TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER
DEPARTMENT: PLANNING AND COMMUNITY ENVIRONMENT
DATE: MARCH 12, 2007 CMR: 140:07

SUBJECT: ORDINANCE REMOVING AN EXEMPTION FOR HOSPITALS FROM THE HOUSING IN-LIEU FEE (CHAPTER 16.47 OF THE PALO ALTO MUNICIPAL CODE)

RECOMMENDATION
Staff recommends that the City Council adopt the attached ordinance removing an exemption for hospitals from the Housing In-lieu Fee (Chapter 16.47 of the Palo Alto Municipal Code).

BACKGROUND
Since 1984, the City has imposed a fee on new employment-generating development to fund affordable housing. Applicants may either provide affordable housing to the City or pay a fee. The City then uses this money to fund affordable housing developments, the most recent example being the Oak Court development on Ramona Street and Channing Avenue. These developments give preference to people who currently live or work in Palo Alto, including employees of the Stanford Medical Center.

Several types of developments are exempt from this fee, either because they provide a public benefit, or because they are specifically encouraged by a City policy. Examples include small retail, commercial recreation, private educational facilities, public facilities, and hospitals. Most generate relatively small numbers of jobs. Hospitals are an exception, generating more than 8% of the employment in Palo Alto, or over 8,000 jobs. At least 3,000 of these employees are attributable to hospital expansions performed since the ordinance was first adopted.

DISCUSSION
In order to alleviate the impact of future hospital expansions on the City’s affordable housing stock, City staff recommends removing the exemption for hospitals from the in-lieu housing fee. The housing impacts of future hospital expansions are shown in the attached nexus analysis (Attachment A). According to the nexus study, each additional
100,000 square feet of employment-generating uses in the City creates a need for five very-low income housing units, fifteen low-income units, and nine moderate-income units.

The cost of providing this affordable housing, the “total linkage cost,” is $58.29 per square foot of net new hospital floor area, which is comparable to the cost of the housing demand generated by other non-residential development types. The “total linkage cost” is the fee that would recover the entire cost fulfilling the housing demand for new development. The actual fee the City currently charges is lower, $16.01 per square foot. Applying this $16.01 per square foot fee to hospitals would mean that approximately 75% of the estimated cost of providing the additional workforce affordable housing generated would be funded by other sources, such as federal or state grants, non-profit organizations, or the City’s General Fund.

The attached nexus report uses several conservative assumptions when generating these estimates. It assumes, for example, that one-third of employees eligible for affordable housing would elect to commute instead of living in Palo Alto, even if affordable housing were available to them. This is consistent with commuter data for other cities in the region. Conservative estimates are also used when estimating the cost to the City of building affordable housing.

POLICY IMPLICATIONS
This ordinance is consistent with Comprehensive Plan Policy B-32, which identifies the City’s goal of working with the Stanford Medical Center to address changing facility needs, but within the context of City planning goals and policies. The ordinance is also consistent with Policy H-15 and Program H-50 of the Comprehensive Plan, which support pursuing funding for construction or rehabilitation of affordable housing, and requiring developers of employment-generating developments to contribute to the supply of low- and moderate-income housing to reduce the housing impacts of the additional employment generated.

This ordinance also furthers the goals of the City’s In-lieu Housing Fee ordinance. The goal and purpose of the ordinance is to “lessen the shortage of low-income and moderate-income housing in Palo Alto by requiring developers of large commercial and industrial projects, as a condition of using land for the privilege of development, to contribute to programs that increase the City’s low-income and moderate-income housing stock.” As stated in the adopting ordinance, the City has an interest in ensuring that people who work in the City can live in the City, because “the lack of affordable housing in Palo Alto forces many new employees to commute considerable distances, adding to the air pollution and traffic congestion in Palo Alto and adjacent communities.”
RESOURCE IMPACT
Currently, the in-lieu fee for projects that do not provide affordable housing units is $16.01 per square foot. This ordinance would apply this same fee to hospitals. A 1,000,000 square foot hospital expansion would generate $16 million in housing fees, which could only be used to provide affordable housing. The in-lieu fee only applies to net new square footage; replacement or renovation of existing facilities is exempt from the fee.

ENVIRONMENTAL REVIEW
The imposition of an in-lieu fee on development is not a project under the California Environmental Quality Act, and does not require environmental review.

ATTACHMENTS
A. Ordinance amending Chapter 16.47 of the Palo Alto Municipal Code
B. Nexus Study

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