnings were conservatively estimated through 2022 and phase into the historical 10 year average interest earnings rate.

CHART 1

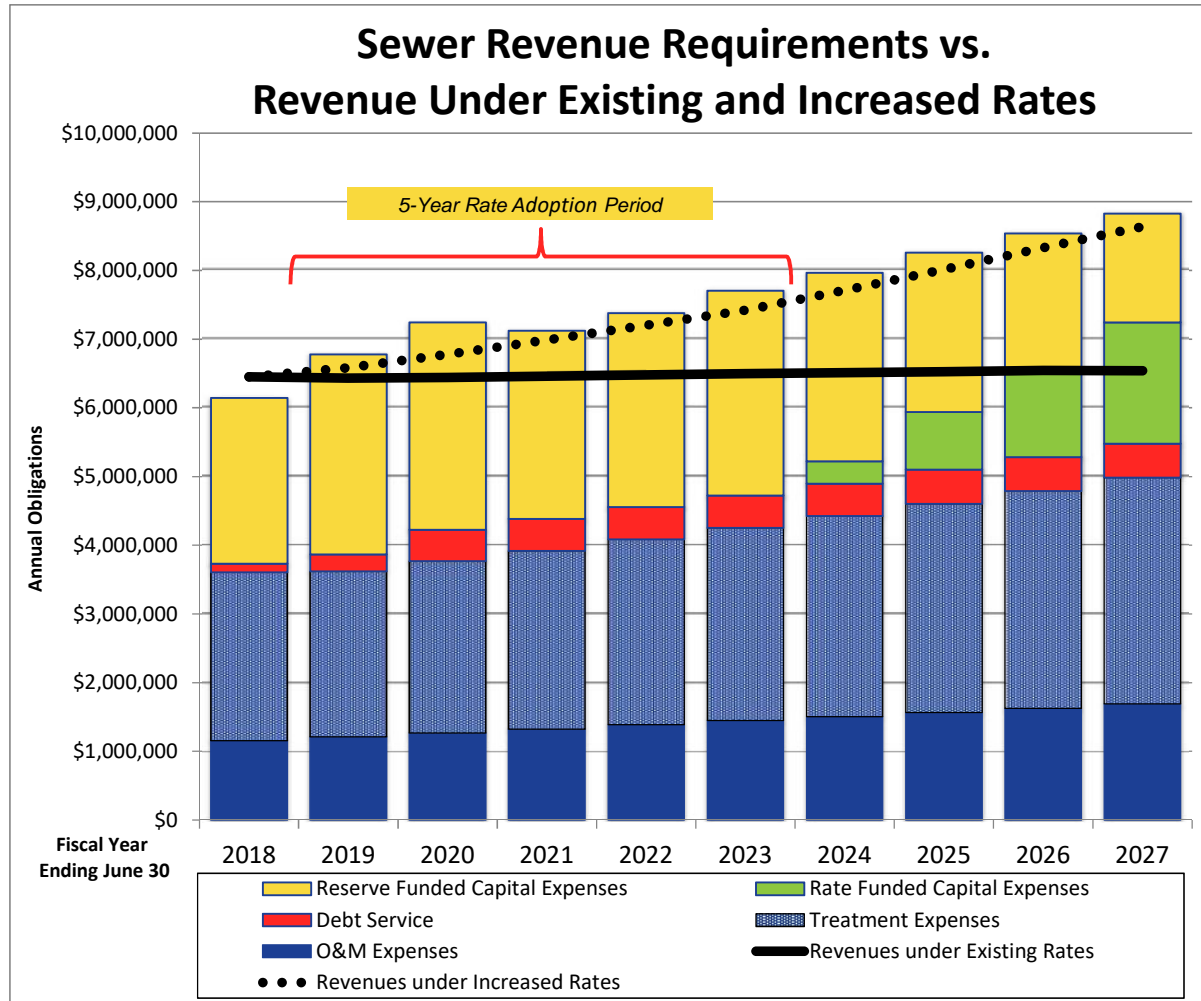


CHART 2

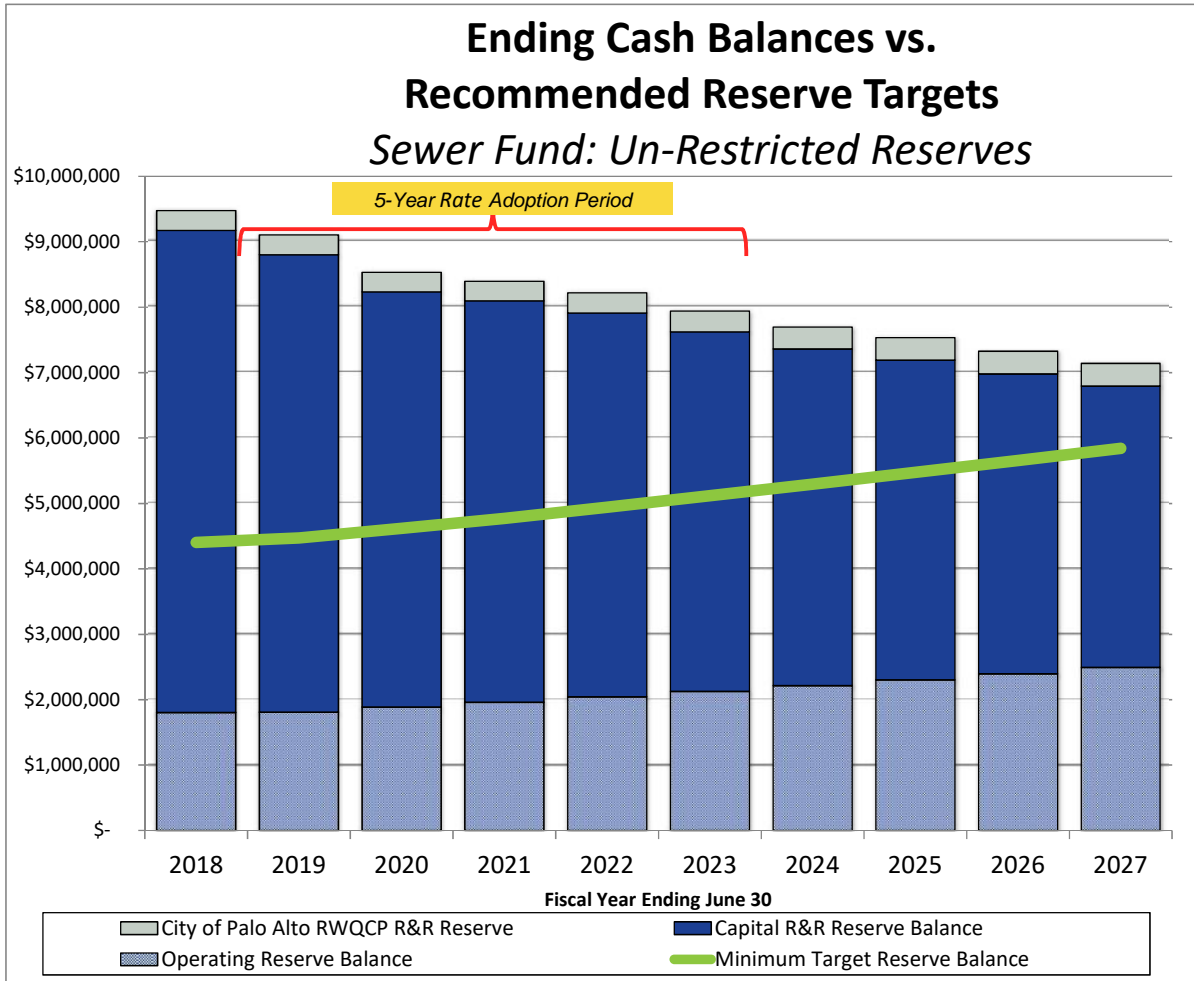
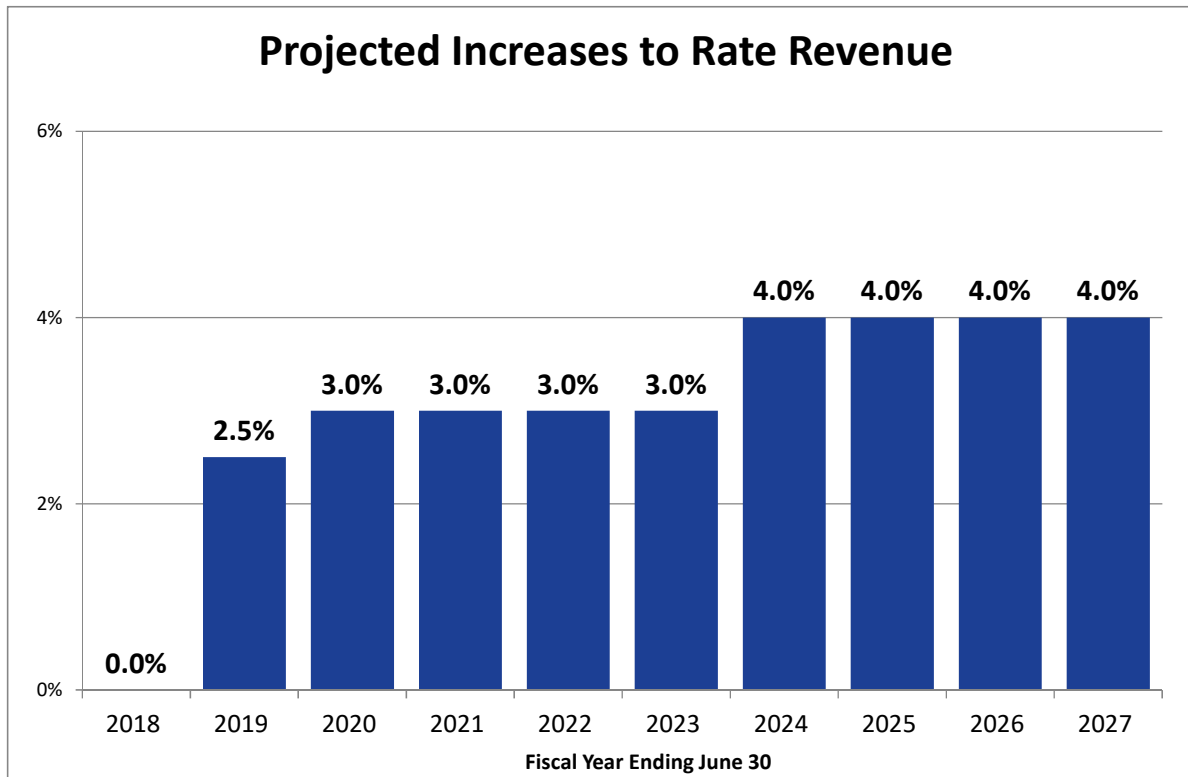


CHART 3



CITY OF LOS ALTOS
SEWER RATE STRUCTURE ANALYSIS
Operating Revenue and Expenses

EXHIBIT 1

TABLE 4
REVENUE FORECAST:

DESCRIPTION	Basis	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
SEWER REVENUE (1)											
Interest Income	8	\$ 36,100	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Portfolio Income	8	-	-	-	-	-	-	-	-	-	-
Unrealized Gain/Loss	8	-	-	-	-	-	-	-	-	-	-
Sewer Fees- Tax Roll	1	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Sewer Fees- Not on Tax Roll	1	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000
Sewer Connection Fees	1	30,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Misc. Sewer Fees	1	16,000	-	-	-	-	-	-	-	-	-
TOTAL: REVENUE		\$6,482,100	\$6,410,000	\$6,410,000	\$6,410,000	\$6,410,000	\$6,410,000	\$6,410,000	\$6,410,000	\$6,410,000	\$6,410,000

TABLE 5
REVENUE SUMMARY:

SEWER REVENUE (1)											
Sewer Service Charges		\$6,000,000	\$6,000,000	\$6,000,000	\$6,000,000	\$6,000,000	\$6,000,000	\$6,000,000	\$6,000,000	\$6,000,000	\$6,000,000
Sewer Service Charges - Not on Tax Roll		400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000
Sewer Connection Fee		30,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Interest Earnings		36,100	-	-	-	-	-	-	-	-	-
Other Revenues		16,000	-	-	-	-	-	-	-	-	-
TOTAL: REVENUE		\$6,482,100	\$6,410,000	\$6,410,000	\$6,410,000	\$6,410,000	\$6,410,000	\$6,410,000	\$6,410,000	\$6,410,000	\$6,410,000
		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

CITY OF LOS ALTOS
SEWER RATE STRUCTURE ANALYSIS
Operating Revenue and Expenses

EXHIBIT 1

TABLE 6
SEWER FUND OPERATING EXPENSE FORECAST (1):

DESCRIPTION	Basis	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Sewer System Maintenance											
Salaries and Benefits											
Salaries	3	\$ 461,440	\$ 479,898	\$ 499,094	\$ 519,057	\$ 539,820	\$ 561,412	\$ 583,869	\$ 607,224	\$ 631,513	\$ 656,773
Vacation/Sick Leave Payout	3	-	-	-	-	-	-	-	-	-	-
Overtime	3	53,000	55,120	57,325	59,618	62,003	64,483	67,062	69,744	72,534	75,436
Specialty Pay	3	-	-	-	-	-	-	-	-	-	-
Retirement	3	44,296	46,068	47,911	49,827	51,820	53,893	56,049	58,291	60,622	63,047
Pers Unfunded Liability	4	54,517	66,701	80,745	91,573	105,403	117,527	125,825	132,828	140,221	148,026
Dental Plan	3	5,400	5,616	5,841	6,074	6,317	6,570	6,833	7,106	7,390	7,686
Health Insurance	3	125,224	130,233	135,442	140,860	146,494	152,354	158,448	164,786	171,378	178,233
Uniforms	2	1,950	2,009	2,069	2,131	2,195	2,261	2,328	2,398	2,470	2,544
Life Insurance	3	1,967	2,046	2,128	2,213	2,301	2,393	2,489	2,588	2,692	2,800
Workers Comp Insurance	3	32,301	33,593	34,937	36,334	37,788	39,299	40,871	42,506	44,206	45,974
Medicare Tax	3	3,351	3,485	3,624	3,769	3,920	4,077	4,240	4,410	4,586	4,770
Utilities											
Utilities	5	10,000	10,500	11,025	11,576	12,155	12,763	13,401	14,071	14,775	15,513
Telephone	2	2,500	2,575	2,652	2,732	2,814	2,898	2,985	3,075	3,167	3,262
Radio & Radar	2	3,350	3,451	3,554	3,661	3,770	3,884	4,000	4,120	4,244	4,371
Teletype	2	-	-	-	-	-	-	-	-	-	-
Office Supplies	2	750	773	796	820	844	869	896	922	950	979
Postal Services	2	300	309	318	328	338	348	358	369	380	391
Mileage	7	2,200	2,266	2,334	2,404	2,476	2,550	2,627	2,706	2,787	2,871
Training and Meetings	2	7,000	7,210	7,426	7,649	7,879	8,115	8,358	8,609	8,867	9,133
Memberships	2	10,000	10,300	10,609	10,927	11,255	11,593	11,941	12,299	12,668	13,048
Gasoline & Oil	7	20,000	20,600	21,218	21,855	22,510	23,185	23,881	24,597	25,335	26,095
Repair and Services											
Vehicle Maintenance/Repair	2	26,000	26,780	27,583	28,411	29,263	30,141	31,045	31,977	32,936	33,924
Equipment Repairs	2	7,000	7,210	7,426	7,649	7,879	8,115	8,358	8,609	8,867	9,133
Building & Grounds	2	3,600	3,708	3,819	3,934	4,052	4,173	4,299	4,428	4,560	4,697
Rentals	2	5,000	5,150	5,305	5,464	5,628	5,796	5,970	6,149	6,334	6,524
Special Departmental Supplies	2	56,223	57,910	59,647	61,437	63,280	65,178	67,133	69,147	71,222	73,359
Employee Recognition	2	180	185	191	197	203	209	215	221	228	235
Professional Services	3	1,300	1,352	1,406	1,462	1,521	1,582	1,645	1,711	1,779	1,850
Other Services	3	142,390	148,086	154,009	160,169	166,576	173,239	180,169	187,376	194,871	202,665
Equipment											
Equipment Purchase	2	26,000	26,780	27,583	28,411	29,263	30,141	31,045	31,977	32,936	33,924
Equipment Replacement	2	50,000	51,500	53,045	54,636	56,275	57,964	59,703	61,494	63,339	65,239
City of Palo Alto RWQCP O&M											
Invoiced from City of Palo Alto RWQCP	6	2,449,644	2,408,203	2,502,184	2,593,257	2,697,970	2,806,996	2,920,636	3,039,090	3,162,459	3,291,044
TOTAL: Sewer System Maintenance Expenses		\$3,606,883	\$3,619,614	\$3,771,246	\$3,918,434	\$4,084,011	\$4,254,008	\$4,426,679	\$4,604,828	\$4,790,316	\$4,983,546
GRAND TOTAL: SEWER EXPENSES		\$3,606,883	\$3,619,614	\$3,771,246	\$3,918,434	\$4,084,011	\$4,254,008	\$4,426,679	\$4,604,828	\$4,790,316	\$4,983,546

TABLE 7
 FORECASTING ASSUMPTIONS

INFLATION FACTORS (2)	Basis	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Customer Growth (3)	1	--	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
General Cost Inflation	2	--	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Labor & Benefits Cost Inflation	3	--	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
PERS Obligation Inflation (4)	4	--	22.35%	21.06%	13.41%	15.10%	11.50%	7.06%	5.57%	5.57%	5.57%
Energy	5	--	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
RWQCP Treatment (5)	6	--	--	3.90%	3.64%	4.04%	4.04%	4.05%	4.06%	4.06%	4.07%
Fuel	7	--	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
No Escalation	8	--	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

1. Revenue are budget for 2017/2018. Source: *Sewer Revenues 61100 - Line Items.pdf*.

Expenses Sources: *Sewer Maintenance Acct 61200 Budget to-date 9_8_17.pdf*.

Invoiced from O&M RWQCP Source: *2017.12 WWT FY2018-2028 Forecast LA.pdf*.

2. Expenses are inflated each year by the following annual inflation factor categories.

3. Customer growth is initially assumed to be zero.

4. PERS Obligation data source: *los-altos-city-miscellaneous-2016.pdf*.

5. Treatment Factor based on Palo Alto costs allocated to Los Altos; data project 10 years of O&M costs, which include inflation. Source: *2017.12 WWT FY2018-2028 Forecast LA.pdf*.

TABLE 8
CAPITAL FUNDING SUMMARY

CAPITAL FUNDING FORECAST	Budget		Projected								
	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Funding Sources:											
Grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Use of Connection Fee Reserves	-	-	-	-	-	-	-	-	-	-	-
New Loan Funding	-	-	-	-	-	-	-	-	-	-	-
Use of Future Revenue Bond Proceeds	-	-	-	-	-	-	-	-	-	-	-
Use of Capital Rehabilitation and Replacement Reserve	2,411,827	2,912,151	3,022,151	2,739,473	2,827,667	2,980,131	2,744,258	2,321,260	1,978,724	1,583,472	1,212,144
Rate Revenue	-	-	-	-	-	-	324,492	838,747	1,275,255	1,767,275	2,238,250
Total Sources of Capital Funds	\$ 2,411,827	\$ 2,912,151	\$ 3,022,151	\$ 2,739,473	\$ 2,827,667	\$ 2,980,131	\$ 3,068,750	\$ 3,160,007	\$ 3,253,979	\$ 3,350,747	\$ 3,450,395
Uses of Capital Funds:											
Total Project Costs	\$ 2,411,827	\$ 2,912,151	\$ 3,022,151	\$ 2,739,473	\$ 2,827,667	\$ 2,980,131	\$ 3,068,750	\$ 3,160,007	\$ 3,253,979	\$ 3,350,747	\$ 3,450,395
Capital Funding Surplus (Deficiency)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
New Loan Funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Future Revenue Bond Proceeds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

CAPITAL IMPROVEMENT PROGRAM

TABLE 9
Capital Improvement Program Costs (1, 2):

Project Description	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Sewer System Repair Program	\$ 600,000	\$ 610,000	\$ 620,000	\$ 630,000	\$ 640,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Structural Reach Replacement	800,000	800,000	800,000	800,000	800,000	-	-	-	-	-	-
Root Foaming	274,000	281,000	288,000	295,000	305,000	-	-	-	-	-	-
CIPP Corrosion Replacement	320,000	333,000	340,000	350,000	360,000	-	-	-	-	-	-
Fats, Oils, Grease Program (FOG)	60,000	62,000	64,000	66,000	68,000	-	-	-	-	-	-
GIS Updates	60,000	62,000	64,000	66,000	68,000	-	-	-	-	-	-
Sewer System Management Plan Update	-	26,000	-	28,000	-	-	-	-	-	-	-
Sanitary Sewer Video Inspection	-	380,000	400,000	-	-	-	-	-	-	-	-
City of Palo Alto RWQCP Minor CIP Fund (3)	297,827	281,531	281,531	281,531	281,531	281,531	281,531	281,531	281,531	281,531	281,531
Placeholder for Future Year Capital Projects (4)	-	-	-	-	-	2,300,000	2,300,000	2,300,000	2,300,000	2,300,000	2,300,000
Total: CIP Program Costs	\$ 2,411,827	\$ 2,835,531	\$ 2,857,531	\$ 2,516,531	\$ 2,522,531	\$ 2,581,531	\$ 2,581,531	\$ 2,581,531	\$ 2,581,531	\$ 2,581,531	\$ 2,581,531

TABLE 10
Capital Improvement Program Costs (in Future-Year Dollars):

Project Description	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Sewer System Repair Program	\$ 600,000	\$ 628,300	\$ 657,758	\$ 688,418	\$ 720,326	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Structural Reach Replacement	800,000	824,000	848,720	874,182	900,407	-	-	-	-	-	-
Root Foaming	274,000	289,430	305,539	322,354	343,280	-	-	-	-	-	-
CIPP Corrosion Replacement	320,000	342,990	360,706	382,454	405,183	-	-	-	-	-	-
Fats, Oils, Grease Program (FOG)	60,000	63,860	67,898	72,120	76,535	-	-	-	-	-	-
GIS Updates	60,000	63,860	67,898	72,120	76,535	-	-	-	-	-	-
Sewer System Management Plan Update	-	26,780	-	30,596	-	-	-	-	-	-	-
Sanitary Sewer Video Inspection	-	391,400	424,360	-	-	-	-	-	-	-	-
City of Palo Alto RWQCP Minor CIP Fund (3)	297,827	281,531	289,273	297,228	305,402	313,801	322,430	331,297	340,408	349,769	359,387
Placeholder for Future Year Capital Projects (4)	-	-	-	-	-	2,666,330	2,746,320	2,828,710	2,913,571	3,000,978	3,091,008
Total: Capital Improvement Program Costs (Future-Year Dollars)	\$ 2,411,827	\$ 2,912,151	\$ 3,022,151	\$ 2,739,473	\$ 2,827,667	\$ 2,980,131	\$ 3,068,750	\$ 3,160,007	\$ 3,253,979	\$ 3,350,747	\$ 3,450,395

TABLE 11
FORECASTING ASSUMPTIONS:

Economic Variables	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Annual Construction Cost Inflation, Per Engineering News Record (5)	0.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Cumulative Construction Cost Multiplier from	1.00	1.03	1.06	1.09	1.13	1.16	1.19	1.23	1.27	1.30	1.34
Inflation Factor for City of Palo Alto RWQCP Minor CIP Fund (3)	0.00%	0.00%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
Cumulative Construction Cost Multiplier from 2018	1.00	1.00	1.03	1.06	1.08	1.11	1.15	1.18	1.21	1.24	1.28

- Capital project costs were provided by City Staff in source file: *Pages from adopted_budget_fy18_and_fy19 - CIP Summary table.pdf*.
City of Palo Alto Wastewater Treatment Plant Minor CIP Fund Source: *2017.12 WWT FY2018-2028 Forecast LA.pdf*.
- Future project costs are inflated by 3.0% per year.
- Inflation Factor determined based on file: *2017.12 WWT FY2018-2028 Forecast LA.pdf*.
- NBS has initially estimated Future Projects based on average annual project expenditures for the previous five years; City needs to confirm this amount.
- For reference purposes, the annual Construction Cost Inflation percentage is the 10 year average change in the Construction Cost Index for 2006-2016 (3.0%). Source: *Engineering News Record website (http://enr.construction.com)*.

TABLE 12

WASTEWATER UTILITY EXISTING DEBT OBLIGATIONS	Budget		Projected							
	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27
1999 Bond- New Money for Incinerator Rehabilitation Utility Revenue Bond- Los Altos Share is 9.47% (1)										
Principal Payment	\$ 35,513	\$ 37,407	\$ 38,827	\$ 41,195	\$ 43,089	\$ 45,456	\$ 47,824	\$ -	\$ -	\$ -
Interest Payment	\$ 15,144	\$ 13,324	\$ 11,360	\$ 9,322	\$ 7,159	\$ 4,897	\$ 2,511	\$ -	\$ -	\$ -
Amortization of Bond Discount and Issuance Cost of New Money Bonds (4)	\$ 823	\$ 823	\$ 823	\$ 823	\$ 823	\$ 823	\$ 755	\$ -	\$ -	\$ -
Subtotal: Annual Debt Service	\$ 51,480	\$ 51,554	\$ 51,011	\$ 51,340	\$ 51,071	\$ 51,176	\$ 51,089	\$ -	\$ -	\$ -
Coverage Requirement (%-Amount above annual payment)	120%	120%	120%	120%	120%	120%	120%	0%	0%	0%
Reserve Requirement (total fund balance)	\$ 51,554	\$ 51,554	\$ 51,340	\$ 51,340	\$ 51,176	\$ 51,176	\$ 51,089	\$ -	\$ -	\$ -
City of Palo Alto 1999 Refunding of 1990 Utility Revenue Bonds- Los Altos share 7.80% (2)										
Principal Payment	\$ 15,230	\$ 16,031	\$ 16,833	\$ 17,634	\$ 18,703	\$ 19,772	\$ 20,841	\$ -	\$ -	\$ -
Interest Payment	\$ 6,546	\$ 5,765	\$ 4,924	\$ 4,040	\$ 3,114	\$ 2,132	\$ 1,094	\$ -	\$ -	\$ -
Amortization of Issuance Costs and Bond Discount of 1999 Refunding of 1990 Bonds (4)	\$ 321	\$ 321	\$ 321	\$ 321	\$ 321	\$ 321	\$ 295	\$ -	\$ -	\$ -
Subtotal: Annual Debt Service	\$ 22,097	\$ 22,118	\$ 22,078	\$ 21,996	\$ 22,139	\$ 22,226	\$ 22,230	\$ -	\$ -	\$ -
Coverage Requirement (\$-Amount above annual payment)	120%	120%	120%	120%	120%	120%	120%	0%	0%	0%
Reserve Requirement (total fund balance)	\$ 22,230	\$ 22,230	\$ 22,230	\$ 22,230	\$ 22,230	\$ 22,230	\$ 22,230	\$ -	\$ -	\$ -
SWRCB SRF Loan- C-06-5044-110 UV Disinfection Facility- Los Altos share is 9.47% (3)										
Principal Payment	\$ 36,741	\$ 37,696	\$ 38,676	\$ 39,682	\$ 40,713	\$ 41,772	\$ 42,858	\$ 43,972	\$ 45,116	\$ 46,289
Interest Payment	\$ 15,887	\$ 14,931	\$ 13,951	\$ 12,946	\$ 11,914	\$ 10,855	\$ 9,769	\$ 8,655	\$ 7,512	\$ 6,339
Subtotal: Annual Debt Service	\$ 52,627	\$ 52,627	\$ 52,627	\$ 52,627	\$ 52,627	\$ 52,627	\$ 52,627	\$ 52,627	\$ 52,627	\$ 52,627
Coverage Requirement (\$-Amount above annual payment)	120%	120%	120%	120%	120%	120%	120%	120%	120%	120%
Reserve Requirement (total fund balance)	\$ 52,627	\$ 52,627	\$ 52,627	\$ 52,627	\$ 52,627	\$ 52,627	\$ 52,627	\$ 52,627	\$ 52,627	\$ 52,627
California Clean Water SRF Payment Schedule Project No. 8190-110- Sludge Dewatering and Loadout Facility (5)										
Principal Payment	\$ -	\$ -	\$ 54,662	\$ 62,743	\$ 64,670	\$ 65,456	\$ 66,634	\$ 67,834	\$ 69,055	\$ 70,298
Interest Payment	\$ -	\$ -	\$ 33,230	\$ 38,285	\$ 41,289	\$ 40,503	\$ 39,325	\$ 38,126	\$ 36,905	\$ 35,662
Subtotal: Annual Debt Service	\$ -	\$ -	\$ 87,892	\$ 101,028	\$ 105,960	\$ 105,959	\$ 105,959	\$ 105,960	\$ 105,960	\$ 105,960
Coverage Requirement (\$-Amount above annual payment)	120%	120%	120%	120%	120%	120%	120%	120%	120%	120%
Reserve Requirement (total fund balance)	\$ -	\$ -	\$ 105,960	\$ 105,960	\$ 105,960	\$ 105,960	\$ 105,960	\$ 105,960	\$ 105,960	\$ 105,960
2018A Wastewater Utility Revenue Bonds with Capitalized Interest First Bond Issuance (5)										
Principal Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 65,346	\$ 68,785	\$ 72,224
Interest Payment	\$ -	\$ 78,125	\$ 156,249	\$ 156,249	\$ 156,249	\$ 156,249	\$ 156,249	\$ 154,615	\$ 151,262	\$ 147,737
Subtotal: Annual Debt Service	\$ -	\$ 78,125	\$ 156,249	\$ 156,249	\$ 156,249	\$ 156,249	\$ 156,249	\$ 219,961	\$ 220,047	\$ 219,961
Coverage Requirement (\$-Amount above annual payment)	120%	120%	120%	120%	120%	120%	120%	120%	120%	120%
Reserve Requirement (total fund balance)	\$ -	\$ 115,902	\$ 115,902	\$ 115,902	\$ 115,902	\$ 115,902	\$ 115,902	\$ 115,902	\$ 115,902	\$ 115,902
2018A Wastewater Utility Revenue Bonds with Capitalized Interest Second Bond Issuance (5)										
Principal Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34,566	\$ 36,460	\$ 37,880
Interest Payment	\$ -	\$ 41,206	\$ 82,413	\$ 82,413	\$ 82,413	\$ 82,413	\$ 82,413	\$ 81,549	\$ 79,773	\$ 77,914
Subtotal: Annual Debt Service	\$ -	\$ 41,206	\$ 82,413	\$ 82,413	\$ 82,413	\$ 82,413	\$ 82,413	\$ 116,114	\$ 116,232	\$ 115,794
Coverage Requirement (\$-Amount above annual payment)	120%	120%	120%	120%	120%	120%	120%	120%	120%	120%
Reserve Requirement (total fund balance)	\$ -	\$ 61,224	\$ 61,224	\$ 61,224	\$ 61,224	\$ 61,224	\$ 61,224	\$ 61,224	\$ 61,224	\$ 61,224
Grand Total: Existing Annual Debt Service (Palo Alto RWQCP)	\$ 126,204	\$ 245,630	\$ 452,269	\$ 465,652	\$ 470,458	\$ 470,650	\$ 470,567	\$ 494,662	\$ 494,866	\$ 494,342
Grand Total: Existing Annual Debt Service (City of Los Altos)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grand Total: Existing Annual Coverage Requirement	\$ 151,445	\$ 294,756	\$ 542,723	\$ 558,782	\$ 564,550	\$ 564,780	\$ 564,680	\$ 593,594	\$ 593,839	\$ 593,211
Grand Total: Existing Debt Reserve Target	\$ 126,411	\$ 303,537	\$ 409,282	\$ 409,282	\$ 409,119	\$ 409,119	\$ 409,031	\$ 335,713	\$ 335,713	\$ 335,713

Footnotes:

1. Debt Service Schedule from Bond Statement Source: *Invoice_7800004388 (Oct 2016) Q2.pdf page 10 of 10 of pdf.*
2. Debt Service Schedule from Bond Statement Source: *Invoice_7800004388 (Oct 2016) Q2.pdf page 9 of 10 of pdf.*
3. Debt Service Schedule from Bond Statement Source: *Invoice_7800004388 (Oct 2016) Q2.pdf page 8 of 10 of pdf.*
4. Amortization of Issuance Costs and Bond Discounts share is same as share as bonds. Source: *Invoice_7800004733.4 (Apr 2017) Q4.pdf* and *Invoice_7800004733.5 (Apr 2017) Q4.pdf*
5. Source: *Estimated Debt service schedule v2017.9.25.pdf*

CITY OF LOS ALTOS
SEWER RATE STRUCTURE ANALYSIS
Projected Sewer Rates Under Existing Rate Schedule

EXHIBIT 4

TABLE 13
Current Wastewater Rate Schedule:

Base Charges	Rate per Dwelling Unit	Quantity Charge (per HCF) (1)
FY 1718 Pre- Parcel Sewer Service Charge	\$261.35	\$2.07

1. One Unit is equal to one HCF (Hundred Cubic Feet) or 748 gallons.

Source: *ordinance_2013-394.pdf*

CITY OF LOS ALTOS
SEWER RATE STRUCTURE ANALYSIS
Cost of Service Analysis

TABLE 14

Classification of Expenses									
Budget Categories	Total Revenue Requirements	Flow	Strength		Customer	Basis of Classification			
	FY 2018/19	(VOL)	(COD)	(TSS)	(CA)	(VOL)	(COD)	(TSS)	(CA)
Sewer System Maintenance									
Salaries and Benefits									
Salaries	\$ 479,898	\$ 455,903	\$ -	\$ -	\$ 23,995	95.0%	0.0%	0.0%	5.0%
Vacation/Sick Leave Payout	-	-	-	-	-	95.0%	0.0%	0.0%	5.0%
Overtime	55,120	52,364	-	-	2,756	95.0%	0.0%	0.0%	5.0%
Specialty Pay	-	-	-	-	-	95.0%	0.0%	0.0%	5.0%
Retirement	46,068	43,764	-	-	2,303	95.0%	0.0%	0.0%	5.0%
Pers Unfunded Liability	66,701	63,366	-	-	3,335	95.0%	0.0%	0.0%	5.0%
Dental Plan	5,616	5,335	-	-	281	95.0%	0.0%	0.0%	5.0%
Health Insurance	130,233	123,721	-	-	6,512	95.0%	0.0%	0.0%	5.0%
Uniforms	2,009	1,908	-	-	100	95.0%	0.0%	0.0%	5.0%
Life Insurance	2,046	1,943	-	-	102	95.0%	0.0%	0.0%	5.0%
Workers Comp Insurance	33,593	31,913	-	-	1,680	95.0%	0.0%	0.0%	5.0%
Medicare Tax	3,485	3,311	-	-	174	95.0%	0.0%	0.0%	5.0%
Utilities									
Utilities	10,500	9,975	-	-	525	95.0%	0.0%	0.0%	5.0%
Telephone	2,575	2,446	-	-	129	95.0%	0.0%	0.0%	5.0%
Radio & Radar	3,451	-	-	-	3,451	0.0%	0.0%	0.0%	100.0%
Teletype	-	-	-	-	-	0.0%	0.0%	0.0%	100.0%
Office Supplies	773	-	-	-	773	0.0%	0.0%	0.0%	100.0%
Postal Services	309	309	-	-	-	100.0%	0.0%	0.0%	0.0%
Mileage	2,266	2,266	-	-	-	100.0%	0.0%	0.0%	0.0%
Training and Meetings	7,210	6,850	-	-	361	95.0%	0.0%	0.0%	5.0%
Memberships	10,300	9,785	-	-	515	95.0%	0.0%	0.0%	5.0%
Gasoline & Oil	20,600	19,570	-	-	1,030	95.0%	0.0%	0.0%	5.0%
Repair and Services									
Vehicle Maintenance/Repair	26,780	25,441	-	-	1,339	95.0%	0.0%	0.0%	5.0%
Equipment Repairs	7,210	6,850	-	-	361	95.0%	0.0%	0.0%	5.0%
Building & Grounds	3,708	3,523	-	-	185	95.0%	0.0%	0.0%	5.0%
Rentals	5,150	4,893	-	-	258	95.0%	0.0%	0.0%	5.0%
Special Departmental Supplies	57,910	55,014	-	-	2,895	95.0%	0.0%	0.0%	5.0%
Employee Recognition	185	176	-	-	9	95.0%	0.0%	0.0%	5.0%
Professional Services	1,352	1,284	-	-	68	95.0%	0.0%	0.0%	5.0%
Other Services	148,086	111,064	-	-	37,021	75.0%	0.0%	0.0%	25.0%
Equipment									
Equipment Purchase	26,780	25,441	-	-	1,339	95.0%	0.0%	0.0%	5.0%
Equipment Replacement	51,500	48,925	-	-	2,575	95.0%	0.0%	0.0%	5.0%
City of Palo Alto RWQCP O&M									
Invoiced from City of Palo Alto RWQCP	2,408,203	1,444,922	481,641	481,641	-	60.0%	20.0%	20.0%	0.0%
SUB-TOTAL	\$ 3,619,614	\$ 2,562,262	\$ 481,641	\$ 481,641	\$ 94,071	70.8%	13.3%	13.3%	2.6%
GRAND TOTAL - Sewer System Maintenance	\$ 3,619,614	\$ 2,562,262	\$ 481,641	\$ 481,641	\$ 94,071	70.8%	13.3%	13.3%	2.6%

CITY OF LOS ALTOS
SEWER RATE STRUCTURE ANALYSIS
Cost of Service Analysis

TABLE 15

Classification of Expenses, continued									
Budget Categories	Total Revenue Requirements	Flow	Strength		Customer	Basis of Classification			
	FY 2018/19	(VOL)	(COD)	(TSS)	(CA)	(VOL)	(COD)	(TSS)	(CA)
Debt Service Payments									
Existing Annual Debt Service	\$ 245,630	\$ 122,815	\$ 61,408	\$ 61,408	\$ -	50.0%	25.0%	25.0%	0.0%
Future Annual Debt Service	-	-	-	-	-	50.0%	25.0%	25.0%	0.0%
Total Debt Service Payments	\$ 245,630	\$ 122,815	\$ 61,408	\$ 61,408	\$ -	50.0%	25.0%	25.0%	0.0%
Capital Expenditures									
Rate Funded Capital Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	50.0%	25.0%	25.0%	0.0%
TOTAL REVENUE REQUIREMENTS	\$ 3,865,244	\$ 2,685,077	\$ 543,048	\$ 543,048	\$ 94,071	69.5%	14.0%	14.0%	2.4%
<i>Less: Non-Rate Revenues</i>									
Sewer Service Charge not on Tax Roll	\$ (400,000)	(277,869)	(56,198)	(56,198)	(9,735)	69.5%	14.0%	14.0%	2.4%
Other Revenues	\$ -	-	-	-	-	69.5%	14.0%	14.0%	2.4%
Interest Income	\$ (31,835)	(22,115)	(4,473)	(4,473)	(775)	69.5%	14.0%	14.0%	2.4%
NET REVENUE REQUIREMENTS	\$ 3,433,410	\$ 2,385,094	\$ 482,377	\$ 482,377	\$ 83,561				
<i>Allocation of Revenue Requirements</i>	<i>100.0%</i>	<i>69.5%</i>	<i>14.0%</i>	<i>14.0%</i>	<i>2.4%</i>				
<i>Net Revenue Req't. Check from Financial Plan \$ -</i>									

TABLE 16

Classification of Expenses, continued					
Adjustments to Classification of Expenses					
Adjustment to Current Rate Level:	Total	(VOL)	(COD)	(TSS)	(CA)
Test Year (FY 2018/19) Target Rate Rev. After Rate Increases	\$6,150,000				
Projected Rate Revenue at Current Rates	\$6,000,000				
Test Year (FY 2018/19) Projected Rate Adjustment	2.5%				
Adjusted Net Revenue Req'ts	\$ 6,150,000	\$ 4,272,233	\$ 864,045	\$ 864,045	\$ 149,676
<i>Percent of Revenue</i>		<i>69.5%</i>	<i>14.0%</i>	<i>14.0%</i>	<i>2.4%</i>

Current Revenue		
Fixed Charges	\$ 3,602,482	60%
Variable Charges	\$ 2,364,214	40%
	\$ 5,966,696	100%

CITY OF LOS ALTOS
SEWER RATE STRUCTURE ANALYSIS
Sewer Cost of Service Analysis

TABLE 17
Volume by Customer Class (1)

Customer Class	Number of Accounts	Annual Winter-Average Based Volume (HCF)	Percentage of Adjusted Volume
Residential			
Single Family Home	10,330	893,765	78.3%
Multifamily Residence (2 units)	65	7,884	0.7%
Multifamily Residence (3-4 units)	14	2,148	0.2%
Multifamily Residence (5+ units)	21	19,600	1.7%
Condominium Unit	1,029	52,954	4.6%
Commercial			
Commercial/Industrial	425	56,178	4.9%
Restaurant	65	79,575	7.0%
Public/Institutional			
Public/Institutional	31	15,252	1.3%
Parks	4	2,324	0.2%
School	10	12,452	1.1%
Total:	11,994	1,142,132	100%
Vacant	15	-	0.0%
N/A	3	-	0.0%
Grand Total:	12,012	1,142,132	

1. Data Source: *Los Altos Combined Levy data 1516 to 1718.xlsx*;
Restaurant information: *March 2017.xlsx* and *April and May 2-17.xlsx* FOG reports.

TABLE 18
Accounts & EDUs by Customer Class

Customer Class	Number of Accounts (1)	Percent of Total	Number of Equivalent Dwelling Units (1)	Percent of Total
Residential				
Single Family Home	10,330	86.1%	10,330	74.9%
Multifamily Residence (2 units)	65	0.5%	130	0.9%
Multifamily Residence (3-4 units)	14	0.1%	48	0.3%
Multifamily Residence (5+ units)	21	0.2%	506	3.7%
Condominium Unit	1,029	8.6%	1,029	7.5%
Commercial				
Commercial/Industrial	425	3.5%	591	4.3%
Restaurant	65	0.5%	873	6.3%
Public/Institutional				
Public/Institutional	31	0.3%	143	1.0%
Parks	4	0.0%	21	0.2%
School	10	0.1%	113	0.8%
Total:	11,994	100%	13,785	100%
Vacant	15		-	
N/A	3		-	
Grand Total:	12,012		13,785	

1. Data Source: *Los Altos Combined Levy data 1516 to 1718.xlsx*.

CITY OF LOS ALTOS
SEWER RATE STRUCTURE ANALYSIS
Sewer Cost of Service Analysis/Rate Design

TABLE 19
Sewer Rate Calculation for FY 2018/19 - Fixed Charges:

Fixed Charges (per EDU)	Total Revenue Requirements	Percent of Total Rev. Req't. to be Collected from Fixed Charges	Amount to be Collected from Fixed Charges	Number of Equivalent Dwelling Units	Rate per EDU
	<i>A</i>	<i>B</i>	$C = A * B$	<i>D</i>	$E = C / D$
All Customers	\$6,150,000	60%	\$3,690,000	13,785	\$267.69

TABLE 20
Sewer Rate Calculation for FY 2018/19 - Volumetric Charges:

Volumetric Charges (per HCF)	Total Revenue Requirements	Percent of Total Rev. Req't. to be Collected from Volumetric	Amount to be Collected from Volumetric Charges	Annual Billable Volume (hcf)	Rate per HCF
	<i>F</i>	$G = 1 - B$	$H = F * G$	<i>I</i>	$J = H / I$
All Customers	\$6,150,000	40%	\$2,460,000	1,142,132	\$2.15

TABLE 21
Current vs. Proposed Sewer Rates (Annual)

Sewer Rate Schedule	Current Rates	Proposed Yearly Sewer Rates				
		Year 1	Year 2	Year 3	Year 4	Year 5
		FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
Annual Fixed Service Charge per EDU	\$261.35	\$267.69	\$275.72	\$283.99	\$292.51	\$301.29
Volumetric Rate (\$/hcf) (1, 2)	\$2.07	\$2.15	\$2.21	\$2.28	\$2.35	\$2.42

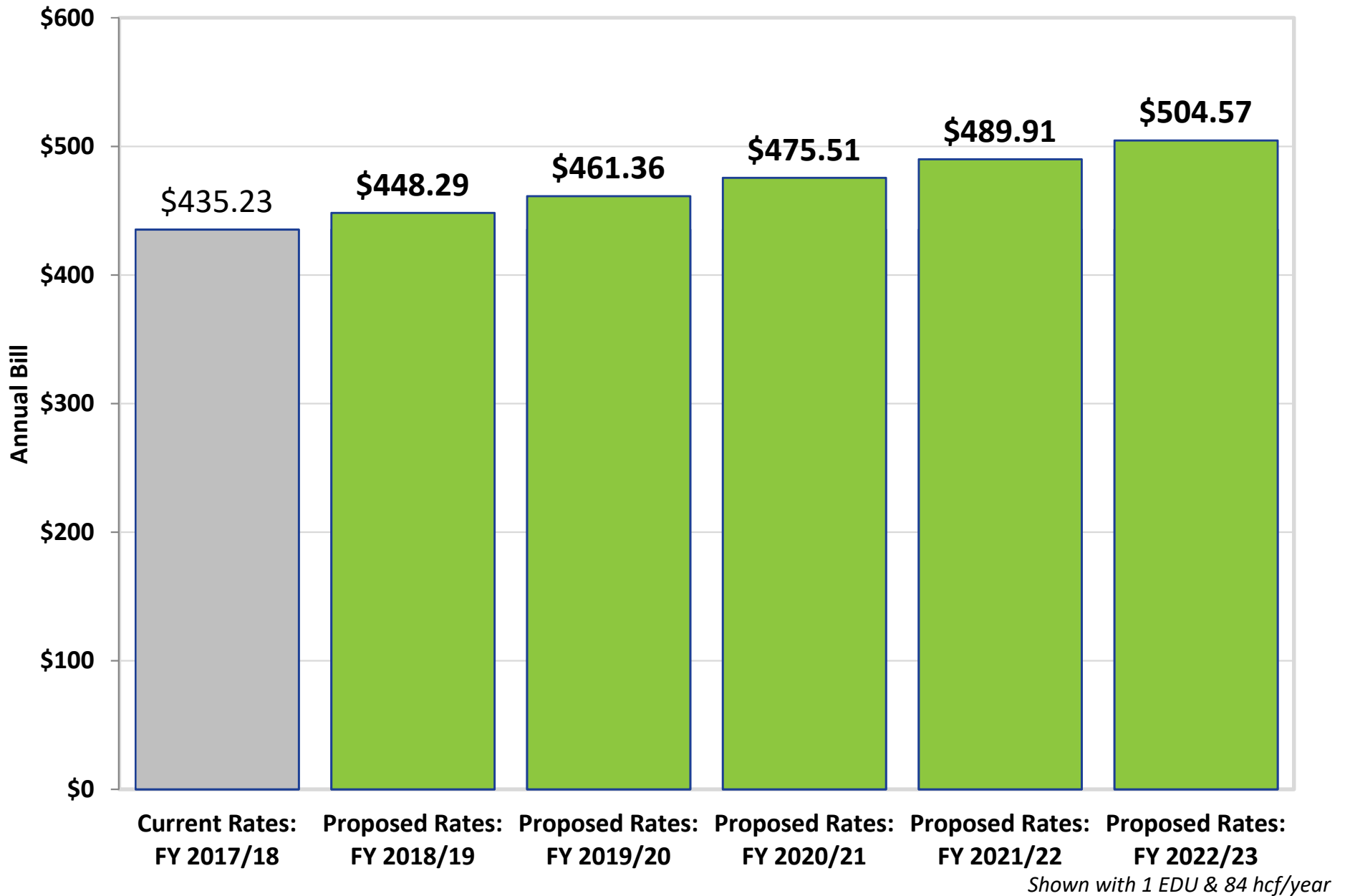
1. One Unit is equal to one HCF (Hundred Cubic Feet) or 748 gallons.
2. Rates are charged based on average winter water consumption (three lowest months from previous year).

CITY OF LOS ALTOS
 SEWER RATE STRUCTURE ANALYSIS
 Sewer Cost of Service Analysis/Rate Design

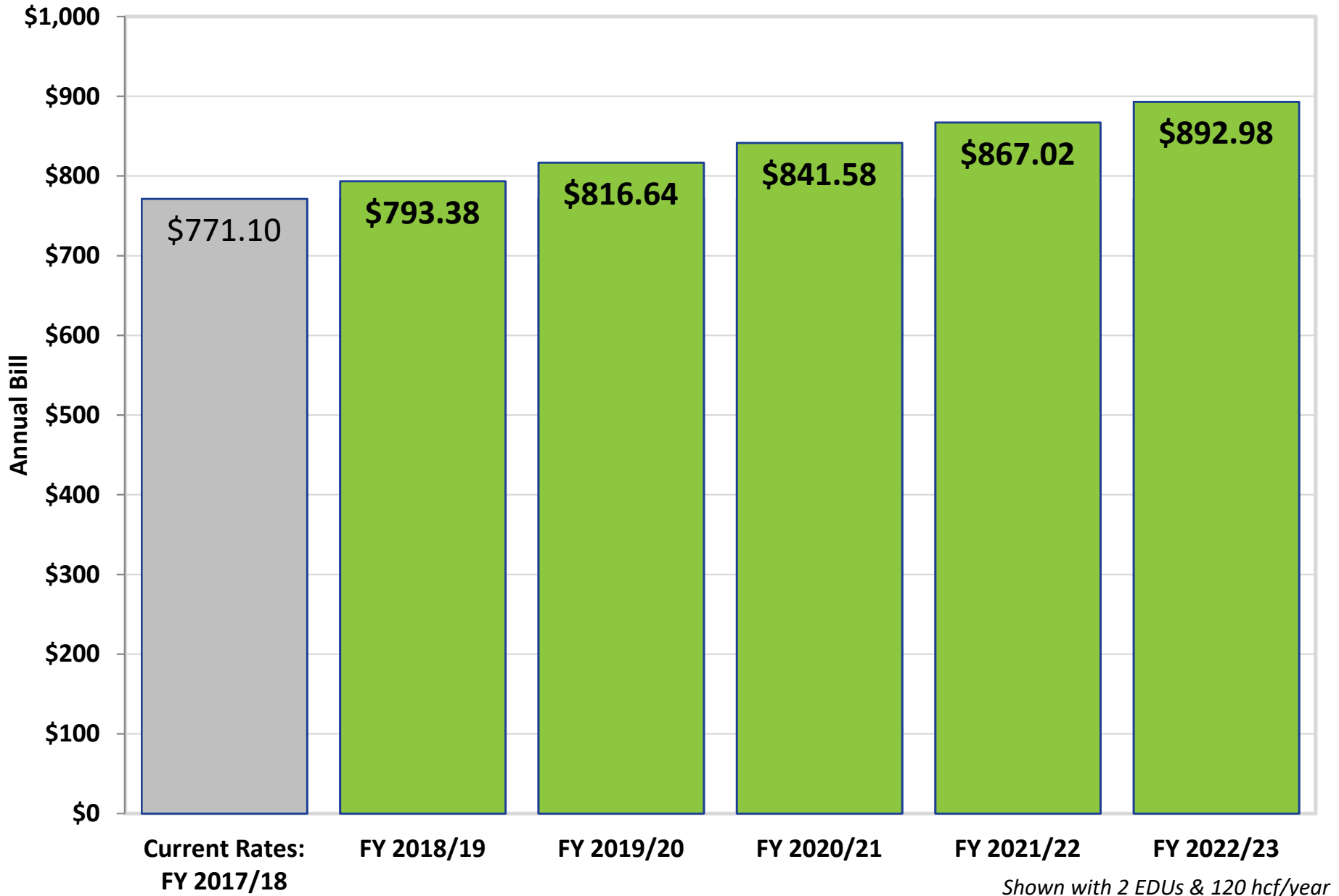
TABLE 22
 Revenue Check

Customer Class	No. of Equivalent Dwelling Units	Annual Fixed Charge Per Equivalent Dwelling Unit	Annual Fixed Charge Revenue	Annual Billable Volume (hcf)	Volumetric Charge Per hcf	Annual Volumetric Charge Revenue	Total
Residential							
Single Family Home	10,330	\$267.69	\$ 2,765,245	893,765	\$2.15	\$ 1,925,050	\$ 4,690,296
Multifamily Residence (2 units)	130	\$267.69	34,800	7,884	\$2.15	16,981	51,781
Multifamily Residence (3-4 units)	48	\$267.69	12,849	2,148	\$2.15	4,627	17,476
Multifamily Residence (5+ units)	506	\$267.69	135,452	19,600	\$2.15	42,216	177,668
Condominium Unit	1,029	\$267.69	275,454	52,954	\$2.15	114,056	389,510
Commercial							
Commercial/Industrial	591	\$267.69	158,205	56,178	\$2.15	121,000	279,205
Restaurant	873	\$267.69	233,786	79,575	\$2.15	171,394	405,180
Public/Institutional							
Public/Institutional	143	\$267.69	38,253	15,252	\$2.15	32,851	71,104
Parks	21	\$267.69	5,655	2,324	\$2.15	5,006	10,661
School	113	\$267.69	30,301	12,452	\$2.15	26,820	57,121
TOTAL	13,785		\$ 3,690,000	1,142,132		\$ 2,460,000	\$ 6,150,000
<i>Percent of Revenue from Fixed vs. Volumetric Charges</i>			<i>60%</i>			<i>40%</i>	<i>100%</i>

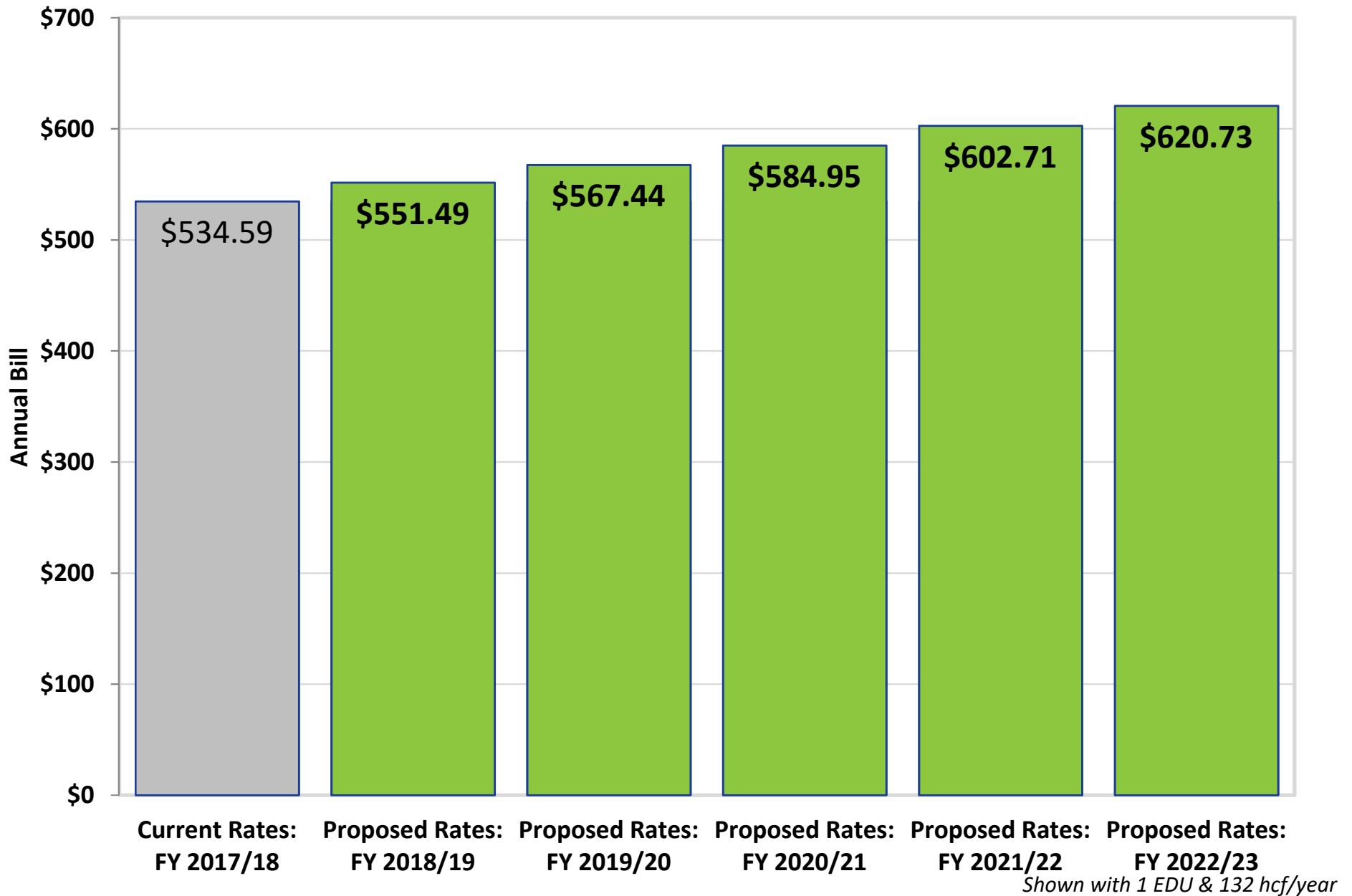
5 Year Annual Single Family Residential Sewer Bill Comparison Current vs. Proposed Rates



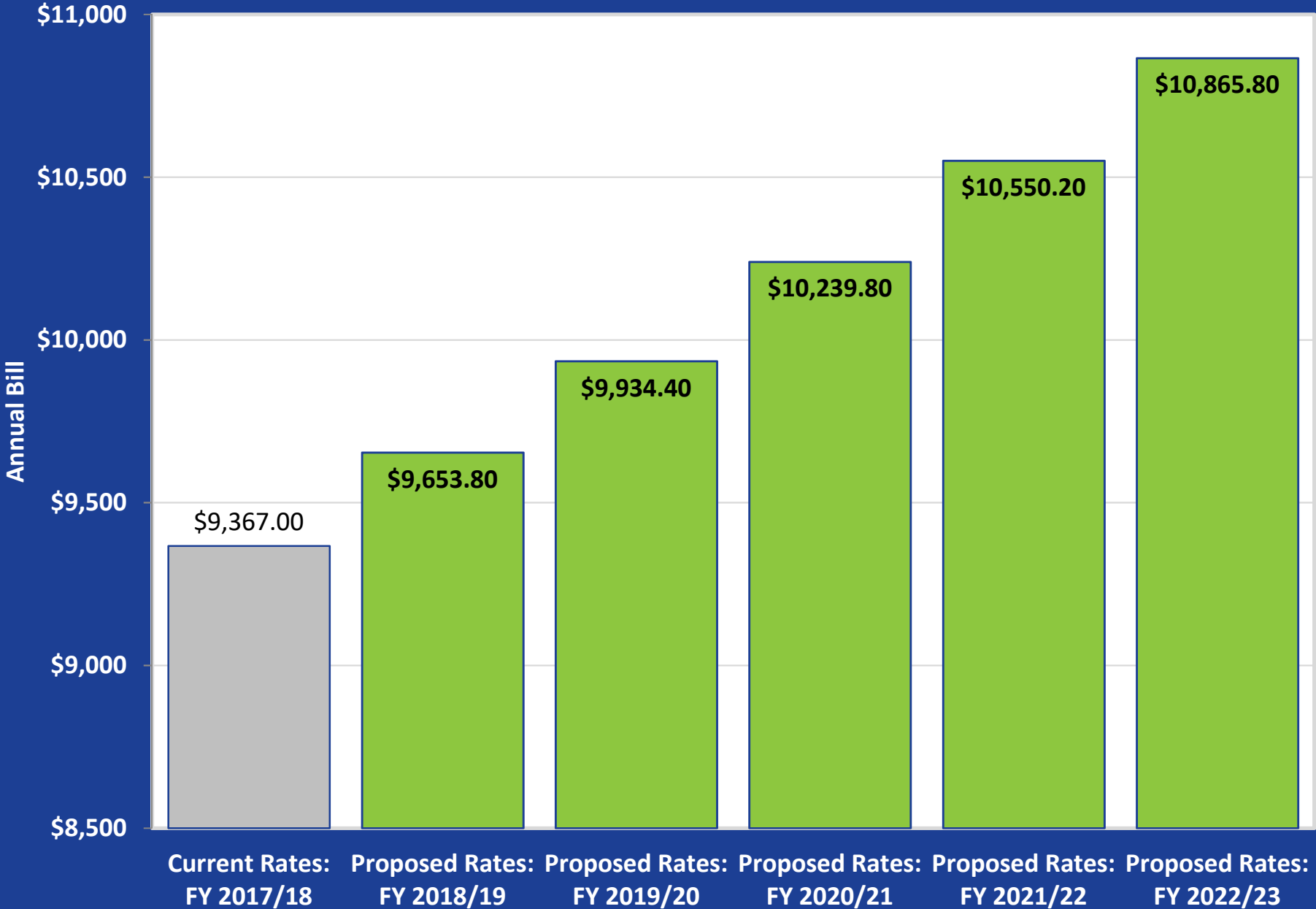
5 Year Annual Multi Family Residential Sewer Bill Comparison Current vs. Proposed Rates



5 Year Annual Commercial Sewer Bill Comparison Current vs. Proposed Rates



5 Year Annual Restaurant Sewer Bill Comparison Current vs. Proposed Rates (20 EDUs & 2,000 hcf)



CITY OF LOS ALTOS
 SEWER RATE STRUCTURE ANALYSIS
 Customer Data

TABLE 23

Year	Annual Influent Flow, MG	Average Influent Flow, MGD	Average COD Load, lbs./Day	Total Influent COD, lbs./Year	Average Influent TSS, lbs./Day	Total Influent TSS, lbs./Year
FY 2014/15	1,070	89.16	16,749.40	6,113,386	7,699.82	2,809,639
FY 2015/16	989	82.38	15,526.05	5,642,884	7,712.67	2,803,093
FY 2016/17	1,086	90.48	17,816.86	6,456,012	8,446.05	3,048,473

Year	Month	Monthly Influent Flow, MG	Average Influent Flow, MGD	Average COD Load, lbs./Day	Average Influent COD, lbs./Month	Average Influent TSS, lbs./Day	Average Influent TSS, lbs./Month
FY 2016/17	July	78.68	90.48	8,149	252,607	6,248	193,688
FY 2016/17	August	81.02	90.48	21,469	665,541	9,876	306,149
FY 2016/17	September	77.48	90.48	17,360	520,806	6,313	189,384
FY 2016/17	October	83.55	90.48	20,165	625,124	7,413	229,805
FY 2016/17	November	80.81	90.48	12,847	385,397	4,519	135,579
FY 2016/17	December	83.93	90.48	11,769	364,840	3,138	97,291
FY 2016/17	January	107.24	90.48	15,189	470,871	11,182	346,653
FY 2016/17	February	108.29	90.48	32,834	919,357	20,451	572,641
FY 2016/17	March	103.23	90.48	14,147	438,547	4,387	136,011
FY 2016/17	April	94.14	90.48	25,050	751,501	13,798	413,942
FY 2016/17	May	97.52	90.48	16,723	518,421	6,552	203,124
FY 2016/17	June	89.84	90.48	18,100	543,000	7,474	224,206

Data Sources: *Los Altos Monthly Flow BOD TSS NH3 pounds.xlsx*



DISCUSSION ITEMS

Agenda Item # 7

AGENDA REPORT SUMMARY

Meeting Date: June 26, 2018

Subject: City-owned land measure

Prepared by: Staff

Attachment(s):

1. Draft measure decision tree

Initiated by:

City Council

Previous Council Consideration:

May 22, 2018 and June 12, 2018

Fiscal Impact:

Should the Council choose to place the measure on the ballot, the estimated cost to do so from the Registrar of Voters Office is approximately \$50,000 for the November 2018 ballot

Environmental Review:

Not applicable

Policy Question(s) for Council Consideration:

- Does the Council wish to submit a measure to the voters requiring voter approval for the sale or transfer of City-owned land? What types of land would this apply to?
- Does the Council wish to include the lease of City-owned land in such a measure?

Summary:

- Council must adopt a resolution by August 10, 2018 to place a measure on the November 2018 ballot

Staff Recommendation:

Discuss a potential measure to be submitted to voters regarding the sale or transfer of City-owned land and provide direction to staff



Subject: City-owned land measure

Purpose

To provide direction on a potential measure to be submitted to voters regarding City-owned land

Background

On May 22, 2018, the City Council directed staff to prepare a measure to be placed on a ballot which would require voter approval for the sale or transfer of any property designated as a park and the re-designation of parkland within the City of Los Altos.

Discussion/Analysis

Based on Council feedback provided at the May 22, 2018 and June 12, 2018 meetings, staff has prepared a decision tree (Attachment 1) to help Council determine which elements to include in a measure to be submitted to voters.

Staff has also drafted language (below) for some of the elements in the decision tree which can be inserted into a measure based on Council's direction.

Sale of City-owned parcels

Potential language:

- Voter approval shall be required for the sale or transfer of any City-owned parcel of land.
- Voter approval shall be required for the sale or transfer of any City-owned parcel of land, with the following land use designations: [Parks, Open Space, Public and Institutional, etc.]

Re-designation of City-owned parcels

Potential language:

- Voter approval shall be required for the re-designation of City-owned land, with a land use designation of [Parks, Open Space, Public and Institutional, etc.] to a different land use designation.

Lease of City-owned parcels

Potential language:

- Voter approval shall be required for the lease of any portion of City-owned land, with a land use designation of [Parks, Open Space, Public and Institutional, etc.].
- Voter approval shall be required for [new leases for new uses, new leases for non-municipal services, new leases to private entities, new lease to private, for-profit entities] of any portion of City-owned land, with a land use designation of [Parks, Open Space, Public and Institutional, etc.].



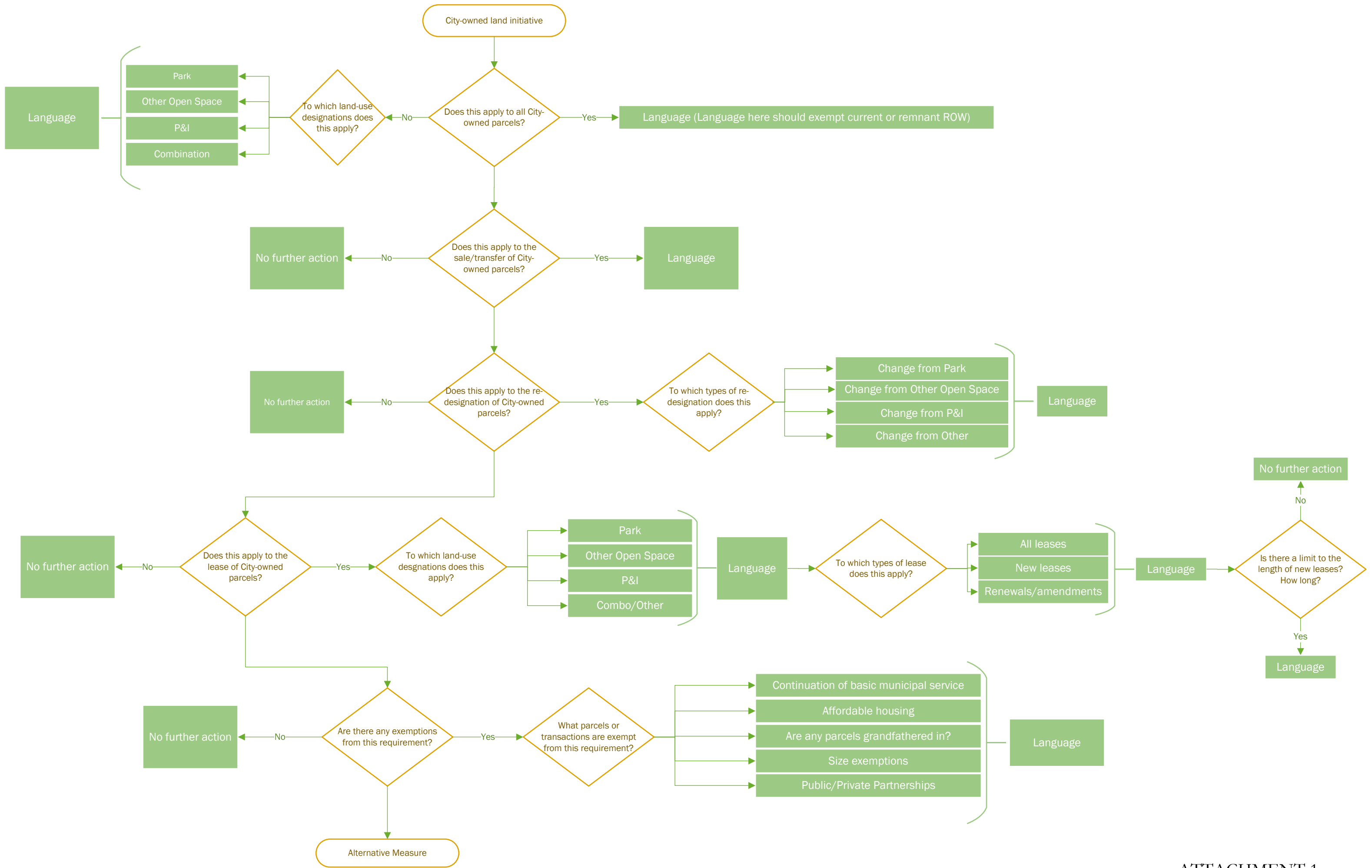
Subject: City-owned land measure

To place a minimum length of time a lease must be for to trigger the voter approval requirement, language could be added to the end of the above which states “for a period of XX (xxx) [days, months, years] or more.

For all of the potential language presented, information in the brackets would be modified according to Council direction.

Recommendation

Staff recommends Council discuss the measure and provide direction to staff as needed





DISCUSSION ITEMS

Agenda Item # 8

AGENDA REPORT SUMMARY

Meeting Date: June 26, 2018

Subject: North County Library Authority Library Redevelopment Task Force update

Prepared by: Jon Maginot, City Clerk/Assistant to the City Manager

Approved by: Chris Jordan, City Manager

Attachment(s): None

Initiated by:
City Council

Previous Council Consideration:
November 16, 2017

Fiscal Impact:
None

Environmental Review:
Not applicable

Policy Question(s) for Council Consideration:

- There are no policy questions for Council consideration at this time

Summary:

- The NCLA Board is exploring potential redevelopment of the Main Library using non-City of Los Altos funds
- The Task Force has undertaken an update to the 2008 Library Space and Services Needs Assessment and an architectural feasibility study
- The Task Force is currently in the process of surveying the community regarding a potential revenue measure

Staff Recommendation:

Receive an update from the North County Library Authority Library Redevelopment Task Force



Subject: North County Library Authority Library Redevelopment Task Force update

Purpose

To receive an update on the North County Library Authority Library Redevelopment Task Force

Background

On November 16, 2017, the City Council met in a joint session with the Los Altos Hills City Council. At that meeting, the two bodies discussed redevelopment of the Main Library, to be led by the North County Library Authority (NCLA) and both bodies agreed to issue a joint letter to Los Altos Library Endowment (LALE) and Friends of the Los Altos Library (Friends) regarding their participation in a study on the potential redevelopment of the Los Altos Library.

On December 19, 2017, NCLA initiated a Task Force to explore redevelopment of the Main Library. This Task Force consisted of a representative from NCLA (Jean Mordo), the Los Altos Library Commission (Cindy Hill), the Friends (Mary Jo Kelly) and LALE (Bob Simon). The purpose of the Task Force was to begin to explore options for redeveloping the Library, either through expansion and remodel or a complete re-build.

Discussion/Analysis

As part of the initial steps of the process, the Task Force recommended updating the 2008 Library Services and Space Needs Assessment and conducting an architectural feasibility study to determine the advantages/disadvantages (including cost) of remodel/expansion of the existing facility compared to building a new library.

NCLA engaged the services of Group 4 Architecture, Research + Planning, Inc. to update the Needs Assessment and STRATAap to conduct the feasibility study.

Needs Assessment Update

A Library Needs Assessment was completed in 2008 outlining the needs for the two Los Altos Libraries, including service and space needs. The Assessment indicated that an additional 11,000 square feet was needed for the Main Library.

During a two-month process, Group 4 met with stakeholders from the Los Altos Library Commission, Friends of the Library, Los Altos Library Endowment, Los Altos Library staff and Santa Clara County Library District Administration. These meetings included discussions on current operations of the Library, current and future needs of the Library, library trends, and community aspirations. Group 4 also reviewed available data and information and observed activities and conditions in the Library.

The Needs Assessment Update affirmed the need for an expanded Library. The conclusion of the update is that a minimum of 12,000 additional square feet of space is needed beyond the current library space of 28,000 square feet. The Needs Assessment Update, with the input of Library staff, identified the following challenges with the current Library:



Subject: North County Library Authority Library Redevelopment Task Force update

1. Inadequate programming space (i.e. programs exceed Orchard Room's 100 person capacity, no dedicated children's storytime space, use staff conference room for programs). Note: conference room is also used for staff meetings, Friends sorting, lactation space, all-staff computer and occasional storage
2. Inadequate space to implement new services that emerge over time (i.e. Passport Services, Reading Program)
3. Lack of collaborative space (i.e. small meeting rooms for group study, tutors and students, book discussion groups)
4. Need for dedicated space for teens. Current space used by tutors and as an overflow program space
5. Too few electrical outlets at seated areas to support laptops and devices. Electric conduit has reached capacity
6. Lack of family/all gender restroom
7. Congested public circulation areas and holds room
8. Crowded shelving (current collection is 267,000 / 234,000 in 2008) (children's area maxed)
9. Accessible ad display shelving (i.e. current shelves are 7.5 feet high)
10. Reconfigure workroom for efficiency and to allow staff to collaborate better
11. Inadequate space for Friends of the Library-operated book sale, café and sorting area
12. Lack of parking

While the Needs Assessment Update does not specify how space should be used, it does indicate that additional space is needed for larger program space, expanded children's library space, dedicated teen space (the current space is often used for tutoring and other activities), collaboration space, more and different seating choices, more space for personal technology, more accessible physical collection and space for the Friends of the Library. The Needs Assessment Update does indicate that while 40,000 square feet is the minimum needed, additional square footage may help to better serve the needs of the community within the Library.

Group 4 further recommends that next steps in the process include gathering community input on library service and space allocation priorities within the Library.

Architectural Feasibility Study

The architectural feasibility study looked at whether it was possible to expand the library by 9,000 or 11,000 sq. ft. and the cost for either option as well as building a new, 40,000 sq. ft. library on the site and its costs.

Expansion of Library

The study looked at expanding the current building by 9,000 or 11,000 sq. ft. These numbers were based upon numbers included in the 2008 Needs Assessment.



Subject: North County Library Authority Library Redevelopment Task Force update

The current library building consists of two parts. The original building, which comprises the majority of the square footage, was built in the late-1950s or early-1960s and includes the reference desk area, teen area and the bulk of the collection. The building was expanded in the early-1990s. This expansion includes the southern portion of the library (the circulation area, program room and staff areas). The Library functions basically as two separate buildings which are joined together to form one building.

The construction style used in the original building makes expansion of the library by going above the original library cost-prohibitive. Such expansion would require significant upgrades to the structure of the building in order to meet current construction standards. This option was deemed not feasible.

The study also looked at expanding the library outward. This too was deemed not feasible. Expanding toward the soccer field or toward the History Museum would require eliminating parking and roadway access. Expanding into the orchard toward City Hall would require relocating a massive utility trench which runs parallel to the Library building. Expanding toward San Antonio Road was deemed not feasible as the Public and Community Facilities District, of which the Library is a part, requires a 40-foot setback and so there is not sufficient space to expand in that direction and gain significant amounts of square footage.

The Architectural Feasibility Study did determine that expansion was possible by demolishing the 1990s addition and rebuilding a two-story building in its place. This building would be tied into the remaining library as it is today. This construction would consist of 18,000 sq. ft. for a gain of 9,000 sq. ft. The Study also proposes adding a second-story overhang to the parking and delivery area immediately adjacent to the Library. This would allow for continued parking and access while adding approximately 2,000 sq. ft.

The study also determined that construction of a new 40,000 sq. ft. building in the same location as the existing library is possible. The study looked at the cost of a two-story building in order to allow for additional parking and open space.

While the study determined that all three options are possible, though the related costs for expansion (\$19.9 million for 9,000 sq. ft., \$22.1 million for 11,000 sq. ft.) seem to make expansion cost-prohibitive. Meanwhile, the cost of demolition and re-building of the Library amounts to approximately \$44 million.

At the request of the Task Force, the architectural feasibility study also looked at the cost to renovate the existing square footage of the Library. This amounts to approximately \$6.7 million.

Task Force recommendation

At its May 3, 2018 meeting, the Task Force reviewed all information gathered, including both studies. The Task Force unanimously recommended to the NCLA Board to move forward with exploration



Subject: North County Library Authority Library Redevelopment Task Force update

of the redevelopment of the Main Library, specifically to tear down the existing building and replace it with a 40,000 square-foot two-story building.

On May 14, 2018, the NCLA Board approved moving forward with exploration of the redevelopment of the Main Library, specifically to tear down the existing building and replace it with a new building between 35,000 and 50,000 square feet. The size of the facility will be further refined during the planning process.

The NCLA Board also approved conducting a survey for the purpose of gauging community support for a potential revenue measure. NCLA is contracting with Godbe Research Associates for this survey, which is expected to be completed by the end of June 2018.

Also on May 14, the NCLA Board approved expansion of the membership of the Task Force to allow for additional community input into the process.

Recommendation

Receive an update from the North County Library Authority Library Redevelopment Task Force.



DISCUSSION ITEMS

Agenda Item # 9

AGENDA REPORT SUMMARY

Meeting Date: June 12, 2018

Subject: Ordinance No. 2018-446: Public Art Development Fee

Prepared by: Jon Maginot, City Clerk/Assistant to the City Manager

Approved by: Chris Jordan, City Manager

Attachment(s):

1. Ordinance No. 2018-446

Initiated by:

Public Arts Commission

Previous Council Consideration:

May 8, 2018

Fiscal Impact:

Adoption of the ordinance would establish a development fee that would provide funds for the implementation of the City's Public Art Program

Environmental Review:

Not applicable

Policy Question(s) for Council Consideration:

- Does the Council wish to implement a Public Art Development Fee of 1% on all non-single-family residential development?

Summary:

- Would require private, non-single-family developments in residential districts with total construction costs in excess of \$1M to contribute 1% of construction costs to the Los Altos Public Art Fund
- Would require private developments in commercial, office and public facility districts to install publicly accessible art valued at not less than 1% of construction costs or to contribute 1% of construction costs to the Los Altos Public Art Fund
- Funds collected will be used for acquisition, maintenance, and promotion of temporary and permanent art and art programs throughout the City

Staff Recommendation:

Move to introduce and waive further reading of Ordinance No. 2018-446 establishing a development fee of 1% for public art, creating a Public Art Fund and establishing requirements for inclusion of public art in development projects



Subject: Ordinance No. 2018-446: Public Art Development Fee

Purpose

To introduce and waive further reading of an Ordinance establishing a Public Art Development Fee

Background

On May 8, 2018, the Public Arts Commission (PAC) presented a draft Public Art Tactical Plan, which contained elements drawn from the draft Public Art Master Plan, to the City Council. Included in the Tactical Plan was a recommendation to implement a Public Art Development Fee of 1% to fund the Public Art Program. A majority of Councilmembers were supportive.

On May 24, 2018, the PAC voted 6-0 (Commissioner Yang absent) to recommend the Council introduce the attached ordinance.

Discussion/Analysis

The draft ordinance establishes that all private, non-single-family developments with total construction costs in excess of \$1M shall contribute 1% of construction costs to the Public Art Fund. Each contribution is capped at \$200,000. Private developments in the City's commercial and office districts as well as the public facilities districts are required to place art equal to at least 1% of construction costs or to contribute to the Public Art Fund. Construction costs for Affordable Housing units are not included in valuation for the purposes of this fee.

Should a developer choose to place public art on private property, the proposed ordinance outlines the requirements and process for applying to do so.

Funds collected under this ordinance will be used for "acquisition, maintenance, and promotion of temporary and permanent art and art programs on City-owned, public property throughout the City."

A robust public art program fosters economic development, can create community gathering spaces, and promotes the general welfare of the community by contributing to making the city a more desirable community in which to live and raise a family. Well-conceived and executed works of art that are integrated into their sites and accessible to the public enhance the value of development projects, create a sense of place and make a lasting visible contribution to the intellectual, emotional and creative life of the community at large, thereby helping to mitigate the impacts of development.

To ensure that public art is present and sustained throughout the community, it is necessary to require that private development projects provide public art on site or, alternatively, contribute to a public art fund so that public art can be established elsewhere in the community. Through the inclusion of public art or payment of an in-lieu fee, developers will address at least a portion of the aesthetic impact of their developments on the community by providing art or an in-lieu fee that can be used to increase the presence of art. A 1% fee for art falls in the mid-range of fees collected by surrounding cities and



Subject: Ordinance No. 2018-446: Public Art Development Fee

will allow for a healthy budget for the City's Public Art Program, while not yielding so much revenue as to make the Program unwieldy.

Options

1) Introduce the ordinance

Advantages: Begins the process to establish a Public Art Development Fee. Adoption of the ordinance would be done at the July 10, 2018 Council meeting

Disadvantages: None identified

2) Modify the ordinance

Advantages: May allow for additional edits needed to clarify or modify the proposed ordinance

Disadvantages: Would delay implementation of the Public Art Development Fee

3) Do not introduce the ordinance

Advantages: None identified

Disadvantages: Would not create a Public Art Development Fee. The City's Public Art Program would continue to be funded by General Fund dollars

Recommendation

The Public Arts Commission and staff recommend Option 1.

ORDINANCE NO. 2018-446

**AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF
LOS ALTOS ESTABLISHING A DEVELOPMENT FEE OF 1%
FOR PUBLIC ART, CREATING A PUBLIC ART FUND AND
ESTABLISHING REQUIREMENTS FOR INCLUSION OF
PUBLIC ART IN PRIVATE DEVELOPMENT PROJECTS AND
ADOPTING CEQA EXEMPTION FINDINGS**

WHEREAS, public art enhances the quality of life in a community, fosters economic development and creates inventive and/or stimulating public spaces; and

WHEREAS, published data strongly indicates that cities with an active and dynamic cultural scene are more attractive to individuals and businesses; and

WHEREAS, public art provides an intersection between the past, present and future as well as between disciplines and ideas; and

WHEREAS, Los Altos can create diverse, interactive and engaging art experiences for the community with public art in the Civic Center, community plazas, parks, buildings and other public spaces throughout the City; and

WHEREAS, new development generally results in aesthetic impacts to a community; and

WHEREAS, as development and revitalization of real property in the City continues, the opportunity for creation of new cultural and artistic resources is diminished and the need to develop alternative sources for cultural and artistic outlets to improve the environment, image and character of the community is increased; and

WHEREAS, through the inclusion of public art or payment of an in-lieu fee, developers will address at least a portion of the aesthetic impact of their developments on the community by providing art or an in-lieu fee that can be used to increase the presence of art; and

WHEREAS, the provision of public art, or payment of a fee, will benefit the public interest, convenience, health safety and/or welfare and address the legitimate public concern of mitigating aesthetic impacts of development; and

WHEREAS, the legislative requirement to provide public art or an in-lieu fee generally applies broadly to all similarly situated private developers throughout the City and is a permissible land use regulation and a valid exercise of the City's traditional police power; and

WHEREAS, private, non-residential construction projects in the City of Los Altos can contribute to funding the creation, installation, maintenance and administration of public art for the enjoyment of residents and visitors; and

WHEREAS, on June 12, 2018, the City Council held a duly notice public meeting and all interested parties were provided an opportunity to comment on this ordinance; and

WHEREAS, this Ordinance is exempt from environmental review under the California Environmental Quality Act, Cal. Pub. Res. Code sections 21000, *et seq.* and the CEQA Guidelines, 14 Cal. Code Regs. Sections 15000, *et seq.*, each as a separate and independent basis, for the reasons set forth in Section 4 of this Ordinance.

NOW THEREFORE, the City Council of the City of Los Altos does hereby ordain as follows:

SECTION 1. AMENDMENT OF CODE: Chapter 3.52 “Public Art Funding” is hereby added as follows:

“Chapter 3.52 – “Public Art Funding”

3.52.010 – Definitions

The definitions set forth in this Section shall govern the application and interpretation of this Chapter 3.52.

- A. “Applicant” shall mean the property owner or developer who submits a development application to the City and their successors
- B. “Publicly accessible art” shall mean art which can be reasonably viewed or experienced from the public right-of-way or to which access is unrestricted to members of the public at all times of day.
- C. “Total construction costs” shall mean the valuation of the proposed structures or improvements, as calculated based on the most recent City of Los Altos Building Valuation Fee Schedule.

3.52.020 – Los Altos Public Art Fund

There is hereby created a Los Altos Public Art Fund, which funds shall be restricted to implementation of the Los Altos Public Art Program. Such funds may be used for the following purposes, including: acquisition, placement, maintenance, and promotion of temporary and permanent art and art programs on City-owned, public property throughout the City.

3.52.030 – Contribution Requirements

- A. R1-10, R1-H, R1-20, R1-40. Private single-family developments within the R1-10, R1-H, R1-20 and R1-40 districts shall be exempt from the requirements of this chapter. Private, non-residential developments with total construction costs in excess of one million dollars (\$1,000,000) and subject to design review approval

within the R1-10, R1-H, R1-20 and R1-40 districts shall contribute an amount of one percent (1%) of construction costs to the Los Altos Public Art Fund to be used pursuant to Section 3.52.020. Such contribution shall not exceed two hundred thousand dollars (\$200,000).

- B. R3-4.5, R3-5, R-3-3, R3-1.8, R3-1. Private developments of four (4) or more units and subject to design review approval within the R3-4.5, R3-5, R-3-3, R3-1.8 and R3-1 districts shall contribute an amount of one percent (1%) of construction costs to the Los Altos Public Art Fund to be used pursuant to Section 3.52.020. Such contribution shall not exceed two hundred thousand dollars (\$200,000). Construction costs for Below Market Rate units shall not be included in valuation.
- C. OA, OA-1/OA-4.5, CN, CD, CRS, CT, CD/R3, CRS/OAD, PC, PCF, PUD. Private building developments with total construction costs in excess of one million dollars (\$1,000,000) and subject to design review approval within the OA, OA-1/OA-4.5, CN, CD, CRS, CT, CD/R3, CRS/OAD, PC, PCF, and PUD districts shall devote an amount not less than one percent (1%) of such costs for the acquisition and installation of publicly accessible art on the development site. At the discretion of the applicant, and in lieu of developing on-site public artwork, a Public Art in-lieu contribution of one percent (1%) may be placed into the Los Altos Public Art Fund to be used pursuant to Section 3.52.020. Such contribution shall not exceed two hundred thousand dollars (\$200,000). Costs directly attributable to construction for Affordable Housing units as defined by Section 14.28.020 shall not be included in valuation.

3.52.040 – Application procedures for placement of required public art on private property

An application for placement of public art on private property shall be submitted in a form and manner as prescribed by the Public Arts Commission staff liaison and shall include:

- A. Preliminary sketches, photographs or other documentation of sufficient descriptive clarity to indicate the nature of the proposed public art;
- B. An appraisal or other evidence of the value of the proposed public artwork, including acquisition and installation costs;
- C. Preliminary plans containing such detailed information as may be required to adequately evaluate the location of the artwork in relation to the proposed development and its compatibility to the proposed development, including compatibility with the character of adjacent conforming developed parcels and existing neighborhoods; and
- D. A detailed plan that demonstrates how the property owner or developer will maintain the artwork, including schedule, cost and manner of maintenance; and

- E. A narrative statement or plan that demonstrates the public art will be displayed in a publicly accessible manner.

3.52.050 – Approval for placement of public art on private property

An application for placement of public art on private property submitted pursuant to Section 3.52.040 shall be reviewed by the Public Arts Commission for recommendation prior to final review of the application as a whole by the City Council. Public art on private property shall conform to standards adopted by Resolution of the City Council. A formal application for final placement of public art on private property shall be submitted to and approved by the Public Arts Commission prior to issuance of a building permit. Installation of public art on private property shall occur concurrent with project construction prior to issuance of final certificate of occupancy.

3.52.060 – Modification of an approved public art on private property application

For modifications to an approved application for public art on private property, the Public Arts Commission shall be the decision-making body. The action of the Public Arts Commission shall be final unless it is appealed in writing to the City Council within fifteen (15) days of the date of the action, and the appropriate fee is paid.

Any material damage to, or removal or replacement of public art installed pursuant to this Chapter shall require immediate written notification to the City and, within thirty (30) days thereof, full repair or in-kind replacement of same, or payment of a Public Art in-lieu contribution as defined in Section 3.52.030.

3.52.070 – Ownership of public art on private property; insurance

The installation or placement of public art on private property shall not constitute a donation to the City. Ownership of public art on private property shall continue with the applicant. The City shall bear no obligation nor assume any responsibility or liability with respect to the installation, operation or maintenance of any art installed on private property, which obligations, responsibilities and liabilities shall be borne by the applicant.

The applicant shall be required to carry insurance to cover the full replacement cost of the public art installed pursuant to this Chapter. Such insurance shall include coverage resulting from any loss or damage to, including but not limited to vandalism. The applicant shall, upon request of City, timely provide evidence of such insurance coverage to the City.

3.52.080 – Waiver.

Notwithstanding any other provision of this chapter, the requirement to install public art on private property or to pay a Public Art in-lieu contribution may be waived, adjusted or reduced by the City Council if an applicant demonstrates that there is no reasonable relationship between the impact of the proposed development and the requirement to install public art or to pay the Public Art in-lieu contribution, or that applying the requirements of

this chapter would take property in violation of the United States Constitution or California Constitution or would result in any other constitutional result.

3.52.090 – Enforcement

The provisions of this chapter shall apply to all agents, successors and assigns of an applicant proposing or constructing a development governed by this chapter. The City may institute any appropriate legal actions or proceedings necessary to ensure compliance herewith, including but not limited to, actions to revoke, deny or suspend any permit, including a development approval, building permit or certificate of occupancy. The City shall be entitled to costs and expenses for enforcement of the provisions of this chapter, or any agreement pursuant thereto, as awarded by the court, including reasonable attorneys' fees.

SECTION 2. CONSTITUTIONALITY. If any section, subsection, sentence, clause or phrase of this code is for any reason held to be invalid or unconstitutional, such decision shall not affect the validity of any of the remaining portions of this code.

SECTION 3. SEVERABILITY. If any section, subsection, sentence, clause or phrase of this ordinance is for any reason held to be invalid, such decision or decisions shall not affect the validity of the remaining portions of this ordinance. The City Council hereby declares that it would have passed this ordinance, and each section, subsection, sentence, clause and phrase thereof irrespective of the fact that any one or more sections, subsections, sentences, clauses or phrases be declared invalid.

SECTION 4. COMPLIANCE WITH THE CALIFORNIA ENVIRONMENTAL QUALITY ACT. Based on all the evidence presented in the administrative record, including but not limited to the staff report for the proposed ordinance, the City Council hereby finds and determines that the proposed ordinance is exempt from CEQA review: (1) pursuant to CEQA Guidelines Sections 15050(c)(2) and 15061(b)(3) because it does not authorize any direct or indirect changes to the physical environment and there is no possibility of a significant effect on the environment; (2) because it is not a “project” for purposes of CEQA and is exempt pursuant to State CEQA Guidelines sections 15378(b)(2); (3) pursuant to CEQA Guidelines Section 15378(b)(4) because it constitutes a governmental fiscal activity that does not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment; (4) because it is not intended to apply to any specifically identified development project and as such it is speculative to evaluate any such future project now; and/or (5) because it is not intended to, nor does it, provide CEQA clearance for future development-related projects by mere establishment of the ordinance's requirements. Each of the foregoing provides a separate and independent basis for CEQA compliance and, when viewed collectively, provides an overall basis for CEQA compliance.

SECTION 5. NOTICE OF EXEMPTION. The City Council hereby directs City staff to prepare and file a Notice of Exemption with the County, County Clerk within five working days of the adoption of this ordinance.

SECTION 6. PUBLICATION. This ordinance shall be published as provided in Government Code section 36933.

SECTION 7. EFFECTIVE DATE. This ordinance shall be effective upon the commencement of the thirty-first day following the adoption date.

The foregoing ordinance was duly and properly introduced at a regular meeting of the City Council of the City of Los Altos held on _____, 2018 and was thereafter, at a regular meeting held on _____, 2018 passed and adopted by the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

Jean Mordo, MAYOR

Attest:

Jon Maginot, CMC, CITY CLERK



DISCUSSION ITEMS

Agenda Item # 10

AGENDA REPORT SUMMARY

Meeting Date: June 26, 2018

Subject: Ordinance No. 2018-447: Accessory Structures

Prepared by: Zachary Dahl, Planning Services Manager

Reviewed by: Jon Biggs, Community Development Director

Approved by: Chris Jordan, City Manager

Attachment(s):

1. Ordinance No. 2018-447
2. Planning Commission Meeting Minutes, May 3, 2018
3. Planning Commission Agenda Report, May 3, 2018

Initiated by:

City Council

Previous Council Consideration:

February 27, 2018 and March 13, 2018

Fiscal Impact:

None

Environmental Review:

This Code amendment is exempt from environmental review pursuant to Section 15061(b)(3) of the State Guidelines implementing the California Environmental Quality Act of 1970, as amended, because significant impacts to the environment are not anticipated.

Policy Questions for Council Consideration:

- Should the Accessory Structure Ordinance be amended to limit the overall size of an accessory structure to 800 square feet and should basements under an accessory structure count toward that 800 square-foot limit?
- Are the amendments in the best interest for the protection or promotion of the public health, safety, comfort, convenience, prosperity, and welfare of the City?

Summary:

- The amendments would limit the overall size of an accessory structure to 800 square feet and count basements under an accessory structure toward the 800 square-foot size limit.

Staff Recommendation:

Move to introduce and waive further reading of Ordinance No. 2018-447 to amend Title 14 of the Los Altos Municipal Code pertaining to an 800 square-foot size limit for accessory structures in residential districts



Subject: Ordinance No. 2018-447: Accessory Structures

Purpose

The purpose of the proposed amendment is to limit the overall size of detached accessory structures located in residential zone districts.

Background

On February 27, 2018 the City Council held a public hearing and voted to introduce and waive further reading of amendments to the City's accessory structure regulations (Ordinance No. 2018-440). On March 13, 2018, the City Council adopted Ordinance No. 2018-438. As part of their action to adopt the ordinance, the Council requested that the Planning Commission rereview the accessory structure requirements related to minimum setbacks, how basement areas are counted and if there should be an overall maximum size limit.

On May 3, 2018, the Planning Commission held a public hearing to review three elements of the recently adopted accessory structure ordinance and consider the following questions:

1. Should the minimum setback for accessory structures located in a rear yard setback be increased to 10 feet?
2. Should basements under an accessory structure count toward the 800 square-foot size limit?
3. Should there be an 800 square-foot size limit for accessory structures that are located within the main building envelope?

Following public comment and commissioner discussion, the Planning Commission voted to make the following recommendations:

- The five-foot minimum setback for accessory structures in a rear yard should be maintained;
- The Zoning Code should be amended to count basements towards the maximum allowed floor area for an accessory structure; and
- The Zoning Code should be amended to limit detached accessory structures within a main building envelope to a maximum size of 800 square feet.

The Planning Commission meeting minutes and agenda report from the May 3, 2018 meeting are included as Attachments 2 and 3.

Discussion/Analysis

Currently, an accessory structure is only limited to 800 square feet in size when located (partially or entirely) within a rear yard setback area. An accessory structure that is located within the main building envelope, meeting all required setbacks for the Zone district, could exceed 800 square feet in size if the applicable floor area ratio (FAR) limit for the lot permitted it. In addition, the Code exempts below-grade basements from counting toward a structure's size limit.



Subject: Ordinance No. 2018-447: Accessory Structures

Based on the recommendations from the Planning Commission, an amendment to the City's Accessory Structure Ordinance (Zoning Code Chapter 14.15) is proposed for City Council consideration. The amendments would limit the overall size of a detached accessory structure to 800 square feet and require that any basement area under an accessory structure be counted toward that 800 square-foot limit. Ordinance No. 2018-447, which contains the proposed amendment language and required findings, is included as Attachment 1.

Overall, the amendments are in the best interest for the protection or promotion of the public health, safety, comfort, convenience, prosperity, and welfare of the City, and are in conformance with the City of Los Altos General Plan because the size limit will ensure that accessory structures are incidental and subordinate to the primary single-family dwelling on the site and minimize the appearance of excessive bulk and mass.

Options

- 1) Introduce and waive further reading of Ordinance No. 2018-447

Advantages: The City's accessory structure regulations will be clarified and updated to ensure the structures are not excessive in size and height, and have an appropriate relationship to adjacent properties

Disadvantages: Accessory structures over 800 square feet would be prohibited and the size of basements under an accessory structure could be limited

- 2) Decline to introduce and waive further reading of Ordinance No. 2018-447

Advantages: The City's existing accessory structure regulations will be maintained

Disadvantages: Accessory structures that exceed 800 square feet could be constructed

Recommendation

The staff recommends Option 1.

ORDINANCE NO. 2018-447

**AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF LOS
ALTOS AMENDING ZONING CODE CHAPTER 14.15 (ACCESSORY
STRUCTURES IN R DISTRICTS) PERTAINING TO OVERALL
STRUCTURE SIZE LIMITS**

WHEREAS, the City of Los Altos initiated an application (18-CA-01) to amend Title 14 of the Los Altos Municipal Code pertaining to the site standards for accessory structures in residential zoning districts, referred herein as the “CA”; and

WHEREAS, the amendments are in the best interest for the protection or promotion of the public health, safety, comfort, convenience, prosperity, and welfare of the City because they ensure that accessory structures are incidental and subordinate to the primary structure and/or use on a site; and

WHEREAS, the amendments are in conformance with the City of Los Altos General Plan because the size limit will ensure that the appearance of bulk for new accessory structures is minimized; and

WHEREAS, required public notices and public hearings were duly given and duly held in accordance with the applicable provisions of the California Government Code and Chapter 14.86 of the Los Altos Municipal Code; and

WHEREAS, the CA was processed in accordance with the applicable provisions of the California Government Code and the Los Altos Municipal Code; and

WHEREAS, the Planning Commission held a duly noticed public hearing on the CA on May 3, 2018, at which it recommended adoption of the CA; and

WHEREAS, the City Council held a duly noticed public hearing on the CA on June 26, 2018; and

WHEREAS, the location and custodian of the documents or other materials which constitute the record of proceedings upon the City Council’s decision are based in the Office of the City Clerk; and

WHEREAS, this Ordinance is exempt from environmental review pursuant to Section 15061(b)(3) of the State Guidelines implementing the California Environmental Quality Act of 1970, as amended, because significant impacts to the environment are not anticipated.

NOW THEREFORE, the City Council of the City of Los Altos does hereby ordain as follows:

SECTION 1. AMENDMENT OF CODE: Section 14.15.020 in Chapter 14.15 in Title 14 of the Los Altos Municipal Code is hereby amended as follows:

14.15.020 - Size, Height and Placement

- A. Accessory structures may not be located in a required front yard setback area, with the exception of a single arbor-style entry element as provided in Chapter 14.72.
- B. Accessory structures may be located on other areas of a property as outlined in Table 1:

Table 1			
Location	Maximum Size	Max. Height	Minimum Setback
Required side yard setback area (interior and exterior)	120 square feet	6 feet	None
Required rear yard setback area	800 square feet	12 feet	0 feet when under 6 feet in height
			5 feet when between 6-12 feet in height
			2.5 feet for an eave overhang, or similar projection, when over 6 feet in height
Main structure's building envelope (meets all required setbacks)	No size limit 800 square feet	12 feet	Not Applicable

1. When an accessory structure is located in a side yard setback area, it shall be screened from off-site view with solid fencing which is not lower in height than the accessory structure and which is constructed in conformance with the provisions of Chapter 14.72 of this title.
2. When an accessory structure is located in the main structure's building envelope, the height limit may be extended up to eighteen (18) feet if the additional height is necessary to establish architectural compatibility with the main structure.
3. When a basement is located under an enclosed accessory structure, the floor area of that basement shall count toward the maximum size limit specified in Table 1.

SECTION 6. CONSTITUTIONALITY. If any section, subsection, sentence, clause or phrase of this code is for any reason held to be invalid or unconstitutional, such decision shall not affect the validity of the remaining portions of this code.

SECTION 7. CEQA. This ordinance is not subject to review under the California Environmental Quality Act (Public Resources Code §§21000, *et seq.*, as further governed by the Guidelines for CEQA, 14 CCR §§15000, *et seq.*) because the ordinance has no potential

for resulting in either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment, per 14 CCR §15378. The ordinance amends Los Altos Municipal Code provisions pertaining to the size of accessory structures on a residential property. It does not commit the City of Los Altos or any other party to any direct course of action, other than to review applications for compliance with the amended site standards as described herein, and will not result in any physical changes in and of itself. Moreover, to the extent the ordinance were determined to be subject to CEQA, it would be exempt from further review pursuant to the ‘common sense’ exemption (14 CCR §15061(b)(3)), as it can be seen with certainty that there is no possibility that the adoption of the ordinance may have a significant effect on the environment.

SECTION 8. PUBLICATION. This ordinance shall be published as provided in Government Code section 36933.

SECTION 9. EFFECTIVE DATE. This ordinance shall be effective upon the commencement of the thirty-first day following the adoption date.

The foregoing ordinance was duly and properly introduced at a regular meeting of the City Council of the City of Los Altos held on June 26, 2018 and was thereafter, at a regular meeting held on _____, 2018 passed and adopted by the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

Jean Mordo, MAYOR

Attest:

Jon Maginot, CMC, CITY CLERK

**MINUTES OF A REGULAR MEETING OF THE PLANNING COMMISSION OF THE
CITY OF LOS ALTOS, HELD ON THURSDAY, MAY 3, 2018 BEGINNING AT 7:00 P.M.
AT LOS ALTOS CITY HALL, ONE NORTH SAN ANTONIO ROAD,
LOS ALTOS, CALIFORNIA**

ESTABLISH QUORUM

PRESENT: Chair Bressack, and Commissioners Bodner, Enander, McTighe, and Meadows

ABSENT: Vice Chair Samek

STAFF: Community Development Director Biggs, Planning Services Manager Dahl and Senior Planner Golden

PUBLIC COMMENT ON ITEMS NOT ON THE AGENDA

Residents John and Nancy Seeman spoke regarding concerns over the recent installation of antennas on existing utility poles in the City of Los Altos by AT&T and Verizon.

ITEMS FOR CONSIDERATION/ACTION

CONSENT CALENDAR

1. 18-UP-02 – D. Berman, M.D., BSI – 4300 El Camino Real

Conditional use permit for a 6,200 square-foot medical office use in an existing office building.
Project Manager: Dahl

Action: Upon motion by Commissioner Bodner, seconded by Commissioner McTighe, the Commission approved the Consent Calendar. The motion was approved (5-0-1) by the following vote:

AYES: Bressack, Bodner, Enander, McTighe, and Meadows

NOES: None

ABSTAIN: Lee

ABSENT: Samek

PUBLIC HEARING

2. 18-CA-02 – Accessory Structure Regulations

Zoning Code amendments to update the City's regulations for accessory structures in R Residential zone districts. *Project Manager: Dahl*

Planning Services Manager Dahl presented the staff report, noting that the City Council was seeking recommendations on amendments to the City's accessory structure regulations.

Public Comment

Resident Cheryl Reiker noted that since accessory structures could be converted into accessory dwelling units, the minimum setback for the structure and eaves should be increased, and that basement floor area should count toward the size limit for the accessory structures.

Resident and League of Woman Voters representative Sue Russell expressed support for counting basement floor area toward the size limit for the accessory structures.

The Commission discussed the three potential amendments per the City Council's direction, with a majority expressing support for basements under an accessory structure counting toward the 800 square-foot size limit, and establishing an 800 square-foot size limit for accessory structures that are located within the main building envelop; however, a majority did not support increasing the minimum setback for accessory structures located in a rear yard setback.

Action: Upon motion by Commissioner Bodner, seconded by Commissioner Meadows, the Commission recommended to the City Council that the five-foot minimum setback for accessory structures be maintained. The motion was approved (5-1) by the following vote:

AYES: Bressack, Bodner, Lee, McTighe, and Meadows

NOES: Enander

ABSENT: Samek

Action: Upon motion by Commissioner Meadows, seconded by Commissioner Bodner, the Commission recommended to the City Council approval of an amendment to the Zoning Code to count basements towards the maximum allowed floor area for accessory structures. The motion was approved (5-1) by the following vote:

AYES: Bressack, Bodner, Enander, McTighe, and Meadows

NOES: Lee

ABSENT: Samek

Action: Upon motion by Commissioner McTighe, seconded by Commissioner Meadows, the Commission recommended to the City Council approval of an amendment to the Zoning Code to limit detached accessory structures to a maximum size of 800 square feet. The motion was approved (6-0) by the following vote:

AYES: Bressack, Bodner, Enander, Lee, McTighe, and Meadows

NOES: None

ABSENT: Samek

3. 17-CA-02 – Accessory Dwelling Unit (Second Living Unit) Regulations

Zoning Code amendment to the Los Altos Municipal Code pertaining to Accessory Dwelling Units (Second Living Units) for changes necessary to comply with state law, and to consider reducing the minimum lot size required for such units. *Project Manager: Biggs*

Community Development Director Biggs presented the staff report recommending that the Commission hold a public hearing on the draft ordinance, since it amends Title 14, Zoning, of the Municipal Code, and develop a recommendation to the City Council.

Public Comment

Resident Cheryl Reiker commented on the state law for Accessory Dwelling Units (ADUs) and the conversion of an accessory structure to an ADU stating concerns with short-term rentals; keeping the existing setbacks and adding a 25-foot interior setback; said that an 800 square-foot ADU including a basement is sufficient; that an extra on-site parking space is common for a conversion and to require one required parking space for accessory structures; and a large lot size adds significant value to a space.

Action: Upon motion by Commissioner McTighe, seconded by Commissioner Enander, the Commission recommended approval of zoning ordinance amendments to the Accessory Dwelling Units (Second Living Units) for changes necessary to comply with state law, with the following correction and changes:

- Delete 14.14.060.L (Neighborhood Compatibility) per City Attorney's direction

- Delete Section 14.14.050.D.1.c
- Update 14.16.060.G (1) and (2) to replace “exclusive” with “inclusive.”

The motion was approved (6-0) by the following vote:

AYES: Bressack, Bodner, Enander, Lee, McTighe, and Meadows

NOES: None

ABSENT: Samek

4. **17-CA-05 – City of Los Altos – Parking Ordinance**

A draft ordinance amending Chapter 14.74, off-street parking and loading, of Title 14, Zoning, of the Los Altos Municipal code that amends the off-street parking requirements and provides for a parking in-lieu fee program, among other things. *Project Manager: Biggs*

Community Development Director Biggs presented the staff report recommending that the Commission consider the draft ordinance and resolution and provide input on further refinements that may be needed to make a recommendation to the City Council.

Public Comment

None.

Discussion

The Commission discussed the Draft Parking Ordinance and Resolution and commented that a footnote on the figures that provides information on the basis for the 2.86 parking spaces per 1,000 square feet and the number of spaces at the formation of the parking district should be included.

Action: Upon motion by Commissioner McTighe, seconded by Commissioner Bodner, the Commission approved the draft resolution recommending approval of the parking ordinance amendments to the City Council including the following modifications to those identified during the meeting:

- Fix 14.74.072 C Lot area; and
- Change 14.74.110 5iii to read “0.25” on-site parking spaces, not 0.75.

The motion was approved (4-1-1) by the following vote:

AYES: Bressack, Bodner, McTighe, and Meadows

NOES: Enander

ABSTAIN: Lee

ABSENT: Samek

COMMISSIONERS' REPORTS AND COMMENTS

Commissioner Meadows reported on the April 24, 2018 City Council meeting. Commissioner Enander commented on the last ten minutes of that meeting in which the mayor commented on the work that the Planning Commission has been doing.

POTENTIAL FUTURE AGENDA ITEMS

None.

ADJOURNMENT

Chair Bressack adjourned the meeting at 9:37 P.M.

Jon Biggs
Community Development Director



PLANNING COMMISSION AGENDA REPORT

Meeting Date: May 3, 2018

Subject: 18-CA-01 – Accessory Structure Code Amendments

Prepared by: Zachary Dahl, Planning Services Manager

Initiated by: City Council

Attachments:

A. Ordinance No. 2018-440 – Accessory Structure Regulations

Recommendation:

Provide a recommendation to the City Council on potential amendments to the City's accessory structure regulations.

Environmental Review:

This Code Amendment is exempt from environmental review pursuant to Section 15060(c)(2) of the California Environmental Quality Act Guidelines, as amended.

Summary:

The City Council is seeking input from the Planning Commission regarding potential amendments to the recently adopted accessory structure regulations (Zoning Code Chapter 14.15 – Accessory Structures in R Districts).

Background

On November 16, 2017 and February 1, 2018, the Planning Commission considered amendments to the City's accessory structure regulations in response to the City Council's direction. Following public comment and commissioner discussion, the Commission recommend approval of the amendments to the City Council.

On February 27, 2018 the City Council held a public hearing and voted to introduce and waive further reading of amendments to the City's accessory structure regulations (Ordinance No. 2018-440). On March 13, 2018, the City Council adopted Ordinance No. 2018-438. As part of their action to adopt the ordinance, the Council requested that the Planning Commission rereview the accessory structure requirements related to minimum setbacks, how basement areas are counted and if there should be an overall maximum size limit. Ordinance 2018-440, which went into effect on April 16, 2018, is included as Attachment A.

Discussion/Analysis

As part of their action to adopt the new accessory structure regulations, the City Council requested that the Planning Commission rereview three elements of the newly adopted ordinance and provide a recommendation.

1. Should the minimum setback for accessory structures located in a rear yard setback be increased to 10 feet?

With regard to the minimum setback, some Council members were concerned that a minimum five-foot setback for accessory structures within a rear yard setback area may not be large enough to avoid impacts on adjacent properties and wanted to see a minimum setback of 10 feet for such structures reconsidered. However, since there is also a minimum 10-foot separation requirement between an accessory structure and the main house, they wanted to make sure that a 10-foot setback requirement did not preclude the ability of a property to place a reasonably sized accessory structure in their rear yard. So, their direction also noted that if a 10-foot setback is recommended, the Commission should consider a provision that allows for an exception in certain circumstances if a 10-foot setback is too restrictive to allow for a reasonably sized accessory structure.

2. Should basements under an accessory structure count toward the 800 square-foot size limit?

With regard to basements under an accessory structure, there was concern that a property could build an 800 square-foot accessory structure with an 800 square-foot basement, thus creating an accessory structure with 1,600 square feet of floor area. So, to ensure that accessory structures are truly limited to 800 square feet in size when located in a rear yard setback, should the ordinance be amended to have basements, when proposed, count toward the 800 square-foot size limit?

3. Should there be an 800 square-foot size limit for accessory structures that are located within the main building envelope?

As currently adopted, an accessory structure is only limited to 800 square feet in size when it is located (partially or entirely) within a rear yard setback area. An accessory structure that is located within the main building envelope, meeting all required setbacks for the Zone district, could exceed 800 square feet in size if the applicable floor area ratio (FAR) limit for the lot permitted it. So, to avoid situations where accessory structures larger than 800 square feet could be approved, should the ordinance be amended to limit the size of all accessory structures to 800 square feet?

If the Planning Commission decides to recommend approval of any amendments to the City's accessory structure regulations, the following positive findings, in accordance with Chapter 14.86 of the Municipal Code, must be made:

- The amendments are in the best interest for the protection or promotion of the public health, safety, comfort, convenience, prosperity, and welfare of the City; and
- The amendments are in conformance with the City of Los Altos General Plan.

ATTACHMENT A

ORDINANCE NO. 2018-440

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF LOS ALTOS AMENDING “TITLE 14 – ZONING” OF THE LOS ALTOS MUNICIPAL CODE PERTAINING TO ACCESSORY STRUCTURE REGULATIONS IN RESIDENTIAL DISTRICTS

WHEREAS, the City of Los Altos initiated an application (17-CA-04) to amend Title 14 of the Los Altos Municipal Code pertaining to the site standards for accessory structures in residential zoning districts, referred herein as the “CA”; and

WHEREAS, the amendments are in the best interest for the protection or promotion of the public health, safety, comfort, convenience, prosperity, and welfare of the City because they clarify and improve the site standards for detached accessory structures in residential districts to ensure the structures are not excessive in size and height, and have an appropriate relationship to adjacent properties while also providing property owners opportunity and flexibility to develop and enjoy the use of an accessory structure if desired; and

WHEREAS, the amendments are in conformance with the City of Los Altos General Plan because they will protect the privacy of neighbors and minimize the appearance of bulk for new accessory structures, and

WHEREAS, required public notices and public hearings were duly given and duly held in accordance with the applicable provisions of the California Government Code and Chapter 14.86 of the Los Altos Municipal Code; and

WHEREAS, the CA was processed in accordance with the applicable provisions of the California Government Code and the Los Altos Municipal Code; and

WHEREAS, the Planning Commission held duly noticed public hearings on the CA on November 16, 2017 and February 1, 2018, at which it recommended adoption of the CA; and

WHEREAS, the City Council held a duly noticed public hearing on the CA on February 27, 2018; and

WHEREAS, the location and custodian of the documents or other materials which constitute the record of proceedings upon the City Council’s decision are based in the Office of the City Clerk; and

WHEREAS, this Ordinance is exempt from environmental review pursuant to Section 15061(b)(3) of the State Guidelines implementing the California Environmental Quality Act of 1970, as amended, because significant impacts to the environment are not anticipated.

NOW THEREFORE, the City Council of the City of Los Altos does hereby ordain as follows:

SECTION 1. AMENDMENT OF CODE: Title 14 of the Los Altos Municipal Code is hereby amended to include a new chapter as follows:

CHAPTER 14.15 – ACCESSORY STRUCTURES IN R DISTRICTS

14.15.010 - Purpose

The purpose of this Chapter is to provide site standards for the placement of detached accessory structures in all R (residential) districts. Both enclosed and unenclosed accessory structures, as defined in Chapter 14.02, are subject to the regulations contained herein.

14.15.020 - Size, Height and Placement

- A. Accessory structures may not be located in a required front yard setback area, with the exception of a single arbor-style entry element as provided in Chapter 14.72.
- B. Accessory structures may be located on other areas of a property as outlined in Table 1:

<u>Table 1</u>			
<u>Location</u>	<u>Maximum Size</u>	<u>Max. Height</u>	<u>Minimum Setback</u>
<u>Required side yard setback area (interior and exterior)</u>	<u>120 square feet</u>	<u>6 feet</u>	<u>None</u>
<u>Required rear yard setback area</u>	<u>800 square feet</u>	<u>12 feet</u>	<u>0 feet when under 6 feet in height</u>
			<u>5 feet when between 6-12 feet in height</u>
			<u>2.5 feet for an eave overhang, or similar projection, when over 6 feet in height</u>
<u>Main structure’s building envelope (meets all required setbacks)</u>	<u>No size limit</u>	<u>12 feet</u>	<u>Not Applicable</u>

- 1. When an accessory structure is located in a side yard setback area, it shall be screened from off-site view with solid fencing which is not lower in height than the accessory structure and which is constructed in conformance with the provisions of Chapter 14.72 of this title.
- 2. When an accessory structure is located in the main structure’s building envelope, the height limit may be extended up to eighteen (18) feet if the additional height is necessary to establish architectural compatibility with the main structure.

14.15.030 - Rear Yard Coverage

In addition to compliance with the maximum allowable coverage and floor area ratio as provided by the subject zone district, the maximum coverage within the required rear yard setback area for all accessory structures, or portions thereof, that exceed six feet in height shall be thirty-five (35) percent of the total rear yard setback area.

14.15.040 - Daylight Plane

No portion of an accessory structure shall extend above or beyond a daylight plane as follows:

- A. The daylight plane starts at a height of six feet at the property line and proceeds inward at a 5:12 slope to a distance of ten (10) feet from the side and rear property lines;
- B. All appurtenances, including chimneys, vents and antennas, shall be within the daylight plane;
- C. The daylight plane is not applied to a side or rear property line when it abuts a public alley or public street.

14.15.050 - Distance Between Structures

- A. When an accessory structure is located in a required side yard setback, a minimum clearance of five feet is required. The clearance may be provided between the accessory structure and the main structure, or between the accessory structure and the property line.
- B. When an accessory structure exceeds six feet in height and is located in a required rear yard setback, a minimum clearance of ten (10) feet is required between the accessory structure and the main structure, and a minimum clearance of five feet is required between accessory structures.
- C. For the purposes of this section, clearance is measured from outside edge of wall of each structure.

14.15.060 – Coverage Exception for Open Accessory Structures.

- A. Up to five percent of the lot area, but not more than five hundred (500) square feet, may be occupied by a detached accessory structure, such as an arbor (gazebo) or pergola (trellis) structure, that is open on all sides, with such area not being counted as lot coverage in residential zoning districts.
- B. No more than two hundred (200) square feet of an open accessory structure which is exempt from lot coverage, as provided in subsection (A) above, may have a solid roof.
- C. Accessory structures allowed by this section are subject to the rear yard coverage limitation as proscribed in Section 14.15.030.

SECTION 2. AMENDMENT OF CODE: Sections 14.06.120, 14.08.120, 14.10.120 and 14.12.120 in Title 14 of the Los Altos Municipal Code are hereby amended as follows:

~~Accessory structures, or~~ **Outdoor kitchens, barbeques, fireplaces and swimming pools.**

- A. ~~Accessory structures that are no more than six feet in height may be located in interior and exterior side and rear yard setbacks subject to the following provisions:~~

- ~~2. The maximum width of the accessory structure shall be five feet.~~
 - ~~3. The maximum length of the accessory structure shall be sixteen (16) feet.~~
 - ~~4. The accessory structure shall be screened from off-site view with solid fencing which is not lower in height than the accessory structure and which is constructed in conformance with the provisions of Chapter 14.72 of this title.~~
 - ~~5. In no case shall there be less than a five-foot clearance between either the accessory structure and the main structure or the accessory structure and the property line.~~
- ~~B. Accessory structures that are more than six feet in height may be located in the required rear yard setback area or in the main structure's building envelope, subject to the following provisions:~~
- ~~1. Accessory structures shall have a minimum setback of two and one-half feet from the side property line and a minimum setback from the rear property line as follows:
 - ~~i. Two and one-half feet when the structure is under eight feet in height;~~
 - ~~ii. Five feet when the structure is between eight and ten (10) feet in height;~~
 - ~~iii. Seven and one-half feet when the structure is between ten (10) and twelve (12) feet in height; and~~
 - ~~iv. Two and one-half feet when the rear property line abuts an alley.~~~~
 - ~~2. No portion of any accessory structure shall project above a daylight plane, beginning at a height of six feet at the side property line and increasing at a slope of four feet for each ten (10) feet of distance from the side property line to a distance of ten (10) feet from the side property line.~~
 - ~~3. The maximum allowable height for accessory structures shall be twelve (12) feet.~~
 - ~~4. The maximum allowable size for each accessory structure located in the required rear yard setback area shall be eight hundred (800) square feet of gross floor area.~~
 - ~~5. Notwithstanding the provisions of Section 14.66.220 of this title, no portion of an accessory structure, including but not limited to roof eaves, chimneys and vents, shall project into any required setback or daylight plane as outlined in this subsection B.~~
 - ~~6. The architectural and site review committee may approve an accessory structure located entirely within the main structure's building envelope to extend up to eighteen (18) feet in height if the committee finds and determines that the additional height is necessary in order to establish architectural compatibility with the main structure.~~
- ~~C. Outdoor barbecues, fireplaces, sinks and similar structures located within the required rear yard setback shall be set back a minimum of five feet from any property line. Said structures shall not be located in the required front or side yard setback areas.~~
- ~~D. Swimming pools, hot tubs, and spas located within the required rear yard setback shall be set back a minimum of five feet from any property line. The setback shall be measured from the outside edge of the pool structure. Said structures shall not be located in a required front or side yard setback area.~~
- ~~E. Accessory structures containing swimming pool motors and equipment shall not be located in a required interior side yard setback area.~~

A. Outdoor kitchens, barbeques, fireplaces, and similar structures shall be allowed in the main structure's building envelope, and in the required rear yard setback with a minimum setback of five feet from any property line. Said structures shall not be located in the required front or side yard setback areas.

B. Swimming pools, hot tubs, and spas shall be allowed within the main structure's building envelope, and the required rear yard setback with a minimum setback of five feet from any property line. Said structures shall not be located in a required front or side yard setback area.

1. The setback shall be measured from the outside edge of the pool structure.

2. Swimming pool motors and equipment shall be enclosed in a noise attenuating structure, as proscribed in Chapter 6.16, and shall not be located in a required interior side yard setback area.

SECTION 3. AMENDMENT OF CODE: Chapters 14.06, 14.08, 14.10, 14.12, 14.16, 14.18, 14.20 14.22 and 14.24 in Title 14 of the Los Altos Municipal Code are hereby amended to include a new section, inserted at the end of each chapter, as follows:

Accessory Structures.

As provided in Chapter 14.15 of this title.

SECTION 4. AMENDMENT OF CODE: Section 14.66.190 in Title 14 of the Los Altos Municipal Code is hereby amended as follows:

14.66.190 – ~~Reserved Distances between structures.~~

~~Where there is more than one structure on a site, the minimum distance between a main structure and an accessory structure which exceeds six feet in height shall be ten (10) feet; provided, however, if the open spaces surrounding the accessory structure conform with the regulations for the main structure in the district in which they are located, the accessory structure may be located nearer than ten (10) feet from the main structure. No minimum distance shall be required between main structures, between accessory structures, or between a main structure and an accessory structure which does not exceed six feet in height; provided, however, in no case shall there be less than a five-foot-wide unobstructed passageway adjacent to a main structure or an accessory structure. For the purposes of this section, the vertical dimension of the structure shall be measured from the elevation of the finished lot grade to the highest point of the structure.~~

SECTION 5. AMENDMENT OF CODE: Section 14.66.220 in Title 14 of the Los Altos Municipal Code is hereby amended as follows:

14.66.220 - ~~Reserved Lot coverage—Exception for arbor (gazebo) and pergola (trellis) structures.~~

~~Up to five percent of the lot area, but not more than seven hundred fifty (750) square feet (not including open eaves and/or overhangs up to four feet, may be occupied by arbor (gazebo) and pergola (trellis) structures, with such area not being counted as lot coverage in~~

~~residential zoning districts. However, no more than two hundred (200) square feet of the arbor (gazebo) structure(s) which are exempt from lot coverage on a lot may have a solid roof.~~

SECTION 6. CONSTITUTIONALITY. If any section, subsection, sentence, clause or phrase of this code is for any reason held to be invalid or unconstitutional, such decision shall not affect the validity of the remaining portions of this code.

SECTION 7. CEQA. This ordinance is not subject to review under the California Environmental Quality Act (Public Resources Code §§21000, *et seq.*, as further governed by the Guidelines for CEQA, 14 CCR §§15000, *et seq.*) because the ordinance has no potential for resulting in either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment, per 14 CCR §15378. The ordinance amends Los Altos Municipal Code provisions pertaining to the site standards for size and placement of accessory structures on a residential property. It does not commit the City of Los Altos or any other party to any direct course of action, other than to review applications for compliance with the amended site standards as described herein, and will not result in any physical changes in and of itself. Moreover, to the extent the ordinance was determined to be subject to CEQA, it would be exempt from further review pursuant to the ‘common sense’ exemption (14 CCR §15061(b)(3)), as it can be seen with certainty that there is no possibility that the adoption of the ordinance may have a significant effect on the environment.

SECTION 8. PUBLICATION. This ordinance shall be published as provided in Government Code section 36933.

SECTION 9. EFFECTIVE DATE. This ordinance shall be effective upon the commencement of the thirty-first day following the adoption date.

The foregoing ordinance was duly and properly introduced at a regular meeting of the City Council of the City of Los Altos held on February 27, 2018 and was thereafter, at a regular meeting held on March 13, 2018 passed and adopted by the following vote:

AYES: BRUINS, LEE ENG, MORDO, PEPPER, PROCHNOW

NOES:

ABSENT:

ABSTAIN:

Jean Mordo, MAYOR

Attest:

Jon Maginot, CMC, CITY CLERK



DISCUSSION ITEMS

Agenda Item # 11

AGENDA REPORT SUMMARY

Meeting Date: June 26, 2018

Subject: Ordinance No. 2018-448: Accessory Dwelling Units

Prepared by: Jon Biggs, Community Development Director

Approved by: Chris Jordan, City Manager

Attachments:

1. Ordinance No. 2018-448
2. PC Resolution No. 2018-06
3. May 3, 2018 Planning Commission Agenda Report Packet
4. May 3, 2018 Planning Commission Minutes

Initiated by:

City Council

Previous Council Consideration:

May 9, 2017, May 23, 2017, February 27, 2018, and March 3, 2018

Fiscal Impact:

None anticipated

Environmental Review:

The proposed code amendment is statutorily exempt from the requirements of the California Environmental Quality Act (CEQA) pursuant to Section 21080.17 of the Public Resources Code because it is an ordinance regarding second units in single-family and multi-family residential zones to implement the provisions of Government Code Section 65852.2.

Policy Question for City Council Consideration:

- Shall the City Council introduce an ordinance that amends the regulations for accessory dwelling units (ADU's) by incorporating State Legislation that governs the creation of the units and the recommendations of the Planning Commission at its May 3, 2018 Meeting?

Summary:

- The draft ordinance provides for the administrative approval of ADU's on sites with a residential zoning designation that are improved with one single-family dwelling subject to a set of standards. The draft ordinance will bring the City's ADU regulations into compliance with State Law.

Staff Recommendation:

Move to introduce and waive further reading of Ordinance No. 2018-448 amending those Chapters and Subsections of the Los Altos Municipal Code that regulate accessory dwelling units



Subject: Ordinance No. 2018-448: Accessory Dwelling Units

Purpose

The purpose of amending the City's ADU regulations is to achieve compliance with State Law and to implement Housing Element Program No. 4.2.1 and Program No. 4.2.2 that are intended to facilitate the development of ADUs and provide affordable housing in Los Altos.

Background

Over the past two years, the City has been working at developing a set of ADU regulations that achieve compliance with State Law and further programs contained in the Housing Element of the Los Altos General Plan, which encourage development of ADU's. In March of this year a draft ordinance was on a City Council agenda for adoption, but was removed to allow further refinement of the ADU regulations and make them consistent with new State regulations that went into effect earlier in the year. In conjunction with staff, the City Attorney's office has drafted a revised ADU ordinance that refines the regulations and makes them consistent with the new State Law.

This revised ADU ordinance was considered by the Planning Commission at a public hearing on May 3, 2018. Following public comment and discussion, the Planning Commission recommended adoption of the attached ordinance to the City Council.

Discussion/Analysis

The City Council is considering a revised set of ADU regulations found at Chapter 14.14, Accessory Dwelling Units, of the Municipal Code. As noted in the purpose section of the ordinance, these rules are intended to provide reasonable regulations that allow for the development of ADU's on lots developed with or proposed to be developed with a single-family dwelling. The zones in which an ADU can be created include the single-family and multiple-family zone districts of the City. On lots where they are allowed, ADU's can be created in several different ways. These include:

- Conversion of existing space within a single-family dwelling or accessory structure, like a garage or pool house;
- Construction of an addition to an existing single-family dwelling or accessory structure; and
- Construction of a new detached ADU.

Over the course of development of the ADU regulations, there have been numerous questions concerning whether an ADU increases densities and whether they are in conformance with the General Plan and Zoning designation of the site. The draft ordinance addresses these at subsection 14.14.030, which notes, among other things, that:

An accessory dwelling unit that conforms to this chapter shall:

- A. Be deemed an accessory use and not be considered to exceed the allowable density for the lot upon which it is located;



Subject: Ordinance No. 2018-448: Accessory Dwelling Units

- B. Be deemed a residential use that is consistent with the General Plan and the zoning designations for the lot;

The draft ordinance incorporates a series of standards that an ADU must comply with if it is to be permitted. The draft ordinance provides the requirements against which an application for an ADU will be evaluated. Among the requirements are a set of specific standards that are found at Section 14.14.060. These include standards for development on the lot, which provides for the variety of different ADU types, occupancy requirements, and unit size requirements to name some. Approval of an ADU is limited to a ministerial decision. That is, an application for an ADU must be evaluated against a set of requirements and standards for compliance and a discretionary permit, such as a use permit or design review permit, for an ADU cannot be required per State Law.

The draft ordinance includes an 800-square foot size limitation on attached or detached ADU's, and, as recommended by the Planning Commission, includes any basement areas proposed as part of the ADU. In previous discussion with the City Council there had been a majority consensus to exclude the basement area. Staff does not know how the courts will interpret the validity of an 800-square-foot unit size limit for ADUs. The 1,200-square-foot size limits are contained in the mandatory content of the ordinance a city must adopt (Gov. Code § 65852.2(a)(1)(D)(iv) & (v)). A city could adopt a maximum unit size that is greater than 1,200 square feet because this would be a less restrictive requirement on ADUs (Gov. Code §65852.2(c) & (g)). The California Department of Housing and Community Development (HCD) has interpreted the statute to allow a local government to choose maximum unit size less than 1,200 square feet if the size limit is not "burdensome" on the creation of ADUs. HCD has no authority to approve the local ordinance or otherwise implement Government Code Section 65852.2 (See Gov. Code §65852.2(h)).

Although the draft ordinance does not contain a minimum lot size on which an ADU may be proposed, the standards do require compliance with most of the site development standards of the zone district the ADU will be located in. Compliance with the height limit, lot coverage, floor area, and landscape requirements are necessary. When it comes to setback requirements however, there are some exceptions. The setback requirement (front, side, rear) must be met unless the ADU is created by the conversion of an existing garage (same setbacks as the existing garage) or addition of an ADU above an existing garage, which will require a five-foot setback from side and rear property lines. There are also exceptions to these standards for the conversion of existing space within a single-family residence or accessory structure to an ADU, but this is covered in more detail later in this report.

There are also parking standards for ADU's, which vary depending on the type of ADU being proposed and other circumstances specific to the location or proximity of the ADU to nearby features such as a public transit stop or car share vehicle location. In general, one off-street parking space per unit or per bedroom, whichever is less, is required for an ADU. The parking space for the ADU may be in setback areas or in a tandem configuration on an existing driveway. In certain instances, an off-



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street parking space cannot be required. These are for ADU's within specified distances of nearby transit facilities or having certain features. One product of the State's Laws is that when a garage, carport, or covered parking structure is demolished in conjunction with the construction of an ADU or converted to an ADU, the replacement spaces for the primary dwelling may be in any configuration on the same lot as the ADU, which may result in reduced setbacks for these structures – subject to compliance with the other site development standards.

Once an application for an ADU has been found in compliance with the requirements of the proposed ordinance, a building permit is required for the construction of the unit. Construction of the ADU must comply with adopted building code requirements and it must include permanent provisions for living, sleeping, eating, cooking, and sanitation. This means that a kitchen in an ADU must include built in food preparation appliances. Counter top microwaves, toaster ovens, and hot plates will not qualify.

The draft ordinance does provide design standards. It requires that an ADU relate to the design of the primary residence by use of the similar exterior wall materials, window types, door and window trims, roofing materials and roof pitch and the entrance to the accessory dwelling unit cannot face the street. In its review of ADU applications, staff will evaluate whether this requirement is met – and the expectation is that matching or complimentary dimensions, materials, finishes, and trims will be used on a proposed ADU to achieve compatibility of the ADU with the existing single-family dwelling and the neighborhood. A manufactured home can be proposed as an ADU, but not mobile housing units like mobile homes, trailers, and motor homes. The exterior finish and materials of the manufactured home will need to meet the design criteria noted here. Given the vast array of options available in the manufactured housing market, staff believes this can be accomplished.

As noted earlier, there are exceptions to the standards. Subsection 14.14.050 D, provides exceptions to the standards found at Section 14.14.060. However, these exceptions only apply if the proposed ADU meets all the elements of this Subsection. Key amongst these requirements is that they can only occur in the single-family residential zone districts listed (R1-10; R1-H; R1-20; or R1-40) and they only apply to an ADU contained within the existing space of a single-family residence or of an accessory structure (including, but not limited to, a studio, pool house, or other similar accessory structure). This type of unit must also have an independent exterior access and setbacks must be sufficient for fire safety, which is generally three feet but can be less depending on the type of construction used (there are varying material combinations that provide for higher fire ratings). There are no size limitations for these types of units. The City Attorney has advised that size limitations cannot be applied to conversions of existing structures as this is not provided for in the State's Laws. Since qualifying units are exempt from the standards found at Section 14.14.060, off-street parking for these units is not required. This exemption is also listed amongst the parking standards.

The proposed regulations restrict the rental of ADUs to a minimum of 30 days, to address the concerns of shorter term transient rentals. Longer term rentals should help provide a more desirable



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housing type that may benefit the community with more stable residents that are more vested in maintaining the neighborhood character. During the review of earlier ADU ordinance draft, it was asked if Los Altos could require rental periods that were longer than 30 days. The City Attorney has advised that cities probably cannot adopt minimum rental terms longer than 30 days (e.g. 60-90day minimum rentals) specific to ADUs. Government Code Section 65852.2(a) establishes the “maximum” standards that local agencies may use to evaluate a proposed ADU and “[n]o additional standards, other than those provided in this subdivision, shall be utilized or imposed, except that a local agency may require ... that the property be used for rentals of terms longer than 30 days” (Gov. Code §65852.2(a)(6)). While a local agency can adopt less restrictive requirements for ADUs than provided in the new state law (Gov. Code §65852.2(g)), a longer minimum rental term would be more restrictive and therefore is likely preempted.

One difference between the proposed and current ADU regulations is the deletion of the owner occupancy requirement of the principal unit or the accessory dwelling unit. This is based on guidance provided by the City Council during the review of prior ADU ordinance drafts. The draft ADU ordinance under consideration also removes affordability requirements. Per the State Department of Housing and Community Development, ADUs are inherently affordable and per the State planning law Cities cannot impose regulations beyond that allowed in the statute. Accordingly, the proposed regulations also remove the two-person occupancy limit.

The information provided to this point is intended to highlight the principal elements of the ADU regulations. There are other components of the draft ordinance, but their purpose and intent seem to be clear on their face and it was felt that further explanation of these other elements within this report was not warranted.

CONCLUSION

The draft ADU regulations provide a set of rules that comply with State Law and reflect the feedback and discussions over the past few months that are intended to address local conditions. They also further programs of the Housing Element of the Los Altos General Plan. If adopted, they will provide more opportunities to create ADU’s and in return assist the City in achieving its goal of addressing the affordable housing crisis.

Options

- 1) Adopt the ADU regulations as recommended by the Planning Commission

Advantages: The proposed regulations increase the opportunities to create ADUs and provides conformance with State Law, further programs of the Housing Element, and help address the affordable housing crisis.



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Disadvantages: May increase the number of ADUs and result in perceived parking and density impacts

2) Decline Adoption of the ADU regulations

Advantages: May seem to address concerns that there will be negative impacts of ADUs on residential neighborhoods

Disadvantages: ADU standards would revert to those in State Law, which do not include all the amendments intended to address local conditions

Recommendation

The staff recommends Option 1.

DRAFT ORDINANCE NO. 2018-448
AN ORDINANCE OF THE CITY OF LOS ALTOS AMENDING AND RESTATING
CHAPTER 14.14 ('SECOND LIVING UNITS IN R-1 DISTRICTS') AND MAKING
CONFORMING CHANGES TO TITLE 14 OF THE LOS ALTOS MUNICIPAL CODE
PERTAINING TO ACCESSORY DWELLING UNIT REGULATIONS

The Council of the City of Los Altos does ordain as follows:

SECTION 1. FINDINGS. The City Council of the City of Los Altos hereby finds that:

A. The City of Los Altos, California (the "City") is a municipal corporation, duly organized under the constitution and laws of the State of California.

B. The Planning and Zoning Law authorizes cities to provide by ordinance for the creation of accessory dwelling units.

C. To address California's shortage of housing supply, the California Legislature approved, and the Governor signed into law, Assembly Bill 2299 (Bloom, Chapter 735, Stats. 2016), Senate Bill 1069 (Wieckowski, Chapter 720, Stats. 2016) which imposed new limitations on local authority to regulate second units, which are now referred to as "accessory dwelling units" or "ADUs."

D. Assembly Bill 494 (Bloom, Chapter 602, Stats. 2017) and Senate Bill 229 (Wieckowski, Chapter 594, Stats. 2017), which become effective January 1, 2018, further amended Government Code Section 65852.2 and imposed new restrictions on local authority to regulate accessory dwelling units; and

E. The City desires to amend the local regulatory scheme for the construction of accessory dwelling units that fully complies with Government Code Section 65852.2 to provide reasonable regulations for the development of accessory dwelling units on lots developed or proposed to be developed with single-family residential dwellings. Such accessory dwelling units promote the goals and policies of the City's General Plan, contribute needed housing to the community's housing stock, and promote housing opportunities for the persons wishing to reside in the City of Los Altos.

SECTION 2. AMENDMENT. Section 14.02.070 of the Los Altos Municipal Code shall be amended to add the definition of "accessory dwelling unit" and revise the definition of "second living unit" as follows (changes shown in underline/strikeout):

"Accessory dwelling unit" means an attached or detached residential dwelling unit which provides complete independent living facilities for one or more persons. It shall include permanent provisions for living, sleeping, eating, cooking, and sanitation on the same parcel as a single-family dwelling is situated. An accessory dwelling unit also includes an efficiency unit, as defined in California Health and Safety Code section 17958.1, and a manufactured home, as defined in California Health and Safety Code section 18007. Formerly referred to as "second living unit."

"Second living unit" means a second dwelling on a single-family residential lot; refer to the definition of "accessory dwelling unit."

SECTION 3. AMENDMENT. Revising the Permitted Uses sections of the single-family zoning districts in the Los Altos Municipal Code as follows (changes shown in underline/strikeout):

14.06.020 – Permitted uses (R1-10)

B. Accessory dwelling ~~Second living~~ units as provided in Chapter 14.14 of this title;

14.08.020 – Permitted uses (R1-H)

B. Accessory dwelling ~~Second living~~ units as provided in Chapter 14.14 of this title;

14.10.020 – Permitted uses (R1-20)

B. Accessory dwelling ~~Second living~~ units as provided in Chapter 14.14 of this title;

14.12.020 – Permitted uses (R1-40)

B. Accessory dwelling ~~Second living~~ units as provided in Chapter 14.14 of this title;

SECTION 4. AMENDMENT. Chapter 14.14 of the Los Altos Municipal Code is hereby amended and restated in full as set forth on Exhibit “A” attached hereto and incorporated herein by reference.

SECTION 5. AMENDMENT. Section 14.74.010, subdivision (A) of the Los Altos Municipal Code is hereby amended and restated as follows:

- A. Not less than two parking spaces, one of which shall be covered, shall be required for each living unit, including second living except accessory dwelling units developed which shall provide parking as required ~~under the provisions of~~ Chapter 14.14 of this title.

SECTION 6. SEVERABILITY. If any section, subsection, subdivision, paragraph, sentence, clause, or phrase in this ordinance or any part thereof is for any reason held to be unconstitutional or invalid or ineffective by any court of competent jurisdiction, such decision shall not affect the validity or effectiveness of the remaining portions of this ordinance or any part thereof. The City Council hereby declares that it would have passed each section, subsection, subdivision, paragraph, sentence, clause, or phrase thereof irrespective of the fact that any one (1) or more subsections, subdivisions, paragraphs, sentences, clauses, or phrases be declared unconstitutional, or invalid, or ineffective.

SECTION 7. CALIFORNIA ENVIRONMENTAL QUALITY ACT FINDING. The City Council finds the adoption of this ordinance to be statutorily exempt from the requirements of the California Environmental Quality Act (CEQA) pursuant to Section 21080.17 of the Public Resources Code because it is an ordinance regarding second units in single-family and multifamily residential zones to implement the provisions of Government Code Section 65852.2.

SECTION 8. EFFECTIVE DATE. This ordinance shall go into effect and be in full force and operation from and after thirty (30) days after its final passage and adoption.

SECTION 9. PUBLICATION. The City Clerk shall certify to the adoption of this ordinance. Not later than fifteen (15) days following the passage of this ordinance, the ordinance, or a summary thereof in accordance with Government Code Section 36933, along with the names of the City Council members voting for and against the ordinance, shall be published in a newspaper of general circulation in the City of Los Altos.

SECTION 10. FILING. The City Clerk shall submit a copy of this ordinance to the Department of Housing and Community Development within 60 days after adoption.

The foregoing ordinance was duly and properly introduced at a regular meeting of the City Council of the City of Los Altos held on _____, 2018 and was thereafter, at a regular meeting held on _____, 2018 passed and adopted by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Jean Mordo, Mayor

ATTEST:

Jon Maginot, CMC, City Clerk

EXHIBIT “A”
CHAPTER 14.14 - ACCESSORY DWELLING UNITS

14.14.010. PURPOSE.

The purpose of this chapter is to provide reasonable regulations for the development of accessory dwelling units in certain areas and on lots developed or proposed to be developed with single-family residential dwellings. Such accessory dwelling units contribute needed housing to the community’s housing stock and promote housing opportunities for the persons wishing to reside in the City of Los Altos. In addition, the regulations in this chapter are intended to promote the goals and policies of the City’s General Plan and comply with requirements codified in the state Planning and Zoning Law related to accessory dwelling units in residential areas, including California Government Code section 65852.2.

14.14.020. DEFINITIONS.

- A. “Accessory dwelling unit” means an attached or detached residential dwelling unit which provides complete independent living facilities for one or more persons. It shall include permanent provisions for living, sleeping, eating, cooking, and sanitation on the same parcel as a single-family dwelling is situated. An accessory dwelling unit also includes an efficiency unit, as defined in California Health and Safety Code section 17958.1, and a manufactured home, as defined in California Health and Safety Code section 18007. See also, Section 14.02.070, Definitions.
- B. “Living area” is defined as the interior habitable area of a dwelling unit, including basements and attics, but not including a garage or any accessory structure.
- C. “Tandem parking” means that two or more automobiles are parked on a driveway or in any other location on a lot, lined up behind one another.

14.14.030. EFFECT OF CONFORMING ACCESSORY DWELLING UNIT

An accessory dwelling unit that conforms to this chapter shall:

- A. Be deemed an accessory use and not be considered to exceed the allowable density for the lot upon which it is located;
- B. Be deemed a residential use that is consistent with the general plan and the zoning designations for the lot;
- C. Not be considered in the application of any ordinance, policy, or program to limit residential growth; and
- D. Not be considered a new residential use for the purposes of calculating connection fees or capacity charges for utilities, including water and sewer service.

14.14.040. LOCATIONS PERMITTED.

- A. Accessory dwelling units may be permitted in the following zones:
 - 1. Single-Family District (R1-10);
 - 2. Single-Family District (R1-H);
 - 3. Single-Family District (R1-20);
 - 4. Single-Family District (R1-40);
 - 5. Multiple-Family District (R3-4.5);
 - 6. Multiple-Family District (R3-5);
 - 7. Multiple-Family District (R3-3);
 - 8. Multiple-Family District (R3.1.8); and
 - 9. Multiple-Family District (R3-1).

- B. Nothing in this chapter shall be construed to authorize construction of new single-family residences in multiple-family districts where such single-family residential use is not otherwise allowed.

14.14.050. PERMIT PROCEDURES.

A. Permits.

1. Additions and New Structures. Except as provided in subparagraph (2) below, approved applications for an accessory dwelling unit will result in an accessory dwelling unit permit. The applicant shall also obtain a building permit as required by the building code.
2. Exception – Conversions of Existing Space. Accessory dwelling units that meet the requirements of subsection (D) shall obtain a building permit as required by the building code.

B. Application Processing.

1. Applications for an accessory dwelling unit must be submitted to the Director of Community Development (the “Director”) on a form and with information and materials, as adopted by the Director.
2. The Director may collect a fee for processing the application, provided such fee is approved by resolution or ordinance of the City Council.
3. Applications for an accessory dwelling unit shall be considered ministerially without any discretionary review or a hearing, and shall be approved or disapproved within 120 days after receiving the complete application.
4. Except as otherwise provided in this chapter, the construction of an accessory dwelling unit shall be subject to any applicable fees adopted pursuant to the requirements of California Government Code, Title 7, Division 1, Chapter 5 (commencing with Section 66000) and Chapter 7 (commencing with Section 66012).

C. Review.

1. Additions and New Structures. The Director will review and approve complete applications for an accessory dwelling unit permit that comply with the requirements of Sections 14.14.060 (Standards).
2. Conversions of Existing Space. The Director will review and approve that a proposed conversion of existing space of a single-family residence or of an accessory structure to a proposed accessory dwelling unit meets the requirements of subsection (D), below.
3. Upon approval pursuant to subparagraphs (1) or (2) above, the Director shall convey the application to the Building Official for review and approval of the building permit(s) in accordance with Title 12 of the Los Altos Municipal Code.

D. Exception: An accessory dwelling unit is exempt from the requirements of Section 14.14.060 (Standards) if the unit meets all the requirements of subparagraph (1):

1. The accessory dwelling unit:
 - (a) Is one accessory dwelling unit per single-family lot located within one of the zones for single-family residential use: R1-10; R1-H; R1-20; or R1-40;
 - (b) Is contained within the existing space of a single-family residence or of an accessory structure (including, but not limited to, a studio, pool house, or other similar accessory structure);

- (c) Has independent exterior access from the existing residence; and
- (d) The side and rear setbacks are sufficient for fire safety.
- 2. If the requirements of subparagraph (1) are met, then the applicant:
 - (a) Is required to install fire sprinklers in the accessory dwelling unit if the primary residence is also required to have fire sprinklers.
 - (b) Is not required to install a new or separate utility connection directly between the accessory dwelling unit and the utility, or to be charged a related connection fee or capacity charge.

14.14.060. STANDARDS.

Accessory dwelling units shall meet the following standards:

- A. Development on the lot.
 - 1. A single-family dwelling must exist on the lot or is proposed to be constructed in conjunction with the accessory dwelling unit.
 - 2. The accessory dwelling unit must be:
 - (a) Detached from the existing or proposed primary dwelling, but located on the same lot as the existing or proposed dwelling; or
 - (b) Attached to the existing or proposed primary dwelling; or
 - (c) Located within the living area of the existing or proposed primary dwelling.
 - 3. Only one accessory dwelling unit shall be allowed per lot.
 - 4. The accessory dwelling unit is not intended for sale separate from the primary residence.
- B. Occupancy.
 - 1. The accessory dwelling unit may be rented.
 - 2. The accessory dwelling unit shall be rented for terms longer than 30 days.
- C. Building and Construction.
 - 1. An accessory dwelling unit shall include permanent provisions for living, sleeping, eating, cooking, and sanitation.
 - 2. An accessory dwelling unit is required to have fire sprinklers, only if the primary residence is also required to have fire sprinklers.
 - 3. An accessory dwelling unit must receive the approval by the County Health Officer where a private sewage disposal system is being used.
 - 4. An accessory dwelling unit shall meet the requirements of the building code, as adopted and amended by Title 12 of the Los Altos Municipal Code, that apply to detached dwellings, as appropriate.
 - 5. Separate utility connection(s) may be permitted directly between the accessory dwelling unit and the utility. The connection shall be subject to a connection fee or capacity charge, or both, proportionate to the burden of the proposed unit, based on either its size or the number of its plumbing fixtures, upon the water or sewer system.
 - 6. No passageway shall be required in conjunction with the construction of an accessory dwelling unit. "Passageway" means a pathway that is unobstructed clear to the sky and extends from the street to one entrance of the accessory dwelling unit.
- D. Parking.
 - 1. Except as provided in subparagraph (2):

- (a) An accessory dwelling unit shall provide one parking space per unit or per bedroom, whichever is less.
 - (b) The required parking spaces may be located on setback areas approved by the Director or tandem parking on an existing driveway, unless specific findings are made by the Director that such parking arrangements are not feasible based upon specific site or regional topographical or fire or life safety conditions.
 - (c) When a garage, carport, or covered parking structure is demolished in conjunction with the construction of an accessory dwelling unit or converted to an accessory dwelling unit, the replacement spaces for the primary dwelling may be in any configuration on the same lot as the accessory dwelling unit, including, but not limited to, as covered spaces, uncovered spaces, tandem spaces, or by the use of mechanical automobile parking lifts.
 - 2. Parking standards shall not be imposed on an accessory dwelling unit in any of the following circumstances:
 - (a) The accessory dwelling unit is located within one-half mile of a public transit stop or station.
 - (b) The accessory dwelling unit is located within an architecturally and historically significant historic district as approved by the city pursuant to Section 12.44.080 of the Los Altos Municipal Code.
 - (c) The accessory dwelling unit is part of the proposed or existing primary residence or an existing accessory structure.
 - (d) When on-street parking permits are required but not offered to the occupant of the accessory dwelling unit.
 - (e) When there is a car share vehicle located within one block of the accessory dwelling unit.
- E. Height.
The accessory dwelling unit must meet the height standards of the applicable zoning district.
- F. Setbacks.
 - 1. Except as provided in subparagraphs (2) and (3), an accessory dwelling unit must meet the setback standards of the applicable zoning district.
 - 2. No setback shall be required for an existing garage that is converted to an accessory dwelling unit or to a portion of an accessory dwelling unit.
 - 3. A minimum setback of five (5) feet shall be required from the side and rear lot lines for an accessory dwelling unit constructed above an existing garage.
- G. Unit Size.
 - 1. The total floor area for an attached accessory dwelling unit shall not exceed 800 square feet, inclusive of basement areas, and shall not be more than 50 percent of the floor area of the existing or proposed principal residence.
 - 2. The total floor area for a detached accessory dwelling unit shall not exceed 800 square feet, inclusive of basement areas, and shall not be more than 50 percent of the floor area of the existing or proposed principal residence.
 - 3. The accessory dwelling unit shall contain no less than the 150 square feet area minimum required for an efficiency dwelling unit as defined in Section 17958.1 of the Health & Safety Code.
- H. Lot Coverage.

The accessory dwelling unit must meet the lot coverage standards of the applicable zoning district.

I. Floor Area

The accessory dwelling unit must meet the floor area standards of the applicable zoning district.

J. Landscape.

The accessory dwelling unit must meet the landscaping standards of the applicable zoning district.

K. Design.

1. The design of the accessory dwelling unit shall relate to the design of the primary residence by use of the similar exterior wall materials, window types, door and window trims, roofing materials and roof pitch.
2. The entrance to the accessory dwelling unit shall not face the street.
3. Accessory dwelling units shall be allowed in manufactured homes, but shall not be allowed in mobile housing units, including, but not limited to, mobile homes, trailers, and motor homes.

L. Impacts to Historic Places.

To prevent adverse impacts to any real property that is listed in the California Register of Historic Places, an accessory dwelling unit that is proposed to be located on the site of a historic resource or within a historic district, and visible from the exterior of the primary residence, the accessory dwelling unit shall be reviewed for historic appropriateness by the Director in accordance with the Secretary of the Interior's Standards for the Treatment of Historic Properties with Guidelines for Preserving, Rehabilitating, Restoring, and Reconstructing Historic Buildings (per CFR 68.3, as amended from time to time), or other standards as may be adopted by City Council Resolution.

DRAFT

RESOLUTION NO. PC 2018-06

**A RESOLUTION OF THE PLANNING COMMISSION
OF THE CITY OF LOS ALTOS RECOMMENDING ADOPTION OF AN
ORDINANCE AMENDING AND RESTATING CHAPTER 14.14 (‘SECOND
LIVING UNITS IN R-1 DISTRICTS’) AND MAKING CONFORMING
CHANGES TO TITLE 14 OF THE LOS ALTOS MUNICIPAL CODE
PERTAINING TO ACCESSORY DWELLING UNIT REGULATIONS**

WHEREAS, The City of Los Altos, California (the ‘‘City’’) is a municipal corporation, duly organized under the constitution and laws of the State of California; and

WHEREAS, The Planning and Zoning Law authorizes cities to provide by ordinance for the creation of second units; and

WHEREAS, To address California’s shortage of housing supply, the California Legislature approved, and the Governor signed into law, Assembly Bill 2299 (Bloom, Chapter 735, Stats. 2016), Senate Bill 1069 (Wieckowski, Chapter 720, Stats. 2016) which imposed new limitations on local authority to regulate second units, which are now referred to as ‘‘accessory dwelling units’’ or ‘‘ADUs’’; and

WHEREAS, Assembly Bill 494 (Bloom, Chapter 602, Stats. 2017) and Senate Bill 229 (Wieckowski, Chapter 594, Stats. 2017), which become effective January 1, 2018, further amended Government Code Section 65852.2 and imposed new restrictions on local authority to regulate accessory dwelling units; and

WHEREAS, The City desires to amend the local regulatory scheme for the construction of accessory dwelling units that fully complies with Government Code Section 65852.2 to provide reasonable regulations for the development of accessory dwelling units on lots developed or proposed to be developed with single-family residential dwellings. Such accessory dwelling units promote the goals and policies of the City’s General Plan, contribute needed housing to the community’s housing stock, and promote housing opportunities for the persons wishing to reside in the City of Los Altos.

NOW THEREFORE, BE IT RESOLVED, that the Planning Commission of the City of Los Altos hereby recommends the following to the Los Altos City Council:

That the City Council adopt an ordinance amending and restating Chapter 14.14 (Second Living Units in R-1 Districts) and making conforming changes to Title 14 of the Los Altos Municipal Code pertaining to accessory dwelling unit regulations.

Passed at a regular meeting of the Planning Commission of the City of Los Altos held on May 3, 2018 by the following vote:

AYES: Bressack, Bodner, Enander, Lee, McTighe, and Meadows

NOES: None

ABSENT: Samek

ABSTAIN: None



PLANNING COMMISSION AGENDA REPORT

Meeting Date: May 3, 2018

Subject: 17-CA-02 – Accessory Dwelling Unit Ordinance

Prepared by: Jon Biggs, Community Development Director

Initiated by: City Council

Attachments:

- A. Draft Ordinance
- B. Draft Resolution

Environmental Review:

The adoption of this ordinance is statutorily exempt from the requirements of the California Environmental Quality Act (CEQA) pursuant to Section 21080.17 of the Public Resources Code because it is an ordinance regarding second units in single-family and multifamily residential zones that implements the provisions of Government Code Section 65852.2.

Summary:

- State law requires that local jurisdictions allow accessory dwelling units by the conversion of existing area in principal and accessory single-family structures regardless of lot size.
- State law allows lot size standards for accessory dwelling units that add onto principal single-family dwellings and add onto or create new accessory structures.
- State law requires non-discretionary, i.e., ministerial, review of accessory dwelling units. Cities may apply objective written standards in their ministerial review.

Staff Recommendation

Hold a public hearing and develop a recommendation to the City Council on the ordinance.

Background

Over the past two years, the City has been attempting to bring its ADU regulations into compliance with State Regulations. The last time a draft ordinance appeared on the agenda of a City body was on March 15, 2018 when the City Council was slated to pass and adopt an ordinance that brought the City's ADU regulations into compliance with State law. Consideration of the ordinance was removed from the agenda to allow for refinements and consideration of the revised ordinance by the Planning Commission.

The Planning Commission is considering a revised ADU ordinance that has been drafted by the City Attorney's office with assistance of the Community Development Department. Included in this draft of the ordinance are changes in the regulation of ADUs that went into effect earlier this year at the State level. The Commission is being asked to open the public hearing on the ordinance and after the public hearing is closed, review and develop a recommendation to the City Council.

Discussion/Analysis

The entire ADU ordinance has been recrafted; however, it contains the elements of the previous versions of the ordinance. The proposed regulations remove the discretionary findings for ADUs in accordance with State law allowing only objective standards; thus, making the action on applications for secondary units ministerial.

The proposed regulations restrict the rental of ADUs to a minimum of 30 days, save February which has less than 30, to address the concerns of shorter term transient rentals. Longer term rentals should help provide a more desirable housing type that may benefit the community with more stable residents that are more vested in maintaining the neighborhood character.

The proposed regulations remove the affordability requirements for ADUs. Per the State Department of Housing and Community Development, ADUs are inherently affordable and per the State planning law Cities cannot impose regulations beyond what is allowed in the statute. Accordingly, the proposed regulations also remove the two-person occupancy limit.

Per State law, the proposed regulations eliminate the required parking for ADUs when converting existing structures within one-half mile of a transit stop. Additionally, the proposed regulations reduce the parking requirement for ADUs to one space per unit of one space per bedroom, whichever is less. State law prohibits the City from requiring covered parking spaces for ADUs.

The proposed regulations allow for ADUs in garage conversions and above garages with a minimum setback of five (5) feet. Additionally, with garage conversions, the proposed regulations require the replacement of the parking for the principal dwelling unit that now, given the new state regulations, may be in any configuration on the same lot and can be covered, uncovered or tandem spaces.

The proposed regulations maintain the 800-square-foot size limit consistent with the City's longstanding regulations to help limit the impacts of ADUs. Moreover, the proposed regulations require that the design of ADUs relate to the design of the primary residence and require that the entrance door to the unit not be visible from the street to help maintain a single-family appearance in the neighborhood.

It is important to note that ADUs must also conform to the overall zoning requirements including but not limited to floor area and lot coverage limits, and height limits. Such overall zoning limits help reduce the impacts of ADUs and limit their development potential. Per State law, ADUs must conform to setback limits except in the case of ADUs located above garages where minimum five-foot setbacks must be allowed.

This version of the ordinance also retains elements that were provided by City Council direction at its meeting of February 27, 2017, which is when the previous version of the draft ordinance was introduced. These elements include –

1. Deletion of a lot size minimum for establishment of an ADU.
2. Exclusion of basement square footage towards the overall square footage of an ADU.
3. Amending the maximum size of ADU's to no more than eight hundred (800) square feet for detached units or additions to existing structures and no more than one thousand two hundred square feet (1,200) for the conversion of existing space within a principal or accessory structure, so long as the conversion does not exceed fifty percent (50%) of the existing square footage of the structure.
4. Deletion of the owner occupancy requirement of the principal unit of the accessory dwelling unit.

Note that under State law ADUs are permitted in any existing principal or accessory single-family structure regardless of lot size and there are provisions in the draft ordinance that allow for the conversion of existing space within these structures to an ADU, subject to a size limitation of 1,200 square feet and that the ADU cannot exceed 50% of the floor area of the square footage of the structure.

Following the conclusion of public testimony, the Commission should consider the draft ordinance and resolution and provide input on further refinements that may be needed in order that it can make a recommendation to the City Council.

DRAFT – MAY 3, 2018 PLANNING COMMISSION MEETING

ORDINANCE NO. 2018-4XX

AN ORDINANCE OF THE CITY OF LOS ALTOS AMENDING AND RESTATING CHAPTER 14.14 (“SECOND LIVING UNITS IN R-1 DISTRICTS”) AND MAKING CONFORMING CHANGES TO TITLE 14 OF THE LOS ALTOS MUNICIPAL CODE PERTAINING TO ACCESSORY DWELLING UNIT REGULATIONS

The Council of the City of Los Altos does ordain as follows:

SECTION 1. FINDINGS. The City Council of the City of Los Altos hereby finds that:

A. The City of Los Altos, California (the “City”) is a municipal corporation, duly organized under the constitution and laws of the State of California.

B. The Planning and Zoning Law authorizes cities to provide by ordinance for the creation of accessory dwelling units.

C. To address California’s shortage of housing supply, the California Legislature approved, and the Governor signed into law, Assembly Bill 2299 (Bloom, Chapter 735, Stats. 2016), Senate Bill 1069 (Wieckowski, Chapter 720, Stats. 2016) which imposed new limitations on local authority to regulate second units, which are now referred to as “accessory dwelling units” or “ADUs.”

D. Assembly Bill 494 (Bloom, Chapter 602, Stats. 2017) and Senate Bill 229 (Wieckowski, Chapter 594, Stats. 2017), which become effective January 1, 2018, further amended Government Code Section 65852.2 and imposed new restrictions on local authority to regulate accessory dwelling units; and

E. The City desires to amend the local regulatory scheme for the construction of accessory dwelling units that fully complies with Government Code Section 65852.2 to provide reasonable regulations for the development of accessory dwelling units on lots developed or proposed to be developed with single-family residential dwellings. Such accessory dwelling units promote the goals and policies of the City’s General Plan, contribute needed housing to the community’s housing stock, and promote housing opportunities for the persons wishing to reside in the City of Los Altos.

SECTION 2. AMENDMENT. Section 14.02.070 of the Los Altos Municipal Code shall be amended to add the definition of “accessory dwelling unit” and revise the definition of “second living unit” as follows (changes shown in underline/strikeout):

“Accessory dwelling unit” means an attached or detached residential dwelling unit which provides complete independent living facilities for one or more persons. It shall include permanent provisions for living, sleeping, eating, cooking, and sanitation on the same parcel as a single-family dwelling is situated. An accessory dwelling unit also includes an

efficiency unit, as defined in California Health and Safety Code section 17958.1, and a manufactured home, as defined in California Health and Safety Code section 18007. Formerly referred to as “second living unit.”

“Second living unit” means a second dwelling on a single-family residential lot; refer to the definition of “accessory dwelling unit.”

SECTION 3. AMENDMENT. Revising the Permitted Uses sections of the single-family zoning districts in the Los Altos Municipal Code as follows (changes shown in underline/strikeout):

14.06.020 – Permitted uses (R1-10)

B. Accessory dwelling ~~Second living~~ units as provided in Chapter 14.14 of this title;

14.08.020 – Permitted uses (R1-H)

B. Accessory dwelling ~~Second living~~ units as provided in Chapter 14.14 of this title;

14.10.020 – Permitted uses (R1-20)

B. Accessory dwelling ~~Second living~~ units as provided in Chapter 14.14 of this title;

14.12.020 – Permitted uses (R1-40)

B. Accessory dwelling ~~Second living~~ units as provided in Chapter 14.14 of this title;

SECTION 4. AMENDMENT. Chapter 14.14 of the Los Altos Municipal Code is hereby amended and restated in full as set forth on Exhibit “A” attached hereto and incorporated herein by reference.

SECTION 5. AMENDMENT. Section 14.74.010, subdivision (A) of the Los Altos Municipal Code is hereby amended and restated as follows:

A. Not less than two parking spaces, one of which shall be covered, shall be required for each living unit, including second living except accessory dwelling units developed which shall provide parking as required under the provisions of Chapter 14.14 of this title.

SECTION 6. SEVERABILITY. If any section, subsection, subdivision, paragraph, sentence, clause, or phrase in this ordinance or any part thereof is for any reason held to be unconstitutional or invalid or ineffective by any court of competent jurisdiction, such decision shall not affect the validity or effectiveness of the remaining portions of this ordinance or any part thereof. The City Council hereby declares that it would have passed each section, subsection, subdivision, paragraph, sentence, clause, or phrase thereof irrespective of the fact that any one (1) or more subsections, subdivisions, paragraphs, sentences, clauses, or phrases be declared unconstitutional, or invalid, or ineffective.

SECTION 7. CALIFORNIA ENVIRONMENTAL QUALITY ACT FINDING. The City Council finds the adoption of this ordinance to be statutorily exempt from the requirements of the California Environmental Quality Act (CEQA) pursuant to Section 21080.17 of the Public Resources Code because it is an ordinance regarding second units in single-family and multifamily residential zones to implement the provisions of Government Code Section 65852.2.

SECTION 8. EFFECTIVE DATE. This ordinance shall go into effect and be in full force and operation from and after thirty (30) days after its final passage and adoption.

SECTION 9. PUBLICATION. The City Clerk shall certify to the adoption of this ordinance. Not later than fifteen (15) days following the passage of this ordinance, the ordinance, or a summary thereof in accordance with Government Code Section 36933, along with the names of the City Council members voting for and against the ordinance, shall be published in a newspaper of general circulation in the City of Los Altos.

SECTION 10. FILING. The City Clerk shall submit a copy of this ordinance to the Department of Housing and Community Development within 60 days after adoption.

The foregoing ordinance was duly and properly introduced at a regular meeting of the City Council of the City of Los Altos held on _____, 2018 and was thereafter, at a regular meeting held on _____, 2018 passed and adopted by the following vote:

- AYES:**
- NOES:**
- ABSENT:**
- ABSTAIN:**

Jean Mordo, Mayor

ATTEST:

Jon Maginot, CMC, City Clerk

EXHIBIT “A”

CHAPTER 14.14 - ACCESSORY DWELLING UNITS

14.14.010. PURPOSE.

The purpose of this chapter is to provide reasonable regulations for the development of accessory dwelling units in certain areas and on lots developed or proposed to be developed with single-family residential dwellings. Such accessory dwelling units contribute needed housing to the community’s housing stock and promote housing opportunities for the persons wishing to reside in the City of Los Altos. In addition, the regulations in this chapter are intended to promote the goals and policies of the City’s General Plan and comply with requirements codified in the state Planning and Zoning Law related to accessory dwelling units in residential areas, including California Government Code section 65852.2.

14.14.020. DEFINITIONS.

- A. “Accessory dwelling unit” means an attached or detached residential dwelling unit which provides complete independent living facilities for one or more persons. It shall include permanent provisions for living, sleeping, eating, cooking, and sanitation on the same parcel as a single-family dwelling is situated. An accessory dwelling unit also includes an efficiency unit, as defined in California Health and Safety Code section 17958.1, and a manufactured home, as defined in California Health and Safety Code section 18007. See also, Section 14.02.070, Definitions.
- B. “Living area” is defined as the interior habitable area of a dwelling unit, including basements and attics, but not including a garage or any accessory structure.
- C. “Tandem parking” means that two or more automobiles are parked on a driveway or in any other location on a lot, lined up behind one another.

14.14.030. EFFECT OF CONFORMING ACCESSORY DWELLING UNIT

An accessory dwelling unit that conforms to this chapter shall:

- A. Be deemed an accessory use and not be considered to exceed the allowable density for the lot upon which it is located;
- B. Be deemed a residential use that is consistent with the general plan and the zoning designations for the lot;
- C. Not be considered in the application of any ordinance, policy, or program to limit residential growth; and
- D. Not be considered a new residential use for the purposes of calculating connection fees or capacity charges for utilities, including water and sewer service.

14.14.040. LOCATIONS PERMITTED.

- A. Accessory dwelling units may be permitted in the following zones:
 - 1. Single-Family District (R1-10);
 - 2. Single-Family District (R1-H);
 - 3. Single-Family District (R1-20);
 - 4. Single-Family District (R1-40);
 - 5. Multiple-Family District (R3-4.5);
 - 6. Multiple-Family District (R3-5);
 - 7. Multiple-Family District (R3-3);
 - 8. Multiple-Family District (R3.1.8); and
 - 9. Multiple-Family District (R3-1).
- B. Nothing in this chapter shall be construed to authorize construction of new single-family residences in multiple-family districts where such single-family residential use is not otherwise allowed.

14.14.050. PERMIT PROCEDURES.

- A. Permits.
 - 1. Additions and New Structures. Except as provided in subparagraph (2) below, approved applications for an accessory dwelling unit will result in an accessory dwelling unit permit. The applicant shall also obtain a building permit as required by the building code.
 - 2. Exception – Conversions of Existing Space. Accessory dwelling units that meet the requirements of subsection (D) shall obtain a building permit as required by the building code.
- B. Application Processing.
 - 1. Applications for an accessory dwelling unit must be submitted to the Director of Community Development (the “Director”) on a form and with information and materials, as adopted by the Director.
 - 2. The Director may collect a fee for processing the application, provided such fee is approved by resolution or ordinance of the City Council.

3. Applications for an accessory dwelling unit shall be considered ministerially without any discretionary review or a hearing, and shall be approved or disapproved within 120 days after receiving the complete application.
4. Except as otherwise provided in this chapter, the construction of an accessory dwelling unit shall be subject to any applicable fees adopted pursuant to the requirements of California Government Code, Title 7, Division 1, Chapter 5 (commencing with Section 66000) and Chapter 7 (commencing with Section 66012).

C. Review.

1. Additions and New Structures. The Director will review and approve complete applications for an accessory dwelling unit permit that comply with the requirements of Sections 14.14.060 (Standards).
2. Conversions of Existing Space. The Director will review and approve that a proposed conversion of existing space of a single-family residence or of an accessory structure to a proposed accessory dwelling unit meets the requirements of subsection (D), below.
3. Upon approval pursuant to subparagraphs (1) or (2) above, the Director shall convey the application to the Building Official for review and approval of the building permit(s) in accordance with Title 12 of the Los Altos Municipal Code.

D. Exception: An accessory dwelling unit is exempt from the requirements of Section 14.14.060 (Standards) if the unit meets all the requirements of subparagraph (1):

1. The accessory dwelling unit:
 - (a) Is one accessory dwelling unit per single-family lot located within one of the zones for single-family residential use: R1-10; R1-H; R1-20; or R1-40;
 - (b) Is contained within the existing space of a single-family residence or of an accessory structure (including, but not limited to, a studio, pool house, or other similar accessory structure);
 - (c) Has no more than one thousand two hundred square feet (1,200), exclusive of basement areas, and does not exceed fifty percent (50%) of the existing square footage of the structure.
 - (d) Has independent exterior access from the existing residence; and
 - (e) The side and rear setbacks are sufficient for fire safety.

2. If the requirements of subparagraph (1) are met, then the applicant:
 - (a) Is required to install fire sprinklers in the accessory dwelling unit if the primary residence is also required to have fire sprinklers.
 - (b) Is not required to install a new or separate utility connection directly between the accessory dwelling unit and the utility, or to be charged a related connection fee or capacity charge.

14.14.060. STANDARDS.

Accessory dwelling units shall meet the following standards:

- A. Development on the lot.
 1. A single-family dwelling must exist on the lot or is proposed to be constructed in conjunction with the accessory dwelling unit.
 2. The accessory dwelling unit must be:
 - (a) Detached from the existing or proposed primary dwelling, but located on the same lot as the existing or proposed dwelling; or
 - (b) Attached to the existing or proposed primary dwelling; or
 - (c) Located within the living area of the existing or proposed primary dwelling.
 3. Only one accessory dwelling unit shall be allowed per lot.
 4. The accessory dwelling unit is not intended for sale separate from the primary residence.
- B. Occupancy.
 1. The accessory dwelling unit may be rented.
 2. The accessory dwelling unit shall be rented for terms longer than 30 days, save for the month of February, which has less than 30 days.
- C. Building and Construction.
 1. An accessory dwelling unit shall include permanent provisions for living, sleeping, eating, cooking, and sanitation.
 2. An accessory dwelling unit is required to have fire sprinklers, only if the primary residence is also required to have fire sprinklers.

3. An accessory dwelling unit must receive the approval by the County Health Officer where a private sewage disposal system is being used.
4. An accessory unit shall meet the requirements of the building code, as adopted and amended by Title 12 of the Los Altos Municipal Code, that apply to detached dwellings, as appropriate.
5. Separate utility connection(s) may be permitted directly between the accessory dwelling unit and the utility. The connection shall be subject to a connection fee or capacity charge, or both, proportionate to the burden of the proposed unit, based on either its size or the number of its plumbing fixtures, upon the water or sewer system.
6. No passageway shall be required in conjunction with the construction of an accessory dwelling unit. "Passageway" means a pathway that is unobstructed clear to the sky and extends from to street to one entrance of the accessory dwelling unit.

D. Parking.

1. Except as provided in subparagraph (2):
 - (a) An accessory dwelling unit shall provide one parking space per unit or per bedroom, whichever is less.
 - (b) The required parking spaces may be located on setback areas approved by the Director or tandem parking on an existing driveway, unless specific findings are made by the Director that such parking arrangements are not feasible based upon specific site or regional topographical or fire or life safety conditions.
 - (c) When a garage, carport, or covered parking structure is demolished in conjunction with the construction of an accessory dwelling unit or converted to an accessory dwelling unit, the replacement spaces for the primary dwelling may be in any configuration on the same lot as the accessory dwelling unit, including, but not limited to, as covered spaces, uncovered spaces, tandem spaces, or by the use of mechanical automobile parking lifts.
2. Parking standards shall not be imposed on an accessory dwelling unit in any of the following circumstances:
 - (a) The accessory dwelling unit is located within one-half mile of a public transit stop or station.
 - (b) The accessory dwelling unit is located within an architecturally and historically significant historic district as approved by the city pursuant to Section 12.44.080 of the Los Altos Municipal Code.

- (c) The accessory dwelling unit is part of the proposed or existing primary residence or an existing accessory structure.
- (d) When on-street parking permits are required but not offered to the occupant of the accessory dwelling unit.
- (e) When there is a car share vehicle located within one block of the accessory dwelling unit.

E. Height.

The accessory dwelling unit must meet the height standards of the applicable zoning district.

F. Setbacks.

- 1. Except as provided in subparagraphs (2) and (3), an accessory dwelling unit must meet the setback standards of the applicable zoning district.
- 2. No setback shall be required for an existing garage that is converted to an accessory dwelling unit or to a portion of an accessory dwelling unit.
- 3. A minimum setback of five (5) feet shall be required from the side and rear lot lines for an accessory dwelling unit constructed above an existing garage.

G. Unit Size.

- 1. The total floor area for an attached accessory dwelling unit shall not exceed 800 square feet, exclusive of basement areas, and shall not be more than 50 percent of the floor area of the existing or proposed principal residence.
- 2. The total floor area for a detached accessory dwelling unit shall not exceed 800 square feet, exclusive of basement areas, and shall not be more than 50 percent of the floor area of the existing or proposed principal residence.
- 3. The accessory dwelling unit shall contain no less than the 150 square feet area minimum required for an efficiency dwelling unit as defined in Section 17958.1 of the Health & Safety Code.

H. Lot Coverage.

The accessory dwelling unit must meet the lot coverage standards of the applicable zoning district.

I. Floor Area

The accessory dwelling unit must meet the floor area standards of the applicable zoning district.

J. Landscape.

The accessory dwelling unit must meet the landscaping standards of the applicable zoning district.

K. Design.

1. The design of the accessory dwelling unit shall relate to the design of the primary residence by use of the similar exterior wall materials, window types, door and window trims, roofing materials and roof pitch.
2. The entrance to the accessory dwelling unit shall not face the street.
3. Accessory dwelling units shall be allowed in manufactured homes, but shall not be allowed in mobile housing units, including, but not limited to, mobile homes, trailers, and motor homes.

L. Neighborhood Compatibility

1. The property owner shall ensure that the property and improvements thereon are maintained in a commonly acceptable manner as determined by the planning department division.
2. The property owner shall ensure that unreasonable noise disturbances do not occur.

M. Impacts to Historic Places.

To prevent adverse impacts to any real property that is listed in the California Register of Historic Places, an accessory dwelling unit that is proposed to be located on the site of a historic resource or within a historic district, and visible from the exterior of the primary residence, the accessory dwelling unit shall be reviewed for historic appropriateness by the Director in accordance with the Secretary of the Interior's Standards for the Treatment of Historic Properties with Guidelines for Preserving, Rehabilitating, Restoring, and Reconstructing Historic Buildings (per CFR 68.3, as amended from time to time), or other standards as may be adopted by City Council Resolution.

DRAFT

RESOLUTION NO. PC 2018-06

**A RESOLUTION OF THE PLANNING COMMISSION
OF THE CITY OF LOS ALTOS RECOMMENDING ADOPTION OF AN
ORDINANCE AMENDING AND RESTATING CHAPTER 14.14 (‘SECOND
LIVING UNITS IN R-1 DISTRICTS’) AND MAKING CONFORMING
CHANGES TO TITLE 14 OF THE LOS ALTOS MUNICIPAL CODE
PERTAINING TO ACCESSORY DWELLING UNIT REGULATIONS**

WHEREAS, The City of Los Altos, California (the ‘City’) is a municipal corporation, duly organized under the constitution and laws of the State of California; and

WHEREAS, The Planning and Zoning Law authorizes cities to provide by ordinance for the creation of second units; and

WHEREAS, To address California’s shortage of housing supply, the California Legislature approved, and the Governor signed into law, Assembly Bill 2299 (Bloom, Chapter 735, Stats. 2016), Senate Bill 1069 (Wieckowski, Chapter 720, Stats. 2016) which imposed new limitations on local authority to regulate second units, which are now referred to as ‘accessory dwelling units’ or ‘ADUs’; and

WHEREAS, Assembly Bill 494 (Bloom, Chapter 602, Stats. 2017) and Senate Bill 229 (Wieckowski, Chapter 594, Stats. 2017), which become effective January 1, 2018, further amended Government Code Section 65852.2 and imposed new restrictions on local authority to regulate accessory dwelling units; and

WHEREAS, The City desires to amend the local regulatory scheme for the construction of accessory dwelling units that fully complies with Government Code Section 65852.2 to provide reasonable regulations for the development of accessory dwelling units on lots developed or proposed to be developed with single-family residential dwellings. Such accessory dwelling units promote the goals and policies of the City’s General Plan, contribute needed housing to the community’s housing stock, and promote housing opportunities for the persons wishing to reside in the City of Los Altos.

NOW THEREFORE, BE IT RESOLVED, that the Planning Commission of the City of Los Altos hereby recommends the following to the Los Altos City Council:

That the City Council adopt an ordinance amending and restating Chapter 14.14 (Second Living Units in R-1 Districts) and making conforming changes to Title 14 of the Los Altos Municipal Code pertaining to accessory dwelling unit regulations.

Passed at a regular meeting of the Planning Commission of the City of Los Altos held on XXXXXXXX XX, 2018 by the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

**MINUTES OF A REGULAR MEETING OF THE PLANNING COMMISSION OF THE
CITY OF LOS ALTOS, HELD ON THURSDAY, MAY 3, 2018 BEGINNING AT 7:00 P.M.
AT LOS ALTOS CITY HALL, ONE NORTH SAN ANTONIO ROAD,
LOS ALTOS, CALIFORNIA**

ESTABLISH QUORUM

PRESENT: Chair Bressack, and Commissioners Bodner, Enander, McTighe, and Meadows

ABSENT: Vice Chair Samek

STAFF: Community Development Director Biggs, Planning Services Manager Dahl and Senior Planner Golden

PUBLIC COMMENT ON ITEMS NOT ON THE AGENDA

Residents John and Nancy Seeman spoke regarding concerns over the recent installation of antennas on existing utility poles in the City of Los Altos by AT&T and Verizon.

ITEMS FOR CONSIDERATION/ACTION

CONSENT CALENDAR

1. 18-UP-02 – D. Berman, M.D., BSI – 4300 El Camino Real

Conditional use permit for a 6,200 square-foot medical office use in an existing office building.
Project Manager: Dahl

Action: Upon motion by Commissioner Bodner, seconded by Commissioner McTighe, the Commission approved the Consent Calendar. The motion was approved (5-0-1) by the following vote:

AYES: Bressack, Bodner, Enander, McTighe, and Meadows

NOES: None

ABSTAIN: Lee

ABSENT: Samek

PUBLIC HEARING

2. 18-CA-02 – Accessory Structure Regulations

Zoning Code amendments to update the City's regulations for accessory structures in R Residential zone districts. *Project Manager: Dahl*

Planning Services Manager Dahl presented the staff report, noting that the City Council was seeking recommendations on amendments to the City's accessory structure regulations.

Public Comment

Resident Cheryl Reiker noted that since accessory structures could be converted into accessory dwelling units, the minimum setback for the structure and eaves should be increased, and that basement floor area should count toward the size limit for the accessory structures.

Resident and League of Woman Voters representative Sue Russell expressed support for counting basement floor area toward the size limit for the accessory structures.

The Commission discussed the three potential amendments per the City Council's direction, with a majority expressing support for basements under an accessory structure counting toward the 800 square-foot size limit, and establishing an 800 square-foot size limit for accessory structures that are located within the main building envelop; however, a majority did not support increasing the minimum setback for accessory structures located in a rear yard setback.

Action: Upon motion by Commissioner Bodner, seconded by Commissioner Meadows, the Commission recommended to the City Council that the five-foot minimum setback for accessory structures be maintained. The motion was approved (5-1) by the following vote:

AYES: Bressack, Bodner, Lee, McTighe, and Meadows

NOES: Enander

ABSENT: Samek

Action: Upon motion by Commissioner Meadows, seconded by Commissioner Bodner, the Commission recommended to the City Council approval of an amendment to the Zoning Code to count basements towards the maximum allowed floor area for accessory structures. The motion was approved (5-1) by the following vote:

AYES: Bressack, Bodner, Enander, McTighe, and Meadows

NOES: Lee

ABSENT: Samek

Action: Upon motion by Commissioner McTighe, seconded by Commissioner Meadows, the Commission recommended to the City Council approval of an amendment to the Zoning Code to limit detached accessory structures to a maximum size of 800 square feet. The motion was approved (6-0) by the following vote:

AYES: Bressack, Bodner, Enander, Lee, McTighe, and Meadows

NOES: None

ABSENT: Samek

3. 17-CA-02 – Accessory Dwelling Unit (Second Living Unit) Regulations

Zoning Code amendment to the Los Altos Municipal Code pertaining to Accessory Dwelling Units (Second Living Units) for changes necessary to comply with state law, and to consider reducing the minimum lot size required for such units. *Project Manager: Biggs*

Community Development Director Biggs presented the staff report recommending that the Commission hold a public hearing on the draft ordinance, since it amends Title 14, Zoning, of the Municipal Code, and develop a recommendation to the City Council.

Public Comment

Resident Cheryl Reiker commented on the state law for Accessory Dwelling Units (ADUs) and the conversion of an accessory structure to an ADU stating concerns with short-term rentals; keeping the existing setbacks and adding a 25-foot interior setback; said that an 800 square-foot ADU including a basement is sufficient; that an extra on-site parking space is common for a conversion and to require one required parking space for accessory structures; and a large lot size adds significant value to a space.

Action: Upon motion by Commissioner McTighe, seconded by Commissioner Enander, the Commission recommended approval of zoning ordinance amendments to the Accessory Dwelling Units (Second Living Units) for changes necessary to comply with state law, with the following correction and changes:

- Delete 14.14.060.L (Neighborhood Compatibility) per City Attorney's direction

- Delete Section 14.14.050.D.1.c
- Update 14.16.060.G (1) and (2) to replace “exclusive” with “inclusive.”

The motion was approved (6-0) by the following vote:

AYES: Bressack, Bodner, Enander, Lee, McTighe, and Meadows

NOES: None

ABSENT: Samek

4. 17-CA-05 – City of Los Altos – Parking Ordinance

A draft ordinance amending Chapter 14.74, off-street parking and loading, of Title 14, Zoning, of the Los Altos Municipal code that amends the off-street parking requirements and provides for a parking in-lieu fee program, among other things. *Project Manager: Biggs*

Community Development Director Biggs presented the staff report recommending that the Commission consider the draft ordinance and resolution and provide input on further refinements that may be needed to make a recommendation to the City Council.

Public Comment

None.

Discussion

The Commission discussed the Draft Parking Ordinance and Resolution and commented that a footnote on the figures that provides information on the basis for the 2.86 parking spaces per 1,000 square feet and the number of spaces at the formation of the parking district should be included.

Action: Upon motion by Commissioner McTighe, seconded by Commissioner Bodner, the Commission approved the draft resolution recommending approval of the parking ordinance amendments to the City Council including the following modifications to those identified during the meeting:

- Fix 14.74.072 C Lot area; and
- Change 14.74.110 5iii to read “0.25” on-site parking spaces, not 0.75.

The motion was approved (4-1-1) by the following vote:

AYES: Bressack, Bodner, McTighe, and Meadows

NOES: Enander

ABSTAIN: Lee

ABSENT: Samek

COMMISSIONERS' REPORTS AND COMMENTS

Commissioner Meadows reported on the April 24, 2018 City Council meeting. Commissioner Enander commented on the last ten minutes of that meeting in which the mayor commented on the work that the Planning Commission has been doing.

POTENTIAL FUTURE AGENDA ITEMS

None.

ADJOURNMENT

Chair Bressack adjourned the meeting at 9:37 P.M.

Jon Biggs
Community Development Director



DISCUSSION ITEMS

Agenda Item # 12

AGENDA REPORT SUMMARY

Meeting Date: June 26, 2018

Subject: Discussion Item: Los Altos-Los Altos Hills Joint Community Volunteer Service Awards

Prepared by: Chris Jordan, City Manager

Attachment(s):

1. Bylaws of the Los Altos-Los Altos Hills Joint Community Volunteer Service Awards Committee

Initiated by:

City Council

Previous Council Consideration:

Not Applicable

Fiscal Impact:

Not Applicable

Environmental Review:

Not Applicable

Policy Question(s) for Council Consideration:

- Does the City Council want to continue with the LA-LAH Joint Community Volunteer Service Awards?

Summary:

- At a recent City Council meeting, the Council requested this be placed on a future agenda for the Council to discuss this issue
- It has been noted that the Los Altos Community Foundation (as well as other community organizations) sponsors a similar awards program

Staff Recommendation:

There is no recommendation; staff is looking for direction from the Council

**BYLAWS OF THE
LOS ALTOS - LOS ALTOS HILLS JOINT
COMMUNITY VOLUNTEER SERVICE AWARDS COMMITTEE**

ARTICLE I – NAME, PURPOSE

1.1. The name of the organization shall be the Los Altos - Los Altos Hills Joint Community Volunteer Service Awards Committee (“Committee”).

1.2. The Committee is organized jointly by the City of Los Altos and the City of Los Altos Hills as a non-profit effort to recognize volunteers who have benefitted these two communities. The recognition is during an annual luncheon (the “Recognition Luncheon”) generally held during one of the first Fridays of each December, for which tickets are sold to the public.

1.3. The duties and responsibilities of the Committee are to seek and request applications from various organizations and persons for nominations for the potential awardees, select the awardees to be recognized, organize the Recognition Luncheon, and present the awards at the Recognition Luncheon.

ARTICLE II – MEMBERSHIP

2.1. There shall be twelve (12) members of the Committee. Each City shall appoint one of its Councilmembers as representative and five (5) additional members, each appointed for a four (4) year term; provided, however, that the Councilmember representatives are appointed following the rules of their respective City. Each City is encouraged to make the appointments by January 31st for any vacancies, and to make appointments in such a way that the terms stagger for two years. (Consequently, initial appointments or re-appointments after adoption of these Bylaws may be for less than four year terms.) In selecting appointees, preference should be given to prior awardees. All regular Committee members, including the two Councilmembers, are entitled to full participation and voting rights.

2.2. A person may be re-appointed for up to two successive four-year terms. (Upon adoption of these Bylaws, all current Committee members may complete their terms of appointment, and, if they so request, their respective City Council may reappoint them to one new term, and in the future only one additional term, at which time their two-term limit shall apply.)

2.3. Any vacancy on or resignation from the Committee may be filled by appointment from the City Council for which the right to appoint resides. Absence from three consecutive meetings, without the prior consent of the Chair, shall constitute resignation from the Committee, subject to a timely appeal to remain in good standing if approved by the Committee.

2.4. From time to time the Committee may appoint Associate Members to assist with the administration of its duties, selected from prior Awardees, prior Committee members, potential or current applicants for membership, or the general community. Such persons shall be limited, in general, to four (4) at any one time, and shall serve up to a maximum of eight (8) successive years, at the pleasure of the Committee, and without need for Council approval. Their duties shall be

prescribed by the Committee during its regular course of business, and they may attend and participate at all meetings, including helping to produce the Recognition Luncheon, but shall not have the right to vote as a Member.

ARTICLE III – MEETINGS & OFFICERS

3.1. There will normally be five to seven meetings prior to each Recognition Luncheon.

3.2. Once all the applications for volunteers are received, a selection meeting (the “Selection Meeting”) will be held during which the volunteers to be recognized will be selected by the Committee as provided in Article IV below.

3.3. Notice of each meeting (including time and place) shall be given to each Committee member by email or U.S. Mail at least four business days prior to the meeting. During the first Committee meeting after the Chair is selected, the Chair shall hand out a schedule of proposed meetings and a date for the Recognition Luncheon. Notwithstanding this schedule, an agenda for each subsequent meeting, along with minutes of the prior meeting (after approval by the Chair), shall be provided to each Committee member as provided above. A Special Meeting may be called by the Chair, the Vice-Chair, the two Councilmembers on the Committee, or a majority of the members of the Committee.

3.4. An annual wrap-up meeting will be held in January following the annual Recognition Luncheon. The purpose of this meeting is to review the prior Recognition Luncheon, decide on any improvements or changes, and set the date for the reorganization meeting the following May. The reorganizational meeting to be held in May is for the purpose of electing officers for the next twelve (12) months, which period will include the next Recognition Luncheon.

3.5. Officers shall be selected by a majority vote. The Chair shall serve for one year, with the selection alternating each year from a resident of the City of Los Altos and a resident of the City of Los Altos Hills. Deviations from this rotation should be allowed only if all the members of the City entitled to that year’s rotation are unable or unwilling to so serve. The Vice-Chair should be selected from the alternate City from the Chair, with the expectation that such person will serve as the Chair the following year. The Secretary shall make sure Brown Act notices of meetings are provided, if required, and keep records of Committee actions. The Treasurer shall keep track of income and expenses, along with such other responsibilities as the Committee may assign. Officers are to be elected from the regular Committee members.

3.6. The Committee shall manage its affairs under the guidelines of the Rosenberg Rules of Order; provided, however, that a motion is not required prior to a general discussion on an agenda item, a motion may be amended at the request of the maker and the consent of the person who seconded the motion, and a motion need not be restated prior to the vote. Notwithstanding the foregoing, the Committee is free to modify its procedures as it reasonably sees fit.

ARTICLE IV - CRITERIA FOR NOMINATIONS AND SELECTION OF AWARDEES

4.1. The Committee will be responsible to deliver a letter, signed by each of the Mayors from the two cities, to the various community organizations and other interested individuals which

contains a nominating packet with the applicable instructions and materials to allow the nomination. Individual Committee members may also deliver and encourage community organizations or persons to submit applications. In order to avoid any undue bias, Committee members should not be a nominating party nor provide any supporting letters.

4.2. The following persons are eligible for awards: (a) the residents of Los Altos and Los Altos Hills, and the adjacent unincorporated areas (e.g. San Antonio Hills); and (b) non-residents who have performed the activities for which they are nominated in the Los Altos-Los Altos Hills community (e.g., nominees working for organizations that service the two cities).

4.3. The following persons are not eligible for awards:

(a) Volunteers whose activities have not benefitted the Los Altos-Los Altos Hills community.

(b) Elected officials, during their terms of office. (Note: an elected official who has retired from office may be eligible for notable work done in office. For example, an elected official serving as a city's representative on a Joint Powers Agency, and who has performed in that capacity at a level far above the expected call of duty, is eligible, after retirement, for consideration for an award.)

(c) Volunteers whose activities have been limited exclusively to a private group. While such activities may be of great benefit to the private group, they do not necessarily benefit the community at large. This section does not preclude volunteers who are members of private groups, (such as fraternal organizations, churches, etc.) from being eligible, if their activities have benefitted the community at large.

4.4. The following categories of volunteer activities should be considered: (a) helping people, particularly the seniors, youth, shut-ins, and handicapped; (b) promoting arts, education (in the broad sense; political campaigning on behalf of benefits to education does not qualify), history, recreation; (c) providing service to city government (e.g. major unpaid work helping the city); and (d) working behind the scenes as a professional (e.g. a town newspaper editor, or a non-volunteer such as the head of a JP, or a group).

4.5. The sole criteria for selection shall be the value to the community of the volunteer's personal and non-financial contribution. The contribution being made should be within the geographical boundaries of the two cities, and their adjacent unincorporated areas. The "value" should be compounded with the length of time over which the contribution was made in order to determine its true worth. Obviously, if two nominees had done the same work, but for different periods of time, the nominee with the longer term of service would have contributed greater value to the community.

4.6. The number of awardees should normally be in the range of six (6) to ten (10). There have been times when larger numbers of volunteers were honored, but this was because in the early years of the awards there was a fairly large pool of worthy awardees to be honored. While this "backlog" no longer exists, it is possible, given special circumstances, to honor more than ten (10) volunteers. It should be remembered, however, that if excessively large numbers of awards

are given, the honor of receiving an award will be correspondingly diluted.

4.7. In order to avoid protracted selection considerations and inadvertent bias by individual members of the Committee, the method of voting shall be as follows:

(a) Prior to the Selection Meeting, the Chair will provide to all Committee members a written list of all nominees whose nominations were received by the permitted deadline, along with the supporting documents. Late or incomplete nominations may be considered only upon approval of the Committee.

(b) Each Committee member should arrive at the Selection Meeting with a charted ranking, or order of merit, listing all the nominees. For example, if there are 20 nominees, the Committee member should have each nominee's name annotated with a ranking number, 1 being the highest order of merit, and 20 the lowest. Rankings are not to be fractional, in other words, dividing a rank between two nominees is not permitted.

(c) After general discussion, each Committee member shall provide his/her written rankings to the Treasurer, who will see that the rankings are compiled and displayed. For each nominee, the highest ranking and the lowest ranking are then deleted, and the total of the remaining rankings (presumably ten if all twelve Committee members voted) are added together. The purpose of the deletions is to avoid undue bias for or against any nominee.

(d) The resulting scores should be a fair representation of the Committee's opinion, and the nominees receiving the lowest 6 to 10 scores will become finalists; with the lowest six (6) automatically qualifying for awards, and the remaining four (4) being considered at the discretion of the Committee. In normal practice, a natural "break point" is sought for distinguishing the most deserving of the remaining four nominees. Experience has shown that eighty percent or so of the awardees can thus be determined with virtually no debate, and final discussion can then concentrate on the most suitable break point.

ARTICLE V - AMENDMENTS

5.1 These Bylaws may be amended by the approval of the two City Councils.


APPROVED:

Approved on April 14, 2009

Approved on April 23, 2009



Mayor Megan Satterlee
City of Los Altos



Mayor Jean Mordo
City of Los Altos Hills