



CITY OF PALO ALTO CITY COUNCIL FINAL MINUTES

Special Meeting
September 21, 2020

The City Council of the City of Palo Alto met on this date in Virtual Teleconference at 5:04 P.M.

Participating Remotely: Cormack, DuBois, Filseth, Fine, Kniss, Kou, Tanaka

Absent:

Agenda Changes, Additions and Deletions

None.

Oral Communications

Dexter Girton remarked regarding traffic congestion on Embarcadero if Churchill Avenue was closed.

Fred Balin commented on the actions of Planning and Transportation Commissioner Alcheck with respect to the Castilleja environmental document.

Consent Calendar

MOTION: Vice Mayor DuBois moved, seconded by Council Member Kou, third by Council Member Filseth to move Agenda Item Numbers 1 and 3 to a date uncertain.

Eileen Altman, addressing Agenda Item Number 4, appreciated the City's support of Project Safety Net, which was now a nonprofit agency.

Rebecca Eisenberg, addressing Agenda Item Number 1, opposed the expenditure of any additional funding for the California Avenue parking garage and suggested the project be halted.

Shashank V. Joshi, addressing Agenda Item Number 4 thanked the Council for its leadership in forming and supporting Project Safety Net.

MOTION: Council Member Kniss moved, seconded by Mayor Fine to approve Agenda Item Numbers 2, 4-6.

~~1. Approval of Construction Cameras for use at the California Avenue Parking Garage and Highway 101 Pedestrian/Bicycle Overpass~~

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~~Construction Projects; and Approval of a Parking Guidance System in Accordance With the Surveillance and Privacy Protection Ordinance.~~

2. Approve Contract Amendments to Extend the Following Banking and Related Services Contracts: 1) U.S. Bank and its Wholly-owned Subsidiary Elavon for General Banking and Merchant Services; 2) Wells Fargo for Lockbox Services; 3) Union Bank for Investment Safekeeping (Custodial) Services; and 4) JP Morgan Chase Bank for Purchase Card (P-card) Services.
3. ~~Consideration of an Appeal of a Director's Interpretation Made Pursuant to Palo Alto Municipal Code Section 18.01.025 and Related to Seismic Rehabilitation. The Project is Exempt From the California Environmental Quality Act (CEQA) in Accordance With CEQA Guidelines 15061(b)(3).~~
4. Approval of a Contract Between Project Safety Net, Inc. for Youth Mental Health Support in the Amount of \$100,000 per Year; Approval of a One-time Transfer of \$21,604 in Donations for a Not-to-Exceed Amount of \$521,604 for the Term of September 21, 2020 Through June 30, 2025; and Approval of a Budget Amendment in the Public Services Donation Fund by a Two-thirds Vote.
5. Resolution 9914 Entitled, "Resolution of the Council of the City of Palo Alto to Extend the Bicycle and Electric Scooter Share Pilot Program for 18 Months."
6. Resolution 9915 Entitled, "Resolution of the Council of the City of Palo Alto Approving and Authorizing the City Manager or Designee to Execute the Continuing Reimbursement Agreement for Letters of Credit With US Bank National Association at an Estimated Cost of \$35,000 per Year in Connection With the City's Market Purchase Program Agreement With Northern California Power Association (NCPA);" and Authorizing the Execution and Delivery of all Documents Relating to the Letters of Credit.

MOTION PASSED FOR AGENDA ITEM NUMBERS 2, 4-6: 7-0

City Manager Comments

Ed Shikada, City Manager reported a new Public Health Order increased COVID-19 testing requirement for healthcare providers. Individuals who had problems obtaining testing were able to contact www.scccovidconcerns.org. Testing in Palo Alto was scheduled for September 25 and October 9 and 23. Free influenza vaccines were available every Saturday throughout the fall. The deadline to submit Census questionnaires was September 30, 2020.

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Ballots were able to be returned by mail or dropped off at Mitchell Park Library, Rinconada Library, or City Hall. In-person voting was to begin October 5, 2020 at the Registrar of Voters Office and October 31, 2020 at vote centers. The 89th season of Children's Theatre was to begin September 26, 2020 with a virtual production of *Little Red Riding Hood*.

Mayor Fine encouraged the community to obtain influenza vaccines, complete the Census and vote.

Rail Communications Update

7. Connecting Palo Alto Rail Grade Separation: Receive an Update From the Expanded Community Advisory Panel (XCAP).

Philip Kamhi, Chief Transportation Official reported a virtual Town Hall regarding grade separation remained available for review; however, the opportunity to comment ended. More than 1,000 unique visitors submitted more than 600 feedback forms. The consultant was analyzing the feedback to prepare a complete report. The Caltrain corridor-wide Grade Separation Study was to provide Staff with additional information for inclusion in the selected alternatives.

Nadia Naik, Expanded Community Advisory Panel (XCAP) Co-Chair advised that the XCAP membership decreased from 14 to 9. The XCAP was meeting weekly to compensate for the six-week delay caused by COVID-19. Public attendance increased with the implementation of virtual meetings; however, virtual meetings limited the give-and-take of in-person discussions. In addition, the Budget shortfall impacted the XCAP's ability to obtain analyses from AECOM. The XCAP obtained several traffic studies and a Noise and Vibration Report; received letters from the Fire and Police Departments regarding circulation; and developed many renderings, animations and matrices to understand the alternatives. Three members of the community provided new alternatives for consideration. A volunteer team of civil engineers assisted the XCAP with analyzing alternatives. XCAP Member Cari Templeton prepared a dynamic matrix that helped the XCAP understand the differences between needs and wants. Community members researched promising new construction methods, which Caltrain was discussing. Documents for the newest alternatives were not fully developed because of the lack of funding. Alternatives were intertwined with the Caltrain four-track issue. The most promising alternatives required collaboration with Caltrain in order to advance. Caltrain and High Speed Rail were debating the need, location and payment for passing tracks. Consequently, Caltrain had taken the position that four tracks were able to continue to exist at the Churchill, Meadow and Charleston crossings. The Corridor-wide Study was not to design

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grade separations, but it was to provide answers to technical questions. According to Caltrain, if Palo Alto wished to proceed, they were going to need to pay for Caltrain to hire consultants to answer technical questions or weave their work into the Corridor-Wide Study. The XCAP voted 6-3 to close Churchill. The members voting against the Motion believed the XCAP could have benefited from additional analysis. The XCAP was to begin deliberations regarding South Palo Alto on Wednesday. Aside from the underpass alternative, alternatives for South Palo Alto needed to be re-evaluated for four tracks. The underpass alternatives had had the least amount of public review. Except for the underpass and hybrid alternatives, all alternatives required design variances for percent grade. She requested Council guidance regarding the XCAP's continued work and next steps.

Inder Monga suggested the XCAP provide pros and cons rather than yes/no votes, a comprehensive report of their findings and areas that needed additional study. Requiring the XCAP to make decisions without all the data resulted in selections that were not appropriate.

Rebecca Eisenberg believed the loss of five XCAP members affected community representation on the XCAP. She inquired about research into undergrounding the Caltrain tracks and possible uses for the land revealed by undergrounding.

David Kennedy believed the Council's evaluation criteria limited the number of reasonable and viable alternatives. The Council needed to ask the XCAP if the criteria should be modified. The closure of Churchill was contrary to the Comprehensive Plan.

Eileen Fagan remarked that the XCAP did not utilize the evaluation criteria when making decisions. The recommendation to close Churchill was contrary to the evaluation criteria.

Susan Newman concurred with prior comments and opposed the closure of Churchill. The Traffic Study was seriously flawed.

Reshma Singh recommended the Council strive for an equitable solution. Ignoring walkability and livability in making decisions was a huge impediment to equity. The Council needed to replace the five members lost from the XCAP.

Rob Levitsky objected to the closure of Churchill because it would export traffic to Embarcadero.

Lisa Nissim urged the Council to restudy the Churchill alternatives because the XCAP had not received all necessary information.

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Council Member Kniss requested a perspective on Caltrain and grade separations.

Ed Shikada, City Manager indicated the Council had charged the XCAP with narrowing the alternatives for grade separations by October 2020. For the reasons Ms. Naik stated, the Council was not going to consider alternatives until 2021. The design of grade separations required several years.

Ms. Naik advised that the most pressing issue for the XCAP was the lack of agreement between Caltrain and High Speed Rail for a blended system.

Council Member Kou asked if Caltrain's Corridor-Wide Study provided the XCAP with needed information.

Ms. Naik related that the scope of work for the study included the percent grade and construction methods. The passing track issue depended on some kind of agreement between High Speed Rail and Caltrain.

Council Member Kou inquired regarding the Rail Corridor Use Policy.

Mr. Shikada noted Caltrain did not present the Rail Corridor Use Policy to the Local Policy Maker Group (LPMG) prior to the Board of Directors adopting it. The policy indicated any encroachment into Caltrain's right-of-way would require justification and additional analysis.

Council Member Kou asked if AECOM knew about the policy from the beginning and did not notify the City.

Mr. Kamhi was not aware of AECOM's involvement in Caltrain work. The AECOM team working with Staff did not know about the policy.

Vice Mayor DuBois expressed concern about passing tracks because they affected all alternatives. Caltrain appeared to be telling the City to stop their work. The Grade Separation Study found that some encroachments were acceptable. In their comment letter to the High Speed Rail Environmental Impact Report (EIR), the City needed to highlight the impacts of passing tracks. Given the level of uncertainty, the Council needed to wrap up the process with the XCAP providing pros and cons for alternatives rather than recommendations. He preferred the Meadow and Charleston crossings not be considered together. Perhaps the City was able to make progress on bike crossings while awaiting Caltrain's Study. Staff needed to engage with Caltrain and invite Caltrain representatives to appear before the Council. He thought the Council may need to re-form the Rail Committee.

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Ms. Naik clarified that the XCAP would provide a complete report of all information, pros and cons for all alternatives, recommendations and potential mitigations.

Mr. Kamhi stated Caltrain would likely review and learn from the City's grade separation information as the City would learn from Caltrain's Corridor-Wide Study. The City did not need to postpone grade separation decisions.

Mr. Shikada recalled the Council's desire to review grade separation alternatives in order to obtain Measure B funding. Staying connected regionally benefitted the City. The High Speed Rail's EIR not addressing four tracks was unforgiveable.

Ms. Naik reported Mountain View and Sunnyvale could proceed with grade separation projects and use Measure B funding because none of their alternatives depended on the four-track system. Neither Mountain View nor Sunnyvale had to move the tracks in the way that Palo Alto would.

Vice Mayor DuBois asked if both Caltrain and High Speed Rail were interested in passing tracks.

Mr. Shikada understood Caltrain's position was that four tracks were required as a result of High Speed Rail.

Council Member Cormack requested information regarding the noise and vibration report.

Ms. Naik advised that much of the noise was caused by horns and whistles signaling gate movement. With grade separation, gates were not going to be needed, and noise was eliminated. Installing a short sound wall and implementing quiet zones mitigated noise.

Council Member Cormack inquired regarding the criteria and matrices.

Ms. Naik explained that an XCAP member had drafted a dynamic matrix of Council criteria, which the XCAP used to evaluate each alternative.

Council Member Cormack indicated the City could begin some work that was not dependent on the option chosen. Bike tunnels passing beneath the tracks and Alma was logical, but that needed to be discussed in the context of a Bike Plan. In order to pay for grade separations, the crossings needed to be grouped into projects.

Council Member Filseth inquired about the major questions for which the XCAP needed information.

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Ms. Naik responded the percent grade, jack box construction, and a two-or four-track system. Meadow and Charleston were grouped together because of their proximity. The XCAP was disappointed with the separation of Palo Alto Avenue from Churchill particularly as they learned the closure of Churchill would greatly affect Embarcadero. Caltrain was to group the crossings based on construction and train schedules.

Mr. Kamhi added that Staff would explore jack box construction in a later phase. The consultant that worked with jack boxing did not believe it would result in a cost savings or would even be feasible. He felt Jack box construction should not inhibit a decision.

Ms. Naik related that the XCAP had difficulty with the bike and pedestrian portions of the new designs because of steep grades. If passing tracks were needed, they were to have a tremendous impact on the design flexibility for bicycles and pedestrians.

Council Member Filseth expressed concern about maintaining focus and momentum as information was developed through these studies.

Mr. Shikada stated governance of Caltrain and the Santa Clara Valley Transportation Authority's (VTA) distribution of Measure B funds were under discussion. XCAP recommendations and Staff recommendations hinged on the results of the November 2020 election.

Ms. Naik added that an outcome of the Corridor-Wide Study was the identification of a method for delivering multiple grade separation projects simultaneously.

Council Member Tanaka requested other cities' plans for grade separation.

Ms. Naik reported San Mateo County had exhausted their Measure A funds. Burlingame was ready to begin design but did not have sufficient funding.

Mr. Shikada advised that San Jose identified priority grade separation if funding was available.

Council Member Tanaka inquired about projections for Caltrain ridership returning to reasonably normal levels.

Mr. Shikada did not believe anyone was willing to develop projections.

Council Member Tanaka asked about AECOM's experience with trench projects.

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Mr. Kamhi believed AECOM had considerable experience with preparing estimates for and constructing trench projects.

Ms. Naik explained that the XCAP chose not to proceed with the South Palo Alto tunnel, but the trench remained a viable alternative. The team of volunteer engineers indicated the cost estimate for the trench could be higher than necessary. The grade and design were going to impact costs.

Mayor Fine supported the XCAP providing pros and cons or votes. Questions from the XCAP were able to be directed to the LPMG. He requested ideas for involving the business community in grade separation discussions.

Mr. Kamhi noted Stanford University had not provided any feedback, but Palo Alto Unified School District (PAUSD) had. Staff assumed responsibility for increasing community engagement and awareness.

Mayor Fine requested the goals for the XCAP over the next few months.

Ms. Naik reported the XCAP would begin deliberations for alternatives and was drafting their report.

Council Member Kou asked about engaging with Parent Teacher Associations (PTA) for feedback.

Mr. Kamhi advised that Superintendent Austin with PAUSD shared an email with parents regarding the virtual Town Hall. Staff presented information to the City/School Liaison Committee and were going to present to the Safe Routes to Schools representatives.

Ms. Naik noted the XCAP was beginning deliberations and was concerned that feedback would not be heard during deliberations.

Council Member Kou inquired about Caltrain's use of XCAP data for the Corridor-Wide Study.

Ms. Naik explained that all of Palo Alto's data would be the backbone of Caltrain's data for Palo Alto.

NO ACTION TAKEN

Council took a break at 7:19 P.M. and returned at 7:35 P.M.

Action Items

8. Recommendation of the Planning and Transportation Commission (PTC) to: 1) Discuss the Draft Economic Analysis Analyzing Potential Increases

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to Inclusionary Housing Requirements; 2) Maintain the Inclusionary Housing Requirements at 15 Percent for Ownership Housing and the Housing Impact Fee for Rental Housing; and 3) Authorize an Analysis of Specific Adjustments Across the Spectrum of Zoning and Financial Factors That Would Support a 20 Percent Inclusionary Housing Requirement.

Ed Shikada, City Manager requested the Council provide a focus for Staff work and next steps and the ultimate goal of Staff's work.

Jonathan Lait, Director of Planning and Development Services reported affordable housing was produced through construction of subsidized housing projects or inclusionary requirements for market-rate housing developments. The Council directed Staff to study increasing the inclusionary requirement and extending the requirement to rental housing. The Planning and Transportation Commission (PTC) and Staff supported maintaining the status quo for ownership requirements and retaining the Housing Impact Fee for rental housing. The City needed to continue to explore tools to achieve a 20 percent inclusionary rate.

Sujata Srivastava, Strategic Economics advised that the analysis was intended to investigate three key questions: the impact of increasing the inclusionary requirement to 20 percent on development; the impact of a 15 percent inclusionary requirement for rental developments on development; and strategies to increase the share of inclusionary units. Staff utilized a pro forma analysis to assess the impact of policy changes on development and tested prototypes representing typical development projects. The analysis assumed any ownership project that achieved a return on cost of 18 percent or higher was highly likely to proceed. The analysis assumed any rental project that achieved a yield on cost of 5 percent or higher was highly likely to proceed. The analysis found under current zoning regulations and new ownership projects were not likely to support a 20 percent inclusionary requirement. Using a lower parking ratio and a lower retail requirement, the analysis found that every product type in all zoning districts was likely to support a 20 percent inclusionary requirement. Downtown rental projects were somewhat likely to support a 15 percent or 20 percent inclusionary requirement under current zoning regulations. There was insufficient data to predict the cost and revenue impacts of COVID-19 at this time.

Mark Mollineaux remarked that more rental housing was needed. The Council needed to focus on the number of units instead of percentage and set the inclusionary rate as high as possible in order not to create more ownership housing.

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Dennis Martin, Building Industry Association concurred with Staff's recommendations and recommended the Council consider a wider range of concessions and incentives available to affordable housing developers.

Gail Price, Palo Alto Forward felt it was imperative to increase housing of all types to improve diversity. The Council and Staff needed to explore changing height limits to approximately 65 feet and allowing a Floor Area Ratio (FAR) of 3.0.

Rebecca Eisenberg commented that COVID-19 was creating homelessness. Raising Development Fees was a proven method for increasing housing.

Becky Sanders did not believe the City would achieve the desired amount of housing through the current zoning and developer incentives. The City needed to buy real estate and construct a residential project.

Kelsey Banes agreed with Ms. Price's comments. The City needed to consider public parcels suitable for 100 percent affordable housing.

Council Member Kniss requested the current number of Below Market Rate (BMR) units.

Mr. Lait replied almost 2,200 units.

Council Member Kniss requested the number of affordable housing units.

Mr. Lait indicated the vast majority were constructed through inclusionary requirements.

Council Member Kniss inquired whether a developer was able to build inclusionary units or pay an In-Lieu Fee.

Mr. Lait noted the Council made some changes, and typically developers built the units.

Council Member Kniss asked if the Council expended all of their affordable housing funds.

Mr. Lait related that the balance was low, but additional funds were expected.

Council Member Kniss commented that building more housing required a tradeoff of perhaps services.

Council Member Filseth inquired about podium parking.

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Ms. Srivastava explained that podium parking was located on the ground floor of buildings with housing units in the upper stories.

Council Member Cormack inquired about the types of retail most commonly found in a 1,500 square foot space.

Mr. Lait responded a small diner, coffee shop, a small retail outlet or a yoga studio.

Council Member Cormack asked if Staff had information about parking usage for current projects similar to Prototypes 1a, 1b, 2a, 2b, 4a, and 4b.

Mr. Lait answered no.

Council Member Cormack inquired about the timeframe for recalculating the Average Median Income (AMI).

Mr. Lait stated April.

Council Member Cormack asked if Staff considered different rules for different areas.

Mr. Lait replied yes, but the Council was able to direct Staff to explore that option further.

Council Member Cormack inquired about the effects of interest rates on the calculations for rental housing.

Ms. Srivastava explained that capitalization rates tended to track with interest rates.

Vice Mayor DuBois asked if there was any indication of material and labor costs decreasing due to COVID-19.

Ms. Srivastava understood the cost of lumber had risen for residential construction.

Vice Mayor DuBois asked if implementing the Palmer Fix would replace the Impact Fee with an inclusionary requirement for rental housing.

Mr. Lait responded yes.

Vice Mayor DuBois requested the effect of removing the right to build office in some of the zones.

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Mr. Lait explained that the prototypes analyzed in the study were relative to that type of development rather than to the opportunity cost of not building office.

Ms. Srivastava clarified that the study looked at mixed-use retail projects rather than office projects.

Vice Mayor DuBois inquired about the elasticity of inputs.

Ms. Srivastava advised that there were many small sites in Palo Alto that were difficult to aggregate and assemble, which added to the cost of development. The land costs for most projects were high.

Council Member Tanaka requested the amount of new inclusionary housing that could be built in Palo Alto.

Mr. Lait answered about 110 units, with 102 units located in the San Antonio Project.

Council Member Tanaka asked if Staff had conducted an Elasticity Analysis.

Mr. Lait indicated at 15 percent; development was somewhat likely, except in the Downtown area. Increasing the requirement to 20 percent decreased the likelihood of development.

Council Member Tanaka inquired about data for other cities.

Mr. Lait related that an apples-to-apples comparison was not possible because of different zoning requirements. The City charged an Impact Fee for rental housing, but projects were not proposing rental housing.

Council Member Tanaka inquired regarding outreach to housing developers.

Ms. Srivastava reported developers were concerned regarding requirements and wanted flexibility in zoning tools. The Retail Preservation Ordinance was a challenge for some projects.

Mr. Lait advised that Staff was engaged with 15-20 property owners regarding moderation of development standards for residential projects.

Council Member Kou inquired regarding the methodology.

Ms. Srivastava explained that the first step was development of prototypes and then identification of zoning districts in which multifamily development was most likely to occur. Next, she looked at FAR and height regulations and

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the building prototype under the existing zoning regulations. The pro forma analysis was quite common.

Council Member Kou asked if Staff explored an ability to break even in an Inclusionary Housing Project.

Ms. Srivastava related that the analysis explored the likelihood of projects with different levels of inclusionary units being built.

Council Member Kou asked if Staff investigated the breakeven point for BMR percentage.

Ms. Srivastava noted the analysis found development under a 15 percent inclusion requirement was challenging. The Impact Fee for rental housing was designed to mitigate the impact of market-rate housing on the need for affordable housing. The analysis was applied to individual projects.

Mayor Fine requested a characterization of Palo Alto's development standards in comparison to other cities' development standards and for the likelihood of new housing occurring in Palo Alto compared to other cities.

Ms. Srivastava related that Palo Alto's height limits were lower than in other cities, which affected the amount of development. She did not know if other cities adopted a Retail Preservation Ordinance. Some cities imposed lower parking requirements for areas near transit.

Mayor Fine asked if the Housing Incentive Program (HIP) increased the likelihood of condominium development in the Commercial Downtown-Community (CD-C) zoning district.

Ms. Srivastava answered yes.

Mayor Fine remarked that housing development would not occur under the current regulations. Adjusting development standards increased the likelihood of housing development. He requested Staff comment regarding reducing retail and parking requirements for housing projects.

Mr. Lait reported the analysis considered one parking space per unit. The retail requirement was the retention of up to 1,500 square feet, and no parking was required for 1,500 square feet.

Mayor Fine commented that the analysis and report provided the data the Council needed to encourage housing production.

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Vice Mayor DuBois requested the rationale for not analyzing ownership housing for incomes less than 100-120 percent of Average Median Income (AMI) and for not analyzing the Palmer Fix for rentals at 100-120 percent AMI.

Mr. Lait stated the Code required 100-120 percent AMI. Reducing income below moderate impacted the project's feasibility.

Ms. Srivastava added that she wanted to be consistent with the housing Impact Fee for very low, low, and moderate incomes.

Vice Mayor DuBois asked how the net present value of the land and building factored into the models.

Ms. Srivastava related that the yield on cost was based on a stabilized net operating income. The analysis did not look at an investment over time.

Vice Mayor DuBois asked if the portion of the Motion pertaining to the Palmer Fix was before the Council.

Mr. Lait answered yes.

Council Member Kniss requested the construction date of the last multifamily building.

Mr. Lait remarked that the largest and most recent multifamily development was Wilton Court.

Council Member Kniss asked if developers typically used Planned Community (PC) zoning to develop affordable housing.

Mr. Lait replied yes.

Council Member Kniss asked about the number of housing units in the pipeline.

Mr. Lait indicated 114 units, including Wilton Court, were entitled but not built. Excluding Wilton Court, about 55 housing units were in the queue.

Council Member Kniss asked Mr. Hechtman to comment.

Bart Hechtman, Planning and Transportation Commission advised that the PTC unanimously supported amending the inclusionary requirement to 20 percent for both ownership and rental housing after the PTC understood the incentives that were able to achieve the requirement. The PTC wanted to explore parking, ground-floor retail, FAR, building height and economic participation by the City.

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Council Member Cormack felt building height was important to many members of the community, but the Council was able to apply different rules to different areas. The mix of bedroom counts was relevant to the discussion. The Council was able to decide to move in different directions for ownership and rental housing. She inquired whether the PTC was concerned with FAR and height limit.

Mr. Hechtman advised that the PTC did not place limits on the levers. FAR and height limit were mentioned along with density and funding participation.

Council Member Cormack inquired regarding the decision to utilize 1,500 square feet for retail.

Mr. Lait stated it was based on the HIP.

Council Member Cormack asked if housing had been developed with a parking requirement of one space per unit.

Mr. Lait answered yes.

Council Member Filseth requested the number of cars registered in Palo Alto.

Mr. Lait indicated data from 2018 indicated 47,000 and data from the Department of Motor Vehicles indicated 57,000.

Council Member Filseth commented that the Council should carefully consider and manage tradeoffs. He utilized the consultant's spreadsheet to calculate various changes.

Council Member Kou remarked that incentives for housing development were basically subsidies for developers. She referred to the loss of housing units at the President Hotel and replacement of those units. The Council failed at preserving and protecting housing. The analysis opposed the Sustainability and Climate Action Plan (S/CAP).

Mayor Fine noted a 25 percent inclusionary requirement may work in San Francisco, but buildings were larger in San Francisco. Parking was a sensitive topic in Palo Alto. Studies of parking for multifamily buildings found that multifamily buildings were about 40 percent overparked. If parking ratios were high, the building was going to have to be taller to accommodate both housing and parking. He disagreed with the supposition that the City was doing well in housing production. The President Hotel was not a BMR Project and was 80 feet tall with 12 parking spaces. He inquired whether the PTC anticipated exploring factors that could achieve a 20 percent inclusionary requirement.

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Mr. Hechtman answered yes, but with funding for consultants.

MOTION: Mayor Fine moved, seconded by Council Member Kniss to:

- A. Maintain the inclusionary housing requirements at 15 percent for ownership housing units and retain the housing impact fee for rental housing projects;
- B. Direct Staff and the Planning and Transportation Commission to explore possible zoning amendments or other factors that could support a future 20 percent inclusionary requirement for ownership and rental housing while recognizing that such analysis will be constrained without funding for additional consultant resources; and
- C. Direct Staff to return with adjustments to parking and retail standards in a manner consistent with this analysis.

Mayor Fine related that Subpart C was based on the Staff Report. The analysis demonstrated that retail and parking requirements were the main impediments to achieving a 15 percent inclusionary requirement. The City was not meeting their Comprehensive Plan targets for housing. Additional housing was good for the community and helped the City meet their regional obligations.

Council Member Kniss asked if the PTC was able to conduct analyses without funding.

Mr. Hechtman did not believe Staff could provide the breadth of analyses the PTC contemplated.

Council Member Kniss suggested the Motion reflect an attempt to fund analyses.

Mayor Fine inquired regarding use of PTC Commissioners and Staff to conduct analyses.

Mr. Lait reported Staff had anticipated working with the PTC to narrow choices before seeking funding for a consultant.

Mr. Shikada concurred.

Council Member Kniss felt some of the standards had to change.

Vice Mayor DuBois noted the analyses were conducted prior to COVID-19 and looked at CD-C and Community Service (CS) zones. The report did not state 20 percent was not able to be achieved but changes were needed. He inquired

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whether the funding in Subpart B referred to funding for a consultant or to City contributions as an additional lever.

Mayor Fine responded funding for a consultant to conduct analyses.

Vice Mayor DuBois did not believe the community wanted to increase the height limit; therefore, other factors needed to be analyzed. Housing production was currently market rate. The Council needed to set firm requirements for inclusionary housing. He believed the City needed to eliminate In-Lieu and Impact Fees and institute an inclusionary requirement for rental housing. Most projects with affordable housing offered rental units. The consultant's report found a property owner's best financial decision was to pay the In-Lieu Fee, pay the Impact Fee, and not develop inclusionary housing. Boulder, Colorado adopted a 20 percent inclusionary requirement in 2000 and later increased it to 25 percent with a goal of affordable housing comprising 10 percent of housing stock. He hoped the Council would revise Subpart A to 20 percent.

Mayor Fine explained that new houses were expensive because they were new and rare. He was not going to support eliminating In-Lieu Fees. Setting a goal for affordable units without funding subsidies or allowing bigger buildings was going to be pointless.

Council Member Kou remarked that the In-Lieu Fee was not enough to incentivize development of BMR units. The Impact Fee was the way to incentivize the building of affordable units. Land prices were elastic, and it was not considered in the study. This kind of Motion actually made land more expensive.

Mayor Fine clarified that land was uniquely inelastic because it had an inverse relationship to price.

Council Member Cormack asked if Staff interpreted Subpart B as allowing different rules for different areas of the City.

Mr. Lait replied yes.

Council Member Filseth proposed parking standards consider demand for parking. The study concerned the economics of developers. He wanted to see holism prior to changing parking and retail standards.

Mayor Fine requested clarification of holism.

Council Member Filseth wanted analyses to consider changes to multiple factors and to combinations of factors in order to achieve inclusionary rates.

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Mayor Fine believed Subpart B addressed holism. Subpart C applied to the current standard of 15 percent and was based on the report finding parking and retail as the levers most likely to affect development.

Council Member Filseth stated it had to do with the amount of money a developer could make from a project, not the number of cars in the building.

Mayor Fine reiterated that an earlier study found multifamily buildings were overparked, and the Council would not reduce the parking requirements.

Council Member Filseth understood the Council had reduced parking requirements to be consistent with the Fehr & Peers Study, which pertained to parking demand.

Mr. Shikada suggested the proposed analyses would consider the community's desire to modify facts and boundaries for factors.

Council Member Filseth was not interested in adjusting parking standards without understanding parking demand. He did not accept the idea that limiting parking reduced the number of cars.

AMENDMENT: Vice Mayor DuBois moved, seconded by Council Member Filseth to maintain inclusionary housing requirements at 15 percent for ownership housing units; and direct Staff to return with a proposal to replace the housing impact fee for rental housing with an inclusionary requirement.

Vice Mayor DuBois remarked that shifting to an inclusionary rate for rental housing was logical and requested the rationale for not doing so.

Council Member Filseth advised that the focus should be increasing BMR housing. In theory, the Impact Fee and the inclusionary requirement should have the same effect on developer economics. The Affordable Housing Fund was to continue to be funded with impact fees from commercial projects.

Mayor Fine indicated the analysis found an inclusionary requirement for rental housing was not feasible. Nonprofit affordable housing developers supported the imposition of In-Lieu Fees. The Amendment essentially implemented the Palmer fix.

Vice Mayor DuBois understood the consultant had stated the analyses did not include removing the Impact Fee.

Mr. Lait reported an inclusionary requirement and an Impact Fee were not assessed on the same project. Currently, only an Impact Fee was assessed on rental housing development because the City did not have an inclusionary requirement for rental housing. State law allowed a 15 percent inclusionary

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requirement. A Feasibility Study was needed to consider increasing the percentage above 15. The study had examined 15, 20, and 25 percent inclusionary requirements for apartment buildings and found the likelihood of development varied.

Mayor Fine stated the Amendment would make rental projects not likely to occur.

Vice Mayor DuBois explained that the Amendment allowed Staff to propose a requirement for less than 15 percent.

Mayor Fine advised that the study used a baseline of no requirement.

AMENDMENT FAILED: 3-4 Cormack, Fine, Kniss, Tanaka no

MOTION PASSED: 6-1 Kou no

Council took a break at 9:56 P.M. and returned at 10:11 P.M.

9. Discussion and Direction to Staff on Housing Affordability Requirements for Projects Proposed Under the Planned Home Zoning (Planned Community Zoning). This Action is Exempt From the California Environmental Quality Act (CEQA) in Accordance With CEQA Guidelines 15061(b)(3).

Jonathan Lait, Director of Planning and Development Services reported in February 2020 the Council approved reusing the Planned Community (PC) process for housing and mixed-use housing projects only with the caveats that the project had to meet a 20 percent inclusionary requirement and the project had to produce more housing than net new commercial jobs. Staff engaged with property owners who were interested in the Planned Home Zoning (PHZ) concept. Option 1 provided a spread of housing units across income levels. The City had to provide more concessions to obtain housing units at the very-low and low-income levels. Option 2 followed the State Density Bonus Law model. Unlike Options 1 and 2, Option 3 applied to rental housing projects only. Option 3 imposed impact fees and a 10 percent inclusionary requirement. Option 4 allowed the development of two housing projects, a 100 percent Affordable Housing Project and a Market-Rate Housing Project and required units in the two projects to be equivalent and affordable units to be available first. He reviewed the calculation of housing units and jobs produced.

Becky Sanders expressed concern that the PHZ would alter protections for residential areas. PHZ requirements had to be enforced.

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Rebecca Eisenberg remarked that the ratio of jobs to housing for the lowest income level was 7:1 rather than 3.5:1. Since 2019, the City permitted 43 very low income housing units toward the requirement of 691. Perhaps the Council regretted not proceeding with the Business Tax.

Matt Bryant suggested the plans violated many building codes, and Staff was recommending rezoning residential parcels to commercial. The existing zoning standards provided enough housing to meet the need.

Gail Price, Palo Alto Forward supported offering developers a range of options for development of low-income housing. Policies and zoning regulations had to be modified to support housing construction.

Curtis Smolar commented that the City was failing to provide housing, and government monies were available for affordable housing.

Vice Mayor DuBois noted developers preferred paying In-Lieu Fees. The Council wanted housing units, not In-Lieu Fees. A *New York Times* article indicated the average office space per worker was 126 square feet. The parking standards required four parking spaces per 1,000. He inquired regarding Staff's selection of the data source for 3.4 users per 1,000 square feet.

Mr. Lait explained that Staff used Census data to look at the number of employed residents. The jobs per 1,000 number was taken from the data source utilized for the Comprehensive Plan analyses. He noted that the Council may direct Staff to utilize a different data source.

Vice Mayor DuBois asked if data from the Santa Clara Valley Transportation Authority (VTA) Congestion Management Plan was used for the traffic analysis in the Comprehensive Plan.

Mr. Lait answered yes.

Vice Mayor DuBois suggested the issue was not traffic but the number of people in a building and where they lived.

Mr. Lait noted the Congestion Management Plan provided data for employees per square foot.

Vice Mayor DuBois wanted data specific to Palo Alto. Most industry reports seemed to indicate a much higher density than 3.4 per 1,000. He inquired whether the Finance Committee would consider an Affordable Housing Tax.

Mr. Lait promised to review the Council Motion and work with Staff to bring the item to the Finance Committee.

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Ed Shikada, City Manager added that a significant amount of work would be required to prepare a discussion for the Finance Committee.

Council Member Kniss commented that the Council had prioritized housing multiple times. Yet, housing production had not occurred. She inquired whether developers of affordable housing leveraged City funding for affordable housing projects. She recalled the development of a Housing Project in the 300 block of Emerson and a corresponding development of four Below-Market-Rate (BMR) units across the street.

Mr. Lait advised that the City was a funding source for nonprofit developers of affordable housing. Those developers leveraged City funding with other sources and tax credits. Option 4 was attractive because of the possibility of the affordable housing building providing more units.

Council Member Cormack inquired whether a version of Option 1 was embedded in Option 2.

Mr. Lait responded yes.

Council Member Cormack asked if Option 4 would remove the City from affordable housing development.

Mr. Lait explained that the developer would apply for the PHZ, request zoning concessions and fulfill the inclusionary requirement at a different site. The City was to be involved in review of the development.

Council Member Cormack noted many reasons in support of affordable housing integrated with market-rate housing, but Option 4 created more housing units and allowed the developer to pursue funding sources.

Mr. Lait concurred.

Council Member Cormack requested clarification of Option 3.

Mr. Lait reported a property owner had consulted Staff, reviewed constraints on his property, and found he was able to fulfill a 10 percent inclusionary requirement. Building 10 percent inclusionary housing and paying In-Lieu Fees provided about 25 percent inclusionary housing, units at the very low income level, and funding for the Affordable Housing Fund. After talking with local developers, he understood many factors affected developers' decisions. One option or another for developing affordable housing was better able to relate to those factors.

Council Member Cormack questioned whether the quantity of units needed to be a concern.

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Mayor Fine indicated quantity was a concern in that it helped the City meet local and regional goals. He requested the reasons for Staff proposing Option 1 independent of Option 2 if it was possible to be part of Option 2.

Mr. Lait advised that it was an option if the Council did not want the weighted approach of Option 2.

Mayor Fine asked if the PHZ applied to both sites in Option 4.

Mr. Lait reported the main site was eligible for PHZ incentives. The secondary site for affordable housing had to comply with zoning standards.

Mayor Fine asked if a developer was able to propose an office project under the PHZ and affordable housing on the secondary site.

Mr. Lait clarified that the main site hosted office and market-rate housing while the secondary site hosted affordable housing. The project had to comply with the jobs/housing requirement. Conceivably, a couple of developers were able to combine their projects to provide affordable housing under the PHZ.

Mayor Fine asked if VTA ratios were utilized in other analyses.

Mr. Lait indicated the Office of Transportation used VTA data, but that data was possibly more related to traffic analysis.

Vice Mayor DuBois believed the weighting factors for Option 2 were incorrect such that the City was to compete against itself. If a developer was motivated by profit, the most attractive option was to build a few units at the lowest affordability level. The 1.9 weighting factor provided the minimum value to the public at the least cost for the developer. In a 100-unit condominium project, Option 1 created the highest public benefit. In Option 2, the developer was to receive PHZ incentives but provided 10 percent inclusionary housing. Option 1 provided units at different income levels and a quantifiable public benefit.

Mr. Lait reported Staff was not going to accept a project that provided less than 15 percent inclusionary housing. In Vice Mayor DuBois' example, the project had to provide a weighted average of 20 percent and the minimum standard of 15 percent for Staff to accept it.

Vice Mayor DuBois questioned giving incentives to developers for complying with the requirement to provide 15 percent inclusionary housing.

Mr. Lait advised that the City's BMR program did not address very low and low income housing. Development of affordable housing at the low and very low

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income levels was typically relegated to nonprofit developers. Staff was proposing incentives to obtain affordable housing at the lowest levels.

Vice Mayor DuBois expressed concern about balancing incentives with production.

Mr. Lait related that there was a major difference between requiring 15 percent at moderate income and 15 percent at very low income. With a Council prescreening, the Council was able to determine whether the requested incentives were worthwhile.

Vice Mayor DuBois preferred Options 1 and 4.

Mr. Lait explained that the proposal was an attempt to eliminate negotiations with developers. If a proposed project did not meet the qualifications, it was not going to qualify for the PHZ. If it did meet the qualifications, Staff would entertain an application for the project.

MOTION: Council Member Kniss moved, seconded by Mayor Fine to:

- A. Endorse an approach that offers a menu of options to home builders to meet the 20 percent inclusionary requirement for “planned home zoning” projects; and
- B. Affirm direction regarding the calculation for determining the number of housing units required to offset net new jobs created by a planned home zoning project.

Council Member Kniss was pleased with Staff's direction on this and consultation with developers. This was another opportunity to achieve affordable housing.

Mayor Fine indicated that the PHZ would be one more tool. Offering a menu of options was smart.

Council Member Cormack appreciated a suite of options and believed flexibility was important. Mr. Lait's due diligence seemed to suggest the options were to result in the construction of housing. There had not been any suggestions for alternative jobs/housing ratios.

Council Member Filseth had been hoping the inclusionary requirement would be more than 20 percent, but it was a tradeoff with the incentives. The options provided some structure for Staff and developers.

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Vice Mayor DuBois remarked that the Council had worked to increase housing production. He was going to be much more excited about options for 100 percent housing. He expressed concern about incentives and using VTA data.

Council Member Kou related that the inclusionary requirement should be considerably higher if the public benefit was affordability. All this zoning was going to increase the price of land. The VTA jobs/housing ratio did not compute.

MOTION PASSED: 4-3 DuBois, Filseth, Kou no

Council Member Questions, Comments and Announcements

Council Member Kniss asked if anyone planned to attend the League of California Cities conference.

Vice Mayor DuBois answered yes.

Ed Shikada, City Manager indicated the International City/County Management Association (ICMA) conference was underway.

Mayor Fine advised that the Council was going to see an Agenda Item for the conference. He joined Supervisors Simitian and Chavez and mayors in requesting local health providers provide COVID-19 testing to the public.

Council Member Kniss reported the County of Santa Clara (County) was planning to impose a fine on healthcare providers who refused to provide testing.

Vice Mayor DuBois added that healthcare providers were not denying testing but making testing difficult. He requested the City Manager provide guidance for Halloween activities.

Mr. Shikada indicated Staff was awaiting the County's suggestions for alternative events or activities. If the Council wished, Staff could present an Agenda Item.

Vice Mayor DuBois suggested Staff plan or recommend Halloween events.

Adjournment: The meeting was adjourned in honor of the late Supreme Court Justice Ruth Bader Ginsberg at 11:27 P.M.