



# CITY OF PALO ALTO CITY COUNCIL FINAL MINUTES

Special Meeting  
February 3, 2020

The City Council of the City of Palo Alto met on this date in the Council Chambers at 5:00 P.M.

Present: Cormack; DuBois arrived at 5:10 P.M., Filseth, Fine, Kniss, Kou, Tanaka

Absent:

## Special Orders of the Day

1. Recognition of Palo Alto City Library 2020 Kids and Teen Writing Contest Winners.

Gayathri Kanth, Interim Director of the Library Department reported the writing contest was a popular tradition in the Library. The goal was to foster creativity as well as writing skills. The prompt for contestants' submissions pertained to the Barron Park donkeys.

Liz Stewart, Senior Librarian explained that the prompt was associated with Palo Alto's 125th anniversary. Judges were teacher and librarians from Palo Alto. Copies of all contest submissions were located in each Library and on the main wall of Rinconada Library. Ms. Stewart announced contest winners.

Mayor Fine congratulated the winners.

2. Fire Safety Month Poster Award Recognition to Palo Alto Unified School District Students for Excellence in Art, Creativity, and Messaging.

Geo Blackshire, Fire Chief reported the Fire Department held a poster contest for elementary schools each October during Fire Prevention Week. The campaign motto for 2019 was "Not Every Hero Wears a Cape, Plan and Practice Your Escape."

Tammy Jasso, Firefighter Engineer advised that the submissions were excellent, and selecting winners was difficult. Winning submissions were going to be posted in the lobby outside the Council Chambers. University Arts sponsored the program and provided gift certificates for winners. She announced the winners.

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Mayor Fine congratulated the winners and thanked the Fire Department for organizing the contest.

## Closed Session

3. CONFERENCE WITH CITY ATTORNEY-EXISTING LITIGATION  
Subject: Miriam Green v. City of Palo Alto  
Santa Clara County Superior Court  
Case No. 16CV300760 (One Case, as Defendant)  
Authority: Government Code Section 54956.9(d)(1).
4. CONFERENCE WITH CITY ATTORNEY-EXISTING LITIGATION  
Subject: Andrew Valentine v. City of Palo Alto  
Santa Clara County Superior Court  
Case No. 19CV344693 (One Case, as Defendant)  
Authority: Government Code Section 54956.9(d)(1).

**MOTION:** Council Member Kniss moved, seconded by Council Member Filseth to go into Closed Session.

**MOTION PASSED:** 7-0

Council went into Closed Session at 5:19 P.M.

Council returned from Closed Session at 7:04 P.M.

Mayor Fine announced no reportable action.

## Agenda Changes, Additions and Deletions

Ed Shikada, City Manager noted the Public Works Director had provided an At-Places Memorandum regarding Agenda Item Number 8.

## Oral Communications

Jared Bernstein did not object to a Business Tax but preferred the revenues fund utility undergrounding, street paving, bike racks, and beat cops. A Business Tax did not drive businesses out of Palo Alto. The difference in businesses was not big versus small but probably retail versus everything else.

Stephen Levy remarked that a large portion of individuals' discretionary income supported low-wage workers in Palo Alto.

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## Minutes Approval

5. Approval of Action Minutes for the January 21, 2020 Council Meeting.

**MOTION:** Council Member Cormack moved, seconded by Council Member Kniss to approve the Action Minutes for the January 21, 2020 Council Meeting.

**MOTION PASSED:** 7-0

## Consent Calendar

**MOTION:** Council Member Cormack moved, seconded by Council Member Kniss to approve Agenda Item Numbers 6-10.

6. Approval and Authorization for the City Manager or Designee to Execute Contract Number C20175147 for an Emergency Vehicle Traffic Signal Preemption System (PL-19000) With Trafficware as a Pilot Project in a Total Not-to-Exceed Amount of \$597,500, for a Maximum of Four Years.
7. Approval of Contract Number C20174814 With Lime Energy Services for a Total Not-to-Exceed Amount of \$1,820,000, and for a Term of Three Years, to Provide Energy Efficiency Services to Small and Medium Businesses.
8. Approval of Amendment Number 3 to Contract Number C16161210 With Shah Kawasaki Architects, Inc. to add a Not-to-Exceed Amount of \$102,141 to Provide Continued Construction Administration and LEED Certification Services for the Fire Station 3 Replacement Project (PE-15003), for a new Total Not-to-Exceed Amount of \$916,383.
9. Approval of Contract Number C20177344 With Bear Electrical Services for the Provision of On-call Traffic Signal and Electrical Services for a Term of 36 Months with a Maximum Total Compensation Not-to-Exceed \$375,000.
10. Appointment of 2020 Emergency Standby Council.

**MOTION PASSED:** 7-0

## City Manager Comments

Ed Shikada, City Manager announced Khoury's Market closed, and Staff was initiating enforcement action against the landowner. The Council was to consider an update to the administrative penalty schedule the following

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week. Work on the Highway 101 Bike Bridge was to begin over the next few weeks. Staff anticipated the County of Santa Clara Board of Supervisors would vote in April regarding an additional \$1.5 million for the bike bridge. The Expanded Community Advisory Panel (XCAP) was going to meet on Wednesday. The Citizens Corps Council and Emergency Services volunteers was going to host an awards ceremony on Thursday. The next North Ventura Coordinated Area Plan (NVCAP) community workshop was scheduled for February 27, 2020.

## Action Items

11. Update and Discussion of the Planning and Development Services Housing Work Plan and Direction to Modify or Direct new Assignments Related to Housing and Other Department Assignments (Continued from January 21, 2020).

Mayor Fine noted the Council designated housing as a 2020 Priority with a focus on affordability.

Jonathan Lait, Planning and Development Services Director reported Staff had made progress on the 2018 Housing Work Plan and some ongoing initiatives; however, Staff did not make progress on 2019 amendments to the Work Plan. Notable 2018 amendments included two combining districts, the affordable housing overlay, the workforce housing overlay, streamlining the permit review process, parking standards and the Housing Incentive Program (HIP). In 2018, the Council committed \$23 million to affordable housing projects. Staff made progress on three Colleagues' Memos regarding renter protections, safe parking and economic diversity. Staff recently released three alternatives for the North Ventura Coordinated Area Plan (NVCAP) that demonstrated different potential housing production and office placement. Staff was likely to recast the mid-range alternative as a lower alternative. The Work Plan exceeded Staff resources due to the number of vacant positions. The City was not on pace to achieve the Comprehensive Plan's goal for housing units by 2030. Items in the Housing Work Plan were not going to achieve the desired number of units. With respect to the Regional Housing Needs Assessment (RHNA), the number of low and moderate housing units was below target, but the number of market-rate units was on target. Near-term and long-term production of housing could occur in the NVCAP and a potential Downtown Coordinated Area Plan. Staff was going to continue working on housing protection and preservation programs. In the near term, the Council had an opportunity to amend the Planned Community (PC) zoning so that the production of housing units, including affordable housing units, would be the public benefit. The Council was able to add criteria to the PC process and maintain

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the existing review process. Staff was working on the Palmer Fix and inclusionary housing, a commercial Housing Impact Fee, accessory dwelling unit (ADU) regulations and studio and micro units with reduced parking regulations, all of which related to the Housing Priority. If the City failed to fulfill its RHNA requirement for above-moderate housing by the end of the housing cycle, it was subject to a 10 percent threshold of streamlined project review for four years. Therefore, housing production was going to have to focus on market-rate and affordable housing.

Council Member Kniss requested Staff comment regarding property owners who had discussed housing projects with Staff.

Mr. Lait advised that he frequently spoke with property owners who were interested in constructing housing in Downtown, along El Camino and Fabian Way, and around the NVCAP area. Some of the concepts were quite modest and some were extraordinary with respect to the number of units. For smaller projects, property owners were not able to comply with one or more development standards, typically the parking standard. Most property owners felt one space per unit was sufficient. For larger projects, property owners were not able to comply with the floor area standard and sometimes the height limit. These concepts represented hundreds of housing units that were not able to be built. A PC process provided the opportunity for a compromise that could provide housing at the desired inclusionary rates.

Council Member Kniss noted the Council placed a pause on PC projects in 2013 or 2014, and only one Affordable Housing Project had been approved since that time. She asked how the Council was able to get affordable housing projects.

Mr. Lait explained that the City's development standards did not align with the development standards needed to allow projects to proceed. In Downtown, California Avenue, and El Camino, the City made significant concessions in terms of development standards, but land was needed for projects. Some areas of the City, including areas near California Avenue, did not enjoy the same development incentives approved for other parts of the City.

Council Member Kniss believed there would not be any affordable housing projects without changes in the process.

Mr. Lait indicated there would not be another Wilton Court Project for quite a while because the City did not have affordable housing funds.

Council Member Kniss asked if commercial development projects provided the City with affordable housing funds.

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Mr. Lait related that approximately 27,000 square feet of office development had been entitled and could yield about \$800,000 in impact fees if building permits were issued for the projects. Office production declined since caps were implemented.

Council Member Kniss remarked that her long-term issue was developing affordable housing.

Vice Mayor DuBois asked if ADUs were counted towards RHNA requirements and included in the table.

Mr. Lait replied yes.

Vice Mayor DuBois asked if the City was legally required to provide zoning sites rather than to permit housing under the Housing Element.

Mr. Lait explained that the law required the City to plan for its RHNA allocation. The City was compliant with State law. The City was not obligated to produce the number of housing units.

Vice Mayor DuBois asked if more housing production occurred during an economic downturn and if there was a pattern for when commercial projects and housing projects were built.

Mr. Lait advised that he had not performed a correlation analysis. When the commercial office market was not as strong, more housing development tended to occur. The commercial market was strong in Palo Alto for quite a while. The question was the amount of incentive the City should grant at the peak of the market.

Vice Mayor DuBois understood the Council needed to create incentives that exceed the economic return of a commercial project.

Mr. Lait stated the only variables the City could control were development standards, zoning and the regulatory process. Absent State funding or other resources that encouraged housing, the Council had to determine the threshold for incentives. The 2018 amendments reduced development standards, but they were not sufficient.

Vice Mayor DuBois requested an explanation of amortization.

Mr. Lait explained that in the past the City had an Amortization Ordinance that required the abatement of nonconforming uses. The Fry's building was allowed to continue as a specified mix of office, retail, and warehouse uses in perpetuity such that it did not have to conform to the underlying multifamily residential (RM-30) zoning. The property owner had little

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incentive to redevelop the Fry's site. The City was not able to change the zoning for the site and require the property owner to conform to the new zoning. The City had to determine the timeframe, whether 10, 15, or 20 years, in which the property owner achieved the economic value of the property. At the end of the timeframe, the City was able to abate the existing use and require the property to revert to the underlying zoning.

Vice Mayor DuBois asked if the City could use the amortization process to convert commercial property to residential.

Mr. Lait clarified that he could not answer with respect to all areas of the City. With respect to the NVCAP area, the City was able to use the amortization process to convert commercial property to residential.

Council Member Cormack asked if the City needed to permit 167 housing units by the end of 2022.

Mr. Lait responded yes.

Council Member Cormack requested the period of time subject to SB 35.

Mr. Lait reported Palo Alto was subject to SB 35 and at the 50 percent streamline threshold because Palo Alto did not provide the required number of lower-income housing units. SB 35 became effective in 2018, and the State assessed Palo Alto at that time. At that time, Palo Alto was fulfilling its RHNA requirements and were placed in the 50 percent streamline threshold rather than the 10 percent streamline threshold. The State was going to reassess Palo Alto at the end of 2022 and every four years thereafter.

Council Member Cormack asked if the City would have to fulfill RHNA requirements for all levels.

Mr. Lait replied no, only the above-moderate housing requirement of 587 units.

Council Member Filseth requested projections for ADU production.

Mr. Lait suspected ADU production would escalate with the new State law allowing a main dwelling, ADU, and junior ADU on one residential lot. At some point, ADU production was expected to flatten and begin to decrease.

Council Member Filseth inquired regarding an appropriate Floor Area Ratio (FAR) that could incentivize housing.

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Mr. Lait believed it would depend on the location of a project. FAR was a constraint on sites that needed to overcome the existing investment in the property.

Council Member Filseth asked if an increased FAR would make demolition of the existing use and construction of a new use easier.

Mr. Lait answered yes. Given the rental rates for office space, conversion to housing was not likely. Commercial space was probably going to be converted into housing.

Council Member Filseth asked if the FAR had to be 3 or 4.

Mr. Lait did not know. The FAR Downtown was 3.0 and 2.0 on California Avenue. Developers wanted 2.0 FAR on El Camino, but the Council needed to be mindful of the transitions along El Camino. Another constraint was lot consolidation. Particularly in California Avenue, parking requirements combined with lot sizes made development infeasible. Property owners were not willing to sell their property so that lot consolidation could occur.

Council Member Filseth assumed Mr. Lait's comments about markets was an argument for flexibility that was provided by a PC.

Mr. Lait clarified that a PC process could provide information about the sticking points for redevelopment of properties. With enough information from the PC process, Staff may be able to draft regulations that zoned for the desired development.

Council Member Filseth asked if housing was prohibited in any area of the City.

Mr. Lait reported housing was not allowed in the General Manufacturing (GM) zone. A property owner expressed interest in building 200 housing units in the GM zone.

Council Member Kou requested clarification of SB 35 and RHNA requirements.

Mr. Lait indicated SB 35, which became effective in 2018, imposed a streamlining provision on a city that did not meet its RHNA requirements for above-moderate-income housing at the midpoint and the end of the housing cycle. The streamlining provision stated a city that met criteria was entitled to a streamlined review. Streamlined review meant projects could be built to objective standards only, applications had to be processed within 60 days, and 10 percent of housing units had to be deed restricted to lower-income



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units. If a city failed to meet their requirements for low-income housing, 50 percent of housing units had to be deed restricted to lower-income units.

Council Member Kou inquired regarding the penalties the City would be subject to if it failed to provide the required number of low and very low income units.

Mr. Lait clarified that based on current State law, the City was subject to SB 35. The streamlining provision applied only if a developer deed restricted 50 percent of units because the City fulfilled their requirement for above-moderate housing, through the streamlining provision. If a developer proposed a housing project with 50 percent of units deed restricted, in Palo Alto the project would likely be an Affordable Housing Project, but an affordable housing provider was going to want to utilize the HIP.

Council Member Kou asked if some parcels in the NVCAP area were zoned GM.

Mr. Lait indicated a few parcels may be zoned GM.

Council Member Kou inquired whether the zoning could be reviewed through the NVCAP process.

Mr. Lait responded yes.

Council Member Kou asked if redevelopment of housing and retail at a higher FAR would cause displacement.

Mr. Lait reported State law precluded housing development that eliminated other housing units. He anticipated development in Palo Alto would occur in commercial areas that did not have housing.

Council Member Kou inquired about the interaction of Assembly Bill (AB) 686 and zoning changes.

Mr. Lait remarked that he would provide more information at a later time.

Stephen Levy suggested the Council inquire regarding actions needed to fill vacant positions, bold and scalable measures, additional ways to streamline the review process, and funding options for low-income housing. People earning incomes of 80-120 percent of the Area Median Income (AMI) were not able to afford market-rate housing. Most low-income housing in Santa Clara County was produced through negotiated developments.

Gail Price remarked that without specific actions and policies to promote and encourage multifamily housing for extremely low, low, and moderate

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incomes and the missing middle, the conditions remained dire. She concurred with improving the review and streamlining process and providing Staff with the needed resources to work on the Housing Work Plan. Modifying zoning in the East Charleston and San Antonio Corridors was helpful for housing. She encouraged the Council and Staff to explore and incorporate green trip policies.

Bonnie Packer urged the Council to develop a new housing overlay or combining district for Downtown north and south, California Avenue, El Camino, San Antonio, the North Ventura area and East Charleston. A housing overlay zone needed to allow at least five stories of housing units, reduce unrealistic parking requirements, increase the FAR and streamline the entitlement process.

Angie Evans concurred with providing needed resources for Staff and streamlining the review process.

Sheryl Klein encouraged the Council to streamline the review process. Palo Alto Housing purchased the Wilton Court property in 2013 and held it for six years while the project was under review. The cost to hold the land was \$400,000 in addition to the increase in construction costs over six years. Affordable housing developers needed City funding to leverage County and State funding.

Pat Burt commented that the City was not meeting their low and moderate income requirements primarily due to funding, land competition, and land availability. The Council had tentatively excluded using Business Tax revenues for affordable housing. Increasing impact fees was a possibility to providing funding for affordable housing. PC projects were the primary means for developing affordable housing.

Waldemar Kaczmarski remarked that higher-density housing was a burden on those living in the area. Low-income housing needed to be distributed throughout the City.

Mark Mollineaux suggested the City consider outcomes rather than processes. Land in Palo Alto had been misallocated for parking and large yards.

Kelsey Banes believed dense housing created complete neighborhoods. The Council needed to explore missing-middle housing, gentle density, or form-based zoning. The Council had to consider public parcels for affordable housing.

Mary Gallagher proposed a shared-equity model for affordable housing.

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Lisa Van Dusen encouraged the Council to fill vacant positions and to consider a user-centered approach for streamlining processes.

John Kelley concurred with the remarks of Mr. Levy, Ms. Price, Ms. Packer, Ms. Klein, Ms. Banes, and Ms. Van Dusen, and Mr. Burt's comment about focusing on middle-income housing. The Council needed to think about goals for housing units, rents, and the mix of housing.

Bob Moss suggested the Council threaten to rezone commercial zones to housing unless the property owners provide housing. He suggested the Council offer a higher FAR for properties developed for housing, especially low-income housing.

Mayor Fine requested Staff comment regarding Staff capacity and resources.

Mr. Lait advised that he worked with the Human Resources (HR) Department to recruit for vacant positions in the long-range planning program. Staff was looking to streamline and improve the review process for ADUs.

Ed Shikada, City Manager added that the vacant positions had been difficult to fill. Staff was going to explore recruitment strategies.

Mayor Fine requested the status of PCs and the Code requirements for them.

Mr. Lait reported the Council had adopted a policy to pause consideration of any PC projects with the exception that amendments to existing PCs could be processed. The Council was able to reinstate consideration of PC applications.

Mayor Fine appreciated the economic considerations expressed in the Staff Report. The RHNA requirements were minimums rather than maximums. One approach to housing was a sourced method, wherein developers proposed a project for a site and indicated the development standards needed to build a specific number of units on the site. Development Agreements and PCs provided 64 percent of housing over 20 years. PC zoning was possibly a short-term solution to achieve some housing. For the long term, zoning needed to be the right size and in scalable ways; some of the items in the Work Plan could be prioritized, and some could be de-prioritized.

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

- A. Reauthorize Planned Communities for residential projects and mixed-use projects that improve the jobs to housing balance;

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- B. Housing will be a public benefit, and proposals should include 20 percent inclusionary BMR housing;
- C. Everything is negotiable at the Staff level, but take-it-or-leave-it at the Council level;
- D. Revisit this program in 36 months;
- E. Direct Staff to prioritize workplan ideas according to which support our housing production targets, including scalable zoning changes to support housing;
- F. Direct the City Manager to return with a resourcing recommendation for Planning and Development Services; and
- G. Explore options for using public land for affordable housing projects.

Mayor Fine remarked that Parts A-D formed an approach to relaunch PC zoning for housing projects. PC zoning did not apply to commercial or industrial projects. PC projects had to provide a higher level of BMR housing than current zoning. Staff needed to negotiate the details of PC projects, and the Council would approve or deny them.

Council Member Kniss commented that the community needed housing, and State regulations required housing. Marketing, promotion, education and public relations were necessary to inform developers of new regulations and to convince the community of a new approach to housing.

Council Member Filseth requested clarification of a mixed-use project that improved the jobs/housing balance.

Mayor Fine explained that a mixed-use project should not make the jobs/housing balance worse.

Council Member Filseth suggested a project should provide housing supply equal to the housing demand it created.

Mr. Lait clarified that any net new jobs created through the mixed-use project would be equal to the number of housing units provided in the mixed-use project.

**INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER** to include in Motion Part A, "...mixed-use projects that supply enough housing to cover the net, new job creation."

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Council Member Cormack requested clarification of the statement that housing projects in Palo Alto had a lower return on investment.

Mr. Lait indicated the minimum amount of return on investment to the property owner that is acceptable.

Council Member Cormack asked if the phrase meant housing was providing a lower return on investment in Palo Alto than elsewhere.

Mr. Lait answered no.

Council Member Cormack supported inclusionary housing at 20 percent and Staff prioritizing items in the Work Plan. ADUs were important because they provided housing throughout the community.

**INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER** to add to the Motion, Part H, "Refer to the Finance Committee a proposal to consider an affordable housing tax."

Council Member Kou expressed displeasure that they would not review low and very-low housing production. She was more willing to accept a public benefit of 50 percent housing and questioned the purpose of reviewing a PC project after 36 months. A Business Tax needed to provide funding for affordable housing.

Mayor Fine clarified that 20 percent inclusionary housing included very low income and extremely low income. The 15 percent inclusionary was scaled different for the amount produced. The Council was going to review the PC program in 36 months.

Council Member Tanaka proposed an Amendment to the Motion for Staff to streamline the ADU approval process.

Mr. Lait reported Staff was looking at ways to streamline the review process for ADUs.

Council Member Tanaka requested the current rate of applications.

Mr. Lait was going to provide the information at a later time.

Council Member Tanaka expressed concern that 20 percent inclusionary housing could make a project infeasible.

Mayor Fine explained that the current requirement was 15 percent. The 20 percent requirement was a challenge for developers to request exceptions to development standards that made the project feasible.

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Council Member Tanaka believed micro units did not require subsidies or tax increases and were more affordable. Perhaps micro units were an alternative to the 20 percent inclusionary housing.

Mayor Fine asked if the Code provided minimum unit requirements or unit densities in most RM zones.

Mr. Lait advised that unit densities were applicable in RM zones. The challenge for micro units was parking, because one space per unit was required. A developer was able to propose a project with micro units and request no parking.

Vice Mayor DuBois asked if the Motion directed Staff to prioritize housing assignments over all other assignments.

Mayor Fine clarified that Staff would prioritize the 25 ideas in the report.

Vice Mayor DuBois supported prioritizing the Palmer Fix and impact fees. New housing projects did not mean removing existing housing. Homeless prevention was separate from housing. Setting goals and measuring them were key. He thought the Council may want to consider specific housing overlays. More than 300 Palo Alto units were available on Airbnb. The main issue was the cost of land. Converting commercial zoning to residential zoning was considered creating new land. Perhaps Service Commercial (CS) zones were able to be converted to residential zones.

**INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER** to add to the Motion, Part I, "Direct Staff to develop metrics for tracking housing".

Vice Mayor DuBois proposed changing mixed-use to retail residential.

Mayor Fine suggested a separate discussion of the issue was warranted.

Molly Stump, City Attorney reported changing zoning on any given site or area was prospective. Converting existing uses to new zoning was amortization.

Vice Mayor DuBois expressed concern that the 20 percent inclusionary requirement was only moderate.

Mr. Lait advised that the current standard, which was based on ownership housing, stated two-thirds of the required affordable units must be available at affordable sale prices to households earning 80-100 percent of AMI and one-third of the available affordable units must be available to households earning 100-120 percent of AMI.

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Vice Mayor DuBois was interested in housing for all ranges.

Mayor Fine asked if Staff could draft a scaled mechanism that provided more weight to the lower income levels of affordability and AMI.

Vice Mayor DuBois clarified that 20 percent must be inclusionary, X percent low income, X percent very low income, and X percent moderate income.

Mayor Fine understood inclusionary housing was based on an average mix over the project.

Mr. Lait suggested the Council articulate the affordability level in which they were interested.

Vice Mayor DuBois reiterated that he was interested in a range with some tradeoffs.

Mr. Lait suggested requiring 5 percent for each level.

Mayor Fine believed that the economics were going to be significantly different.

**INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER** to include in Motion Part B, "... and have Staff balance that across the range of Area Median Income (AMI)."

Vice Mayor DuBois commented that Part C tied the hands of future Councils and prevented the Council from considering compromises that could achieve approval of a project.

Mr. Lait indicated the applicant would likely provide options related to development standards rather than attempt to negotiate the deal points.

Mayor Fine believed the deal points were the development standards.

Mr. Lait clarified that the Motion was setting Council policy. Part C was directed towards the Council rather than Staff. Review of a PC Project involved a prescreening before the Council, review by the Planning and Transportation Commission (PTC) and the Architectural Review Board (ARB), and then legislative approval by the Council. A project was likely to be modified during the review process.

**INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER** to include in Motion Part C, "Guidelines: everything is negotiable ... ."

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Vice Mayor DuBois proposed 12-18 months for Part D or aligning review with the RHNA cycle.

Mr. Lait reported the Housing Element would be due at the end of 2022.

Mayor Fine noted navigating the review process would require at least a year. He could agree to an update in 18 months.

**INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER** to include in Motion Part D, "... with a Council update in 18 months."

Vice Mayor DuBois preferred to fund affordable housing with a Business Tax.

Council Member Kou inquired about the FAR and lot coverage needed to develop 2,646 units through a PC on the Fry's site.

Mr. Lait indicated the Housing Element anticipated a realistic yield on the site of 221 units based on the RM-30 zoning standards. A developer was not likely to propose a PC because 221 units were allowed by right. The project was going to comply with development standards.

Council Member Kou asked if Staff or the developer would determine the number of units in a PC or was the number of units able to be negotiated.

Mr. Lait explained that the negotiation pertained to the development standards that needed to change in order to develop the number of housing units the property owner was interested in constructing.

Council Member Kou calculated 529 Below Market Rate (BMR) units were needed for 2,646 units.

Mr. Lait noted the 2,646 units pertained to not one site but the project boundary.

Council Member Kou requested a breakdown of the 529 BMR units into very low and low units.

Mr. Lait explained that the range would be balanced across the AMI threshold. Four bands were represented in the incomes. A project would balance deed-restricted affordable housing within the income ranges.

Council Member Kou asked if he would attempt to match the RHNA ranges. The breakdown was to match the RHNA percentages for very low, low, and moderate incomes.



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Mr. Lait thought that would not be an unreasonable standard.

Council Member Kou remarked that requiring inclusionary housing and designating housing as the public benefit of a PC should obligate the City to fulfill its RHNA requirements.

Mr. Lait indicated the Motion directs Staff to balance inclusionary housing across the range of AMIs, which included very low, low, moderate, and above moderate housing.

Council Member Cormack asked if Council Member Kou was referring to the RHNA units allocated or achieved.

Council Member Kou answered allocated.

Council Member Cormack understood the Council was providing a broader range that included very low income.

Council Member Kou asked if the Density Bonus Law went directly into housing or if it allowed retail as well.

Mayor Fine related that the Density Bonus Law pertained to housing only. With the Density Bonus Law, a developer needed receive more density and more credit for going lower down the AMI spectrum. A similar method applied to PCs.

Council Member Kou wanted to ensure the City fulfilled its RHNA requirements for very low and low-income housing.

Council Member Filseth requested the difference between a PC and a Development Agreement.

Mr. Lait reported a PC was a zoning type, while a Development Agreement conveyed certain benefits for certain development standards. A Development Agreement was not needed for a PC.

Ms. Stump advised that a PC was a piece of legislation, and a Development Agreement was a contract.

Council Member Filseth questioned whether the PC being considered should be delineated with a special term.

Ms. Stump agreed to review the PC Ordinance to determine whether the language needed revisions. PC was sufficiently general to be used for the current purpose.

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**INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER** to include in Motion Part A, "Reauthorize Planned Communities (Planned Home Zoning, PHZ) ... ."

Council Member Filseth believed the objectives were achieving 300 housing units per year and retaining workers who earn 120 percent AMI and lower. Market-rate housing was able to be achieved with ADUs. A few concentrated projects had a better chance of achieving the objectives than a broad up-zoning of the entire City. The community understood the difference between market-rate and 120 percent and less people and was amenable to paying some of the costs for BMR housing. The height limit was possibly not an issue, but parking was an issue. He inquired regarding maximum anticipated parking demand.

Mr. Lait reported that standard was put in place for the affordable housing reduction to zero parking spaces.

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

- A. Reauthorize Planned Communities (Planned Home Zoning, PHZ) for residential projects and mixed-use projects that supply enough housing to cover the net, new job creation;
- B. Housing will be a public benefit, and proposals should include 20 percent inclusionary BMR housing, and have Staff balance that across the range of Area Median Income (AMI);
- C. Guidelines: everything is negotiable at the Staff level, but take-it-or-leave-it at the Council level;
- D. Revisit this program in 36 months, with a Council update in 18 months;
- E. Direct Staff to prioritize work plan ideas according to which support our housing production targets, including scalable zoning changes to support housing;
- F. Direct the City Manager to return with a resourcing recommendation for Planning and Development Services;
- G. Explore options for using public land for affordable housing projects;
- H. Refer to the Finance Committee, a proposal to consider an affordable housing tax; and

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I. Direct Staff to develop metrics for tracking housing.

## **MOTION AS AMENDED PASSED: 7-0**

Council took a break at 10:25 P.M. and returned at 10:31 P.M.

12. Finance Committee Recommends Council Accept the Fiscal Year 2021 - Fiscal Year 2030 Long Range Financial Forecast and Fiscal Year 2021 Budget Development Guidelines.

Vice Mayor DuBois reported the Finance Committee (Committee) recognized labor as the City's biggest cost driver. Scenario C illustrated the differences with a 1 percent wage increase. Solid financial planning was in place for a baseline scenario, but many large projects were not accounted for.

Council Member Cormack noted the cost of the Infrastructure Plan had increased from \$125.8 million in 2014 to \$280.6 million in 2019. When prioritized with other projects, the Infrastructure Plan was possibly not going to be completed. Property Tax revenues were the City's largest source of funding and were forecast with the greatest growth if turnover occurred, but the median price remained the same. She requested an explanation of Sales Tax collection for online purchases.

Kiely Nose, Administrative Services Director and Chief Financial Officer advised that the State collected sales taxes for online sales, and the revenues were apportioned to counties. The revenues were disseminated to each jurisdiction based on its percentage of Sales Tax within the county.

Council Member Cormack commented that fiscal sustainability was reflected in the Budget Development Guidelines.

**MOTION:** Council Member Cormack moved, seconded by Vice Mayor DuBois to accept the Fiscal Year 2021 to 2030 General Fund Long Range Financial Forecast (Base Case), and the City Manager's Report 10727, including the Fiscal Year 2021 Annual Budget Development Guiding Principles.

Council Member Tanaka suggested the next Long Range Financial Forecast (LRFF) include a scenario with and without things not included. Housing prices had decreased by 11-12 percent since 2018. Some residents had filed for tax reductions based on the decline in housing prices. The forecast for property taxes seemed aggressive.

Ms. Nose explained that Staff reviewed all factors affecting property taxes. When properties valued at less than \$600,000 turned over, their values

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changed significantly even though the median home price might have decreased over time. Change in one factor was not necessarily going to alter the growth forecast.

Council Member Tanaka asked if a decline in home prices would affect Documentary Transfer Tax.

Ms. Nose indicated the Documentary Transfer Tax was based on volume and sale price.

Council Member Tanaka understood the volume had decreased greatly. He questioned whether the forecast was accurate given the decreases in volume and home prices.

Ms. Nose explained that the Documentary Transfer Tax was one of the City's most volatile sources of income. Tracking trends was difficult given the occurrence of outrageously high one-time property sales.

Council Member Tanaka asked if Transient Occupancy Tax (TOT) revenues had been compared to local cities.

Ms. Nose replied no.

Council Member Tanaka reported Palo Alto's TOT revenues had increased 5-6 percent, but the increased TOT rate generated an approximate 10.7 percent increase in revenues. Mountain View's TOT revenues increased 25 percent. He thought Palo Alto's higher TOT Tax rate may have driven travelers to Mountain View. He inquired regarding the amount of the forecast decline in TOT revenues.

Ms. Nose noted TOT revenues were decreasing across the County. Staff was going to adjust, if appropriate, for the Midyear Report.

Council Member Tanaka commented that in Fiscal Year (FY) 2030 public safety's projected blended retirement rate would be approximately 80 percent of payroll.

Ms. Nose explained that based on the California Public Employees' Retirement System's (CalPERS) projections and the actuary's projections, in 2023 for \$1 in public safety salary, 80 cents would be contributed to CalPERS for both the normal cost and the Unfunded Accrued Liability (UAL).

Council Member Tanaka inquired whether the percentage would increase or flatten beyond 2030.

Ms. Nose promised to provide the information at a later time.

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Council Member Tanaka expressed concern that the cost of labor reduced funding for other expenses. He requested a comparison of actual numbers with forecast numbers to determine the accuracy of the LRFF.

Council Member Cormack asked if the accuracy of the forecast was expected to vary dramatically over the course of the ten-year period.

Ms. Nose replied yes.

Council Member Tanaka agreed that a comparison of forecast numbers with budget numbers would be more appropriate.

Council Member Cormack indicated forecast and actual numbers for Property Tax revenues were available.

Ed Shikada, City Manager clarified that the LRFF was a planning tool based on the revenues and expenses of the budget. The LRFF was not intended to be predictive.

**AMENDMENT:** Council Member Tanaka moved, seconded by Council Member XX to direct Staff look at the actuals of the long-range financial forecast.

## **AMENDMENT FAILED DUE TO THE LACK OF A SECOND**

Council Member Tanaka requested Staff prepare a table showing the change in the LRFF from the prior year. He wanted a comparison of the prior year's LRFF with the current year's LRFF.

Council Member Cormack requested the intent of such a comparison.

Council Member Tanaka wanted to understand the changes and adjustments made to the LRFF.

Council Member Cormack felt reconciling the expenses would be quite difficult.

Council Member Tanaka requested Staff provide spreadsheets of the 2019 and 2020 LRFFs.

Mayor Fine requested Staff provide the Council with the expense and revenue table in an Excel spreadsheet for 2019 and 2020, if available.

Molly Stump, City Attorney reported Staff could not provide a spreadsheet because of data security issues and broader implications.

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Mr. Shikada added that Staff was not prepared to respond to the request.

Council Member Filseth found CalPERS' reports to be confusing and commented that the debt repayment component alone was complicated. He wanted to see the dollar value of the normal cost each year and the debt with an amortization schedule.

**MOTION PASSED: 7-0**

## Council Member Questions, Comments and Announcements

Vice Mayor DuBois announced the Gunn High School Choir would perform an original musical on February 11 and 12, 2020.

Council Member Cormack attended the joint Fire Academy graduation the prior week. One of Palo Alto's graduates had received the Meritorious Conduct Award prior to her graduation.

Adjournment: The meeting was adjourned at 11:01 P.M.