

# City of Palo Alto

Office of the Mayor and City Council

Via hand delivery

August 6, 2019

Honorable Jerry Hill  
California State Senate  
State Capitol, Room 5035  
Sacramento, CA 95814

Honorable Marc Berman  
California State Assembly  
State Capitol, Room 6011  
Sacramento, CA 95814

**RE: Update from the City of Palo Alto: efforts to increase the housing supply**

Dear Senator Hill and Assembly Member Berman:

On behalf of the City of Palo Alto, we applaud your recent legislative efforts this session. I write today to provide an update of our City's efforts to streamline and incentivize development in our jurisdiction. As you know, Palo Alto understands the need to address the issue, and we want to continue to be part of the conversation and the solution. To that end, below are some broad actions<sup>1</sup> our City Council has taken to facilitate greater housing production, including affordable housing:

### **Ordinance changes**

Palo Alto has adopted all state-mandated Accessory Dwelling Unit (ADU) ordinances – and we've gone even further: our ADU ordinances require no minimum parcel size and no parking requirements. These recent changes have resulted in an increase in ADU production, from an average of five applications a year from 2010 through 2016 to 28 applications filed in 2017 and 54 in 2018. 2019 is on pace to exceed another 50 applications. Additionally, the City Council recently waived development impact fees for ADU garage conversions.

In April 2018, our Council adopted an Affordable Housing Overlay Ordinance. This ordinance allows for the development of 100% affordable rental housing in areas near transit not currently zoned for residential only uses. It also allows for increased density and heights, fewer parking spaces, and the possibility of streamlined administrative approval of modifications to some requirements.<sup>2</sup>

More recently, the City Council significantly amended ordinances related to residential and mixed-use development standards and commercial zoning districts. These changes relate to density, unit size, floor area ratio, parking, and more. A high level-summary<sup>3</sup> of the changes include:

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<sup>1</sup> Not included: Renter Relocation Assistance where property owners of developments of a certain size exiting the rental market are required to help pay tenant relocation costs, and efforts to curb commercial development.

<sup>2</sup> Of this action, Silicon Valley at Home applauded our City Council for taking "bold action," noting that the move "exemplifies the local leadership we need to address the housing crisis" (April 13, 2018). *City of Palo Alto Approves Affordable Housing Overlay*, retrieved from <https://siliconvalleyathome.org/city-of-palo-alto-approves-affordable-housing-overlay/>

<sup>3</sup> Specific changes are described in a City staff report for the April 1, 2019 Council meeting, available at <https://www.cityofpaloalto.org/civicax/filebank/blobdownload.aspx?t=52156.04&BlobID=69992>

- Eliminating site and design review for housing projects containing nine or more units and not located in certain environmentally or ecologically sensitive areas, resulting in six to nine months less application processing time
- Allowing for increased unit density in multi-family residential zones and removing density limits altogether in certain areas
- Eliminating lot coverage requirements on certain properties
- Creating a Housing Incentive program that utilizes a design review and waiver process to allow housing projects to use commercial floor area in addition to increased housing floor area
- Exempting certain 100% affordable housing projects from retail preservation requirements
- Reducing parking requirements for multi-family units

### ***Recently approved affordable housing developments***

In January 2019, our Council approved a 59-unit affordable housing development designated for residents making no more than 60 percent of the area median income. This is a 100 percent affordable housing overlay project, closer to transit, with an increased floor area ratio, and 0.75 parking spaces per unit. To facilitate this project, the City eliminated a review process that would have taken 12 months, streamlining our review to design only, a 4-6 month process.

In June 2018, the City approved a 57-unit workforce housing complex, with 20 percent of the units deed restricted for middle-income households earning less than 150% of the area median income level. This development was possible due to the creation of a new district allowing workforce housing within a half mile of rail stations. This new complex will provide Caltrain Go Passes and VTA EcoPasses to each unit and unbundles parking. Tenants that require a parking space would pay separately for the space they use. Additionally, per negotiation, the developer of this complex is building a new bus shelter at a nearby intersection.

### ***Affordable housing programs***

The above ordinance changes and newer development approvals are in addition to our Below Market Rate program, which aims to create and retain a supply of affordable housing for people with low and moderate income. The City has approximately 250 owner-occupied and 460 rental units in this housing program that are sold or rented to qualifying households and managed by a local non-profit partner.

Palo Alto also maintains an Affordable Housing Fund to provide financial assistance for the development of housing affordable to very low, low, and moderate-income households that live or work in Palo Alto. Through this fund, the City offers long-term loans with low-interest rates and usually deferred payments; any cost necessary to develop the housing can be funded by the City. Money in the fund comes from impact fees charged to new commercial development and from market rate housing developers, when they provide an "in lieu" fee rather than building affordable units as part of a condominium (for sale) housing development. Over the last four years the City has appropriated roughly \$28 million from this fund for below market rate housing.

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Lastly, there are many more efforts our Council is currently considering, such as:

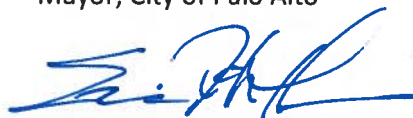
- An ordinance to extend inclusionary housing requirements to rental housing projects
- Exploring possible increases to the inclusionary housing requirement to extend beyond the current 15% requirement
- Applying for planning grant money under SB 2 (the Building Homes and Jobs Act of 2017) to further incentivize ADU production and develop objective development standards in accordance with SB 35
- Exploring ways to extend the city's existing transferred development rights program to incentivize its application for housing projects
- Reviewing opportunities to extend the recently adopted Housing Incentive Program to other parts of the city

Hopefully, this summary provides a sense of all that Palo Alto has done and is considering now to encourage housing in our city. As you know, cities can only encourage development by streamlining processes and creating incentives; the rest is up to the developers themselves. As you are also aware, the costs of building housing of any type in the Bay Area are less attractive now than in years past.<sup>4</sup> As you and your colleagues consider housing legislation, we urge you to also consider what is outside of a City's control; localities should not be directly or indirectly penalized for developers' financial decisions related to building new housing.

Thank you for your continued support and consideration of the above when determining housing-related legislation.

Yours,

Eric Filseth  
Mayor, City of Palo Alto



Cc:

Senator Toni Akins

Bay Area Caucus

Palo Alto City Council

Santa Clara Cities Association

Ed Shikada, Palo Alto City Manager

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<sup>4</sup> See Hansen, Louis. (April 25, 2019). "New Bay Area crown: Most expensive place to build in the world," *The Mercury News*. Retrieved from [www.mercurynews.com](http://www.mercurynews.com). Citing a report noting high demand, labor shortages, steel tariffs, and rapid economic growth as key drivers in the high costs of construction in the Bay Area.