City of Palo Alto (ID # 6862)

City Council Staff Report

Report Type: Action Items **Meeting Date: 12/12/2016**

Summary Title: Housing Impact Fee Ordinance

Title: PUBLIC HEARING: Adoption of Two Ordinances to Update the City's Below Market Rate (BMR) Housing Program as Recommended by the Finance Committee: (1) Repealing Municipal Code Section 16.47 (Non-residential Projects) and 18.14 (Residential Projects) and Adding a new Section 16.65 (Citywide Affordable Housing Requirements) and; (2) Establishing Housing Impact Fees and Housing In-Lieu Fees for Residential, Nonresidential, and Mixed Use Developments. The Proposed Ordinances are Exempt From the California Environmental Quality Act (CEQA) per Sections 15378(b)(4), 15305 and 15601(b)(3) of the State CEQA Guidelines. The BMR Ordinance and Fees Were Recommended for Adoption by the Planning and Transportation Commission on November 30, 2016

From: City Manager

Lead Department: Planning and Community Environment

Recommendation

Staff recommends that the City Council hold a public hearing and:

1. Adopt an ordinance (Attachment A) updating the City's Below Market Rate (BMR) Housing Program by repealing Municipal Code Section 16.47 (non-residential projects) and 18.14 (residential projects) and adding a new Section 16.65 (Citywide Affordable Housing Requirements);
2. Adopt an ordinance (Attachment B) establishing housing impact fees and housing in-lieu fees for residential, nonresidential, and mixed use developments; and
3. Find that the above actions are exempt from the California Environmental Quality Act (CEQA) per Sections 15378(b)(4), 15305 and 15601(b)(3) of the State CEQA Guidelines.

The Finance Committee voted 3-1 on June 21, 2016 to recommend the fees and approach set forth in these ordinances. On November 30, 2016, the Planning and Transportation Commission (PTC) recommended the ordinance in Attachment A and the fees set forth in Attachment B with modifications described below.

Executive Summary

The proposed ordinance included as Attachment A would rescind and replace sections of the City's Municipal Code governing inclusionary housing as well as the collection of the affordable housing impact fees charged to commercial development and the housing in lieu fees charged to residential development. If adopted, the proposed ordinance and the associated fee ordinance included in Attachment B would:

- increase fees charged to new office/R&D development from $20.37 to $60 per square foot;
- increase fees charged to new hotel development from $20.37 to $30 per square foot;
- maintain fees charged to retail/other commercial development at $20.37 per square foot;
- institute an impact fee for new market rate rental housing of $50 per square foot;
- modify the in lieu fee for new market rate for-sale housing so that it is no longer calculated at the time of sale (7.5% of the sale price), and is instead collected at the time of building permit issuance, similar to an impact fee ($50 per square foot);
- modify the in lieu housing requirement for new market rate for-sale housing so that it is triggered when a development includes three or more dwellings, rather than five or more dwellings and so that there is clarity about when fees can be paid instead of providing units on- or off-site; and
- introduce other provisions to encourage developers to provide affordable housing rather than pay the fees.

The proposed fees are based on the two "nexus" studies included in Attachments C and D which examined the relationship between new commercial and residential development and the increased demand for affordable housing. The Finance Committee of the City Council and the Planning and Transportation Commission reviewed these nexus studies and each voted to recommend slightly different fee amounts from those recommended by the consultant, as shown in Table 1, below. (The ordinance included as Attachment B would implement the Finance Committee's recommendations.)

Table 1. Existing and Proposed Affordable Housing Fees

	Existing Fees	**February 2016 Proposal**	**Finance Committee Recommendation**	**Planning & Transportation Commission Recommendation**
Office/R&D	$20.37/sf	$35/sf	$60/sf	$60/sf***
Hotel	$20.37/sf	$30/sf	$30/sf	$30/sf***
Retail/Restaurant/Other**	$20.37/sf	$19.85/sf	$20.37/sf	$20.37/sf
Market Rate Single Family Detached*	7.5 to 10% of sales price	$95/sf	$50/sf	$95/sf

Market Rate Single Family Attached*	7.5 to 10% of sales price	$50/sf	$50/sf	$50/sf
Market Rate Condo*	7.5 to 10% of sales price	$50/sf	$50/sf	$50/sf
Market Rate Rental Housing	None	$50/sf	$50/sf	$10-20/sf****

**Market rate ownership housing projects are currently subject to City's Affordable housing in lieu fees. Market rate rental projects are exempt from this requirement. With the new fees, rental and for-sale units would both be charged the same fees, even though one would be called an impact fee, and the other would be called an in lieu fee. Projects providing affordable units on site would not be charged a fee.*

***Retail uses are not addressed in the nexus study and this row includes the current fee based on the last nexus study completed in May 2002. The fee was last updated as part of the City's budget process from $19.85/sf to $20.37/sf.*

****The PTC recommended phasing-in these fee amounts over five years, subject to annual review.*

*****The PTC recommended impact fees on rental housing be set to reflect the range in other nearby jurisdictions and requested that staff provide the City Council with this information.*

Source: Palo Alto Planning & Community Environment, November 2016

All fees would be adjusted by CPI on an annual basis. Further, all of the fees collected as a result of the ordinance would be used for the preservation, rehabilitation, and development of affordable housing, consistent with the City's Affordable Housing Fund Guidelines available at http://www.cityofpaloalto.org/gov/depts/pln/bmrhousing.asp.

Background

In April of 2014, the City entered into a contract with Strategic Economics and Vernazza Wolfe Associates, Inc., (the Consultants) to develop two nexus studies for commercial and residential housing impact fees to mitigate the impact of new development on the demand for affordable housing (Attachments C and D). This effort was partially motivated by the City's need to address a series of court decisions preventing the City from imposing inclusionary housing requirements on new rental housing developments making it difficult for the City to impose rental housing fees without economic justification. In addition, City policy requires that impact fees be periodically reviewed to determine whether they are set at appropriate levels. The City's updated Housing Element (adopted November 2014) referenced these updated nexus studies in several implementation programs and final drafts of the two studies were provided to City staff in late November 2015.

An impact fee is a monetary exaction that is charged by a local governmental agency to an applicant in connection with approval of a development project for the purpose of mitigating impacts of the project. There must be a "nexus" or connection between the fee and the actual impacts of the project. In general the fee must be "roughly proportional" to the impact the project is creating. In order to establish a reasonable relationship between the development project and the fee it is charged, cities typically commission "nexus studies."

If a city has already established an impact fee through a nexus study, it is typical for a municipality to periodically commission a new study to determine whether the fee level is appropriately set.

City staff presented the results of the two nexus studies to the City Council Finance Committee on February 16, 2016 and June 21, 2016. Staff reports for these meetings are available at: http://www.cityofpaloalto.org/civicax/filebank/documents/50935 and http://www.cityofpaloalto.org/civicax/filebank/documents/52827 respectively. Minutes are included in Attachment E.

On June 21, 2016, The Committee voted 3-1 to direct staff to prepare an ordinance and a fee schedule based on the Finance Committee Recommendations found in Table 1 above. In addition, a motion was made for staff and the PTC to explore options which would allow Office, R&D and Hotels to proportionally reduce their impact fee payment by providing Below Market Rate housing onsite or offsite or by deed restricting existing units as affordable.

Staff presented the Finance Committee's recommendation along with the BMR Ordinance to the PTC at meetings held on July 27, 2016, August 31, 2016 and November 30, 2016. Staff reports for each of the three meetings are available at:
http://www.cityofpaloalto.org/civicax/filebank/documents/53215 ,
http://www.cityofpaloalto.org/civicax/filebank/documents/53624 and
http://www.cityofpaloalto.org/civicax/filebank/documents/54901.
Minutes from the July and August PTC meetings are included in Attachment F and minutes from November 30, 2016 will be provided "at places" on December 12, 2016. In motions adopted on August 31 and November 30, the PTC recommended that the City Council approve the ordinance in Attachment A and the fees shown in Table 1, as explained further below.

The fee ordinance in Attachment B was prepared based on the Finance Committee recommendations, as shown in Table 1.

Nexus Study Methodology

The two nexus studies, one for commercial construction and one for residential construction, were prepared by the Consultant based on staff's input and direction. Each used a similar methodology to generate data and conclusions as shown in Table 2. This same methodology has also been used to support updated impact fees in jurisdictions throughout San Mateo County. (More detail on the methodology is provided in the nexus studies.)

Table 2. Affordable Housing Nexus Studies -- Methodology Overview

	Residential	Commercial
1. Develop a prototype	Single Family Detached	Hotel

	Residential	Commercial
	Single Family Attached	Office/R&D/Medical Office[1]
	Condominiums (sale)	
	Apartments (rental)	
2. Determine Household Income of Residents and Disposable Income	X	
3. Determine Employee Density[2]		X
4. Number of New Worker Households Created	X	X
5. Worker Household Incomes; % Needing Affordable Housing	X	X
6. Affordability Gap between cost to purchase/rent housing and the cost to build	X	X
7. Maximum Fee Calculation	X	X
8. Feasibility Analysis	X	X
9. Recommended Fees	X	X

Source: Department of Planning & Community Development, May 2016

This is a standard methodology that is used in creating nexus studies of this nature and includes an assessment of the "affordability gap," which is the theoretical difference between what very low, low and moderate income households can afford to pay for housing expenses and the cost of building new, modest rental and for-sale units.

Commercial Nexus Study Conclusions

The nexus study shows that the City could significantly raise its impact fees on hotels and office/R&D/medical office space construction. The recommendations were developed based on the methodology summarized in Table 2, and the consultant concluded (in Step 7) that the maximum justifiable fees for each prototype are $177 and $264/square foot, respectively. The feasibility analysis (in Step 8) concluded that the maximum feasible fees for each prototype are $30 and $60 per square foot respectively.

The original recommendation (Step 9) of $35 per square foot for office/R&D/medical office, which was about 40% below the feasible maximum, was based on a comparison of fees in neighboring jurisdictions and other policy considerations. The revised fee amount of $60 per square foot reflects the Finance Committee's interest in charging the maximum possible fee to

[1] A third commercial prototype was initially considered for a retail/restaurant/personal services but such a prototype has only rarely been constructed in Palo Alto in recent years, and the staff's recommendation is to maintain the current fee of $20.37/new net square footage for retail/other based on the prior nexus study.

[2] For each building prototype, an average employment density was defined based on a review of national survey data for existing buildings and a review of recently completed linkage fees nexus studies in the Bay Area.

ensure impacts of new development can be mitigated to the extent feasible. At this level, the fee would be substantially higher than in other jurisdictions and may act as an incentive for developers to provide affordable units on- or off-site rather than paying the fee.

Residential Nexus Study Conclusions

The nexus study shows that the City could adopt significant impact fees on all four studied prototypes (single family detached, single family attached, condominiums and apartments). Maximum justified fees are $111/square foot for single family detached, $95/square foot for single family attached, $75/square foot for condominiums, and $105/square foot for apartments. The financial feasibility analysis concluded that a fee of $111 per square foot or less is feasible for single-family detached development; a fee of $90 per square foot or less is feasible for single-family attached development; a fee of $75 per square foot or less is feasible for condominium development; and a fee of $85 per square foot or less is feasible for apartment development.

The study recommended establishing a fee of $95/square foot for single family detached, a fee of $50/square foot for single family attached, a fee of $50/square foot for condominiums, and a fee of $50/square foot for apartments. These recommendations were based on the results of the financial feasibility analysis, a comparison with fees adopted in other Bay Area communities and policy considerations including a comparison to existing City fees.

The Finance Committee expressed an interest in reducing the fees for residential uses where warranted to ensure that residential development is not charged higher fees than commercial development. The consultant's supplemental analysis supported a lesser fee for single-family detached units ($50 per foot instead of $95 per foot) based on this interest. With the recommended fees, the fees will be higher than other local jurisdictions with the exception of San Francisco, whose fees range from $199,000 to $522,000 per unit, based on unit size. As in San Francisco, the high fees can act as an incentive for developers of market rate rental housing to provide affordable units on-site, even though their projects are not subject to the City's inclusionary requirement.

Supplementary Memorandum Report

In response to the feedback received by the Finance Committee at the February 16th meeting, the Consultant prepared a Supplementary Memorandum Report included as Attachment G. The supplementary report provides updated information and analysis including a summary of existing city fees and permits for housing and commercial development prototypes in Palo Alto demonstrating that the fees proposed in February 2016 were higher for commercial development than for residential development, with the exception of the single-family detached prototype.

The consultant's report also provides an updated table on existing linkage fees and housing impact fees in other jurisdictions demonstrating that the proposed fees would be significantly higher than other jurisdictions in the region. The supplemental report also provides a comparison of the potential housing impact fees with Palo Alto's existing below market rate (BMR) housing policy for ownership units. This comparison examines the costs to the developer under the existing and proposed in-lieu fee structure both if units are provided on-site, and if housing impact fees are paid.

Comparison with Existing In-Lieu Fees for For-Sale Housing

The City currently has an inclusionary housing program that requires that 15 percent of the units in market-rate developments consisting of five or more housing units must be sold at affordable sales prices. This percentage increases to 20 percent on parcels larger than five acres. With the proposed ordinance, these percentages (15 and 20%) would not change, but the requirement would apply to projects with three or more units, rather than five or more units.

Under the current program, developers have the option of paying an in-lieu fee of between 7.5 and 10 percent of the sales price or fair market value, whichever is greater when providing affordable units on- or off-site is infeasible. (The developer must also pay a fee for fractional units.) Currently, there is little guidance in the code as to how to determine whether providing units is infeasible, and the proposed ordinance would offer clarity regarding the basis for such determinations.

Using the prototypes in Figure I-2 in the Draft Residential Impact Fee Nexus Study, the in-lieu fee revenues per market rate unit under the existing method would be $228,225 for a 3,000-square foot single family detached home, while the fee would be $285,000 if the fee were assessed at the original level recommended ($95 per square foot) and $150,000 if the fee were assessed at the revised level of $50 per square foot.

For the single-family attached prototype of 2,100 square feet, in-lieu fee revenues per market rate unit would be $124,950 under the existing inclusionary program and $105,000 if the recommended fee were to be assessed at $50 per square feet. For the 2,100-square foot condominium prototype, the in-lieu fee revenue per market rate unit under the existing program would be $104,250 and $105,000 at the recommended fee of $50 per square foot.

These in lieu fees are summarized in the Cost Comparison of Inclusionary Policy and Housing Impact Fees included as Attachment H. Also, it's important to note that the Ordinance in Attachment A, while exempting residential for sale projects with one or two units, would apply to residential for sale projects with three or more units *even if those units are replacements for existing units on the site.*

Adopting high in lieu fees for market rate for-sale housing would reflect a preference for seeing units constructed on site, minimizing the use of in lieu fees to truly special situations and fractional units. The PTC questioned this preference after affordable housing advocates described the difficulty of administering small numbers of BMR units sprinkled throughout market rate projects and their preference for funds to construct 100% affordable projects.

Stakeholder Input

City staff held a Stakeholder meeting on April 20, 2016 to obtain feedback from various parties on the proposed impact fees that were presented to the Finance Committee on February 16, 2016. Invitations were sent to representatives from 32 different organizations, including the Building Industry Association of the Bay Area, NAIOP Commercial Real Estate Development Association, for-profit and non-profit developers and other non-profit organizations and interested parties. Fifteen representatives from twelve organizations participated in the discussion and many have continued to participate in the planning/hearing process.

In general, stakeholders have expressed concerns regarding the magnitude of the proposed fees that are being considered, particularly the Finance Committee's original suggestion that fees be set above the "maximum feasible" amount. Some raised a number of questions about the City's objectives, the study methodology, and the unintended consequences of proceeding with the suggested fees. At the big picture level, there was a concern that with high fees, no development would occur and thus no funds would be generated for affordable housing, and the City's fundamental problem related to the supply of housing would not be addressed. There was also a concern that if Palo Alto raises its fees well above other Peninsula cities, it would trigger an "arms race," or "bidding war," such that other Cities would raise their fees and development of new housing in the region would completely stop. The Finance Committee and the PTC considered these and other concerns when adopting their recommendations.

PTC Discussions & Recommendations

The PTC had three public hearings and thoughtful deliberations on the proposed ordinance in Attachment A and on the proposed fee amounts in Attachment B. The two ordinances reflect two of the Commission's specific recommendations by (1) allowing for deed restrictions of no longer than 55 years to preserve the ability of developers to seek affordable housing projects; and (2) requiring applicants who wish to provide rental units on site rather than paying the fees to provide units that are affordable to *low income households*, recognizing that for sale inclusionary units typically accommodate moderate income households and 100% affordable projects typically accommodate very low income households. The PTC unanamously recommended the ordinance in Attachment A to the City Council.

As noted in Table 1, the PTC's recommended fee amounts differed from the Finance Committees in two ways. First, the Commission thought the single family detatched in lieu fee should be $95/ft as recommended by the consultant, rather than $50/ft as recommended by the Finance Committee, in order to better reflect the cost of actually providing the units. Second, on a 5-1 vote, the PTC recommended that the impact fee for rental housing be lower than the in lieu fee for ownership units, suggesting a fee somewhere in the range of $10-20 per square foot, and requesting that staff provide the City Council with information about the fee amounts in nearby jurisdictions to guide their decision. (This information is included in Attachment G.)

Also, on a 4-1 vote, the PTC recommended phasing-in the commercial linkage fees over five years, subject to annual review. (Some of the Commissioners also suggested that the phase-in should be weighted, with higher increases in later years.) The PTC also unanamously requested that the Council allow the Commission to participate in the annual review, and as part of the review, the Commission indicated that it would like to examine the idea of a graduated fee schedule to incentivize smaller units.

Summary of Key Issues

Updating the City's BMR Housing Program requires adoption of an ordinance rescinding and replacing Sections 16.47 (non-residential projects) and 18.14 (residential projects) of the Palo Alto Municipal Code (PAMC), and addressing provisions of Housing Element Program H3.1.2.

The BMR ordinance in Attachment A and the accompanying fee ordinance in Attachment B would:

- Consolidate the commercial and residential fee programs into a single uniform ordinance codified in a new Chapter 16.65.

- Give the City the ability to charge a fee for rental housing. In 2009, the California Court of Appeal, in *Palmer/Sixth Street Properties L.P. v. City of Los Angeles,* held that requiring inclusionary housing in new rental housing projects violates the Costa Hawkins Act. The Costa Hawkins Act allows developers of new rental housing to set the initial rental rate and provides that owners of existing housing may set the rental rate whenever the units are vacated ("vacancy decontrol"). The Court found that limiting rents in new rental housing to make them affordable violated the Costa Hawkins Act. It also found that in-lieu fees there which were "inextricably intertwined" with the prohibited rent control and so also prohibited. As a result, the City has not imposed BMR requirements on rental housing projects.[3] To date, legislative fixes exempting BMR programs from the Costa Hawkins Act have not been successful. In the absence of a legislative fix, the most legally defensible way to justify an affordable housing impact fee for rental housing is through a nexus study.

- Give developers the opportunity and an incentive to build affordable units on-site instead of paying the impact fees, even for commercial (mixed use) projects. The ordinance will encourage developers to provide units on-site as a first priority when feasible. If providing the units on-site is not feasible, then developers would have the option to pay the impact fees.

- Differentiate the fee structure for commercial development. Under the current structure for commercial development, all commercial development is subject to the

[3] Interestingly, the City's suspension of its BMR requirements on rental housing projects has not resulted in an appreciable increase in rental projects. This local trend is consistent with the City's nexus study finding that impact fees do not serve as a significant constraint to rental housing production.

same fee per square foot, which is currently set at $20.37. Under the draft ordinance in Attachment B, there will be one fee for hotel development, one for office/R&D and retail will continue to charge the existing fee of $20.37.

- Simplify the fee assessed to for sale residential development. Under the current fee structure, residential developers who pay the in-lieu fee are required to pay 7.5% of the sales price of the market rate units. Thus City is unable to collect the in-lieu fees until the market rate units are sold and the actual amount of the fees is not known until that time. With the proposed fees, all residential prototypes would be charged the same fee, whether they are rental or for-sale housing, condos, attached, or semi-detached. Also, the amount of the fees will be known early in the project and fees can be collected prior to the issuance of building permits or final map approval, if required.

- Clarify projects which are exempt from impact fees and clarify that if an exempt use converts to a non-exempt use, the new use is subject to fees.

- Adjust the threshold for inclusionary units from projects with five or more units to projects with three or more units as stated in Program H3.1.1 of the Housing Element. Mixed use projects containing less than three units are also now subject to a housing fee. In addition, residential ownership projects of three or more units would not receive a credit for any demolished units.

The draft BMR ordinance is not proposing to increase the existing inclusionary housing requirements to adjust the percentage of affordable units required. The current percentage required (15%) can be examined in a separate planning effort at a later date, as can the potential for a nexus between new development and (market rate) workforce housing for City and school district employees (Housing Element Program 3.6.1).

Policy Implications

Adoption of a new housing impact fee structure for commercial and residential development projects would support the City's stated policy goals under the Affordable Housing Fund program and the adopted Housing Element.

<u>Affordable Housing Fund</u>

The City's Affordable Housing Fund is used to provide financial assistance for the development, acquisition and rehabiltiation of housing affordable to income qualifying populations in the City. Since 1974, the City has committed resources to funding this program, and updating housing impact fees supported by nexus studies supports this policy.

<u>Housing Element</u>

The City adopted its 2015-2025 Housing Element in November 2014. A housing element contains a municipality's vision and implementation concepts for providing housing for a diverse population. The adopted Housing Element contains the following programs that support the adoption of increased housing impact fees:

- H3.1.2j Conduct a nexus study to identify the impacts of market rate housing and the need for affordable housing, and develop BMR rental policies based on the results of the study.
- H3.1.6 Require developers of employment-generating commercial and industrial developments to contribute to the supply of low- and moderate-income housing through the payment of commercial in-lieu fees as set forth in a nexus impact fee study and implementing ordinances, thru a continuing program of updating the commercial fee.
- H3.4.3 Periodically review the housing nexus formula required under Chapter 16.47 of the Municipal Code to fully reflect the impact of new jobs on housing demand and cost.

The proposed BMR ordinance implements Housing Element Program H3.1.2. In particular, this ordinance:

1. Implements the inclusionary requirements, standards, and price limits contained in Programs H3.1.2(a) and (b);

2. Contains standards for determining the feasibility of on-site BMR units, contains BMR program priorities, and provides standards for alternatives, fractional units, and payment of in-lieu fees as contained in Programs H3.1.2(c), (d), and (e), and after consideration of the possible policy contained in Program H3.1.2(h);

3. Contains provisions for reviewing developer requests that the requirements in the ordinance constitute a taking, consistent with Program H3.1.2(f);

4. Permits smaller or duplex BMR units in new single family residential subdivisions after consideration of the possible policy contained in Program H3.1.2(g);

5. Evaluated and determined not to adopt the policy contained in Program H3.1.2(i); and

6. Completed a nexus study to identify the impact of market rate housing on the need for affordable housing, and developed policies for rental housing based on the results of the study, consistent with Program H3.1.2(j). The nexus study also ensured that commercial developments contribute to affordable housing through the payment of fees (Program H3.1.6).

Based on the above, this ordinance is consistent with the Housing Element and that any minor modifications in specific procedures are intended to better implement the Housing Element's purpose to "encourage, foster, and preserve diverse housing opportunities for very low, low, and moderate income households."

Resource Impact

Adjusting affordable housing impact fees is anticipated to increase revenues to the City, making additional funding available for the preservation and construction of affordable housing in Palo Alto.

Between fiscal year 2013 to 2015, the City received an average of $1.65 million annually for the commercial housing fund. Based on the recommended fee adjustments for commercial development, the commercial housing fund contributions could potentially increase by approximately 85%, although the increase will of course depend on the amount of development that occurs.

It is more difficult to project residential development and the City has not experienced a great deal of housing development in the past few years. Adoption of the reports' recommendations would not only increase the amount of funding from fractional units required under the City's 15% inclusionary requirement for newly constructed for-sale housing, but it would also create a new funding source from the construction of rental units.

The revenues generated for the fund would depend on (1) the amount of rental housing that is proposed and permitted, as well as (2) the amount of for sale housing that consists of (a) fractional units required to meet the 15% inclusionary program, (b) units constructed in a mixed-use project with two or fewer units, and (c) units that are infeasible to provide as required by the 15% inclusionary program. If applications for housing that are currently pending with the City are an indication of the year's unit production, it would mean that over 100 units would be produced. If at least 50 are subject to the fee for rental housing, rather than being sold as condominiums, and assuming an average unit size of 800 gross square feet, that would mean $2M for the Residential Housing Fund.

Funds provided from the affordable housing fund for the development of new affordable housing by independent developers are generally used to leverage many other funding sources, and according to Palo Alto Housing, $2M in such funds could potentially leverage three to four times the available funds which would help to deliver approximately 12-16 affordable units.

Members of the Commission suggested that the City's general fund could backfill any reduction in impact fees that occurs if development slows down because of the increased cost of doing buisiness. This would represent an unknown risk to the general fund which is projecting a budget deficit in fiscal year 2018 and is facing increasing demands on resources as well. The suggestion also ignores the fact that a large percentage of the cost of doing buisiness is outside the City's control and the new impact fees that are charged would represent a small percentage of the cost to develop.

Timeline

If the City Council chooses to adopt new housing impact fees on first reading this evening, a second reading of the ordinances would be scheduled in January. The ordinances and the fees would become effective 60 days after approval of the implementing ordinance on a second reading. As currently drafted, the ordinances would apply the new fees to all pending and future projects that have not obtained building permits prior to the effective date of the ordinance.

Environmental Review

The proposed ordinance is exempt from the California Environmental Quality Act (CEQA) per Sections 15378(b)(4), 15305 and 15601(b)(3) of the State CEQA Guidelines. The new ordinances are not expected to increase or decrease the number of newly constructed housing units, but instead will regulate the unit's affordability levels.

Attachments:

- Attachment A: Affordable Housing Ordinance (PDF)
- Attachment B: Proposed Fee Ordinance (PDF)
- Attachment C: Commercial Linkage Fee Nexus Study (PDF)
- Attachment D: Residential Impact Fee Nexus Study (PDF)
- Attachment E: Finance Committee Minutes (PDF)
- Attachment F: July 27 & August 31, 2016 PTC Minutes (November 30, 2016 minutes will follow "at places") (PDF)
- Attachment G: April 18, 2016 Supplementary Memorandum Report (PDF)
- Attachment H: Cost Comparison of Inclusionary Policy and Housing Impact Fees (PDF)

Ordinance No. _____

Ordinance of the City of Palo Alto Repealing Chapter 16.47 (Approval of Projects with Impacts on Housing) and Chapter 18.14 (Below Market Rate Housing Program) of the Palo Alto Municipal Code and Replacing Them with a New Chapter 16.65 (Citywide Affordable Housing Requirements)

The City Council of the City of Palo Alto hereby finds and declares as follows:

A. Under California Government Code Section 65580(d) all cities have a responsibility to use the powers vested in them to facilitate the improvement and development of housing and to make adequate provision for the housing needs of all economic segments of the community.

B. The provision of safe and stable housing for households at all income levels is essential for the public welfare of the city. Housing in Palo Alto has become steadily more expensive and housing costs have gone up faster than incomes. Federal and state government programs do not provide enough affordable housing to satisfy the needs of very low, low, or moderate income households. As a result, there is a severe shortage of adequate, affordable housing for extremely low, very low and moderate income households, as evidenced by the following findings in the City's 2015-2023 Housing Element:

1. Despite a high median income in Palo Alto, nearly 30 percent of all households overpaid for their housing (more than 30 percent of their income) in 2010;

2. It is estimated that 63 percent of extremely low income renter households and 75 percent of extremely low income owner households overpaid for housing in 2010. Of the estimated 1,520 low income households, 75 percent of renter households and 44 percent of homeowner households paid more than 30 percent of their income for housing.

3. Extremely low, very low and low income households in Palo Alto have almost no affordable housing options without substantial subsidies. For moderate income households, adequately sized and affordable rental housing options are very limited as well.

4. Homeownership is largely beyond the reach of most lower and moderate income households in Palo Alto and low and very low income households have difficulty finding rental properties in Palo Alto.

C. As stated in the City of Palo Alto's Housing Element, it is the City's policy to encourage, foster, and preserve diverse housing opportunities for very low, low, and moderate income households. The City can achieve its goals of providing more affordable housing and achieving an economically balanced community only if part of the new housing built in the City is affordable to households with limited incomes.

D. In order to meet the needs of moderate households, dwelling units will need to house a variety of household types, incomes, and age groups.

E. The affordable housing ordinance codified in this chapter will substantially advance the City's legitimate interest in providing additional housing affordable to all income levels and dispersed throughout the City by requiring construction of below-market rate housing and providing funds for housing affordable to very low, low, and moderate income households.

F. New market-rate housing creates a demand for affordable housing, because new residents of that housing purchase goods and utilize services in the community, increasing local employment and attracting employees, of whom a quantifiable number will have very low, low, or moderate incomes and cannot afford market-rate housing, as demonstrated in the Residential Impact Fee Nexus Study dated October 2015, prepared by Strategic Economics and Vernazza Wolfe Associates, Inc.

G. Because nonresidential projects also attracts employees, of whom a quantifiable number will have very low, low, or moderate incomes, new nonresidential projects similarly increase the demand for and exacerbate the shortage of housing available for people at these income levels, as demonstrated in the Commercial Linkage Fee Nexus Study dated November 2015, prepared by Strategic Economics and Vernazza Wolfe Associates, Inc.

H. Construction of market-rate housing and nonresidential projects that do not include affordable units also aggravates the existing shortage of affordable housing by absorbing the supply of available land.

I. Based on the findings above, the City desires to further the public health, safety and welfare by requiring residential and nonresidential projects in the City to mitigate their impact on the need for affordable housing in the City.

J. This ordinance implements Housing Element Program H3.1.2. In particular, this ordinance:

1. Implements the inclusionary requirements, standards, and price limits contained in Programs H3.1.2(a) and (b);

2. Contains standards for determining the feasibility of on-site BMR units, contains BMR program priorities, and provides standards for alternatives, fractional units, and payment of in-lieu fees as contained in Programs H3.1.2(c), (d), and (e), and after consideration of the possible policy contained in Program H3.1.2(h);

3. Contains provisions for reviewing developer requests that the requirements in the ordinance constitute a taking, consistent with Program H3.1.2(f);

4. Permits smaller or duplex BMR units in new single family residential subdivisions after consideration of the possible policy contained in Program H3.1.2(g);

5. Evaluated and determined not to adopt the policy contained in Program H3.1.2(i); and

6. Completed a nexus study to identify the impact of market rate housing on the need for affordable housing, and developed policies for rental housing based on the results of the study, consistent with Program H3.1.2(j). The nexus study also ensured that commercial developments contribute to affordable housing through the payment of fees (Program H3.1.6).

Based on the above, the City Council further finds that this ordinance is consistent with the Housing Element and that any minor modifications in specific procedures are intended to better implement the Housing Element's purpose to "encourage, foster, and preserve diverse housing opportunities for very low, low, and moderate income households."

NOW, THEREFORE, the City Council of the City of Palo Alto, California, hereby ordains as follows:

SECTION 1: Chapter 16.47 (Approval of Projects with Impacts on Housing) of the Palo Alto Municipal Code is hereby repealed.

SECTION 2: Chapter 18.14 (Below Market Rate Housing Program) of the Palo Alto Municipal Code is hereby repealed.

SECTION 3: New Chapter 16.65 (Citywide Affordable Housing Requirements) is hereby added to the Palo Alto Municipal Code to read in full as follows:

Chapter 16.65

CITYWIDE AFFORDABLE HOUSING REQUIREMENTS

Sections:

16.65.010 **Purpose**

16.65.020 **Definitions**

16.65.025 **Exemptions**

16.65.030 **Basic Affordable Housing Requirements – Residential Ownership Projects**

16.65.040 **Basic Affordable Housing Requirements – Mixed-Use, Nonresidential and Residential Rental Projects**

16.65.060 **Housing Impact Fee and In-Lieu Fee**

16.65.070 **Requirements for Residential Projects Containing Ownership and Rental Units and for Mixed Use Projects**

16.65.075 **Provision of Affordable Units**

16.65.080 **Alternative Means of Compliance**

16.65.090 **Application and Review Procedures**

16.65.100 **Affordable Housing Funds**

16.65.110 **Administrative Relief**

16.65.120 **Enforcement**

16.65.010 **Purpose**. The purposes of this chapter are to:

A. Enhance the public welfare by establishing policies to provide affordable housing, meet the City's regional share of housing needs, and implement the goals and objectives of the comprehensive plan and housing element.

B. Mitigate the impacts of residential rental and nonresidential projects on the need for affordable housing by imposing a housing impact fee whereby developers of residential rental and nonresidential projects will contribute to the supply of housing for households with very low, low, and moderate incomes.

C. Increase funds available to support the preservation and production of new affordable housing in the City of Palo Alto.

D. Ensure that developers of new nonresidential square footage provide funding to mitigate the impacts of new employment on the demand for affordable housing.

E. Ensure that developers of new market-rate rental housing provide funding to mitigate the impacts of new residents on local employment and the resultant increased demand for affordable housing.

F. To create incentives for developers to build new affordable units on- or off-site instead of paying impact fees or in lieu fees.

G. To provide affordable housing that serves qualifying Palo Alto residents and those who work in the City.

16.65.020 **Definitions**. The definitions set forth in this section shall govern the application and interpretation of this chapter. Words and phrases not defined in this section shall be interpreted so as to give this chapter its most reasonable application.

A. "Affordable housing agreement" means an agreement in conformance with Section 16.65.090(B) between the City and an applicant, governing how the applicant shall comply with this chapter.

B. "Affordable housing guidelines" means the requirements for implementation and administration of this chapter adopted by the planning and community environment director in accordance with Section 16.65.090(D).

C. "Affordable housing plan" means a plan containing all of the information specified in and submitted in conformance with Section 16.65.090(A) specifying the manner in which affordable units will be provided in conformance with this chapter and the affordable housing guidelines.

D. "Affordable rent" means the total monthly housing expenses for a rental affordable unit not exceeding the rents specified by Section 50053 of the California Health and Safety Code and California Code of Regulations Title 25, Sections 6910-6924. As used in this Chapter, "affordable rent" shall include the total of monthly payments by the tenant for all of the following: (1) use and occupancy of the affordable unit and land and all facilities associated with the affordable unit, including but not limited to parking, bicycle storage, storage lockers, and use of all common areas; (2) any additional separately charged fees or service charges assessed by the owner, other than security deposits; (3) an allowance for utilities paid by the tenant as established by the City, including garbage collection, sewer, water, electricity, gas, and other heating, cooking, and refrigeration fuel, but not telephone service or cable TV; and (4) any other interest, taxes, fees or charges for use of the land or affordable unit or associated facilities and assessed by a public or private entity other than the owner, and paid by the tenant.

E. "Affordable sales price" means the maximum purchase price that will be affordable to the specified household at the specified income level, calculated in accordance with California Health and Safety Code Section 50052.5. The affordable sales price shall include a reasonable down payment, and monthly housing payments (including interest, principal, mortgage insurance, property taxes, homeowners insurance, homeowners association dues, property maintenance and repairs, and a reasonable allowance for utilities), all as determined by the City.

F. "Affordable unit" means a dwelling unit affordable to very low, low, or moderate income households.

G. "Applicant" or "developer" means a person, persons, or entity that applies for a residential or nonresidential project and also includes the owner or owners of the property if the applicant does not own the property on which development is proposed.

H. "Area median income" or "AMI" means the annual median income for Santa Clara County, adjusted for household size, as published periodically in the California Code of Regulations, Title 25, Section 6932, or its successor provision, or as established by the City of Palo Alto in the event that such median income figures are no longer published periodically in the California Code of Regulations.

I. "Building permit" includes full structural building permits as well as partial permits such as foundation-only permits.

J. "Common ownership or control" refers to property owned or controlled by the same person, persons, or entity, or by separate entities in which any shareholder, partner, member, or family member of an investor of the entity owns ten percent (10%) or more of the interest in the property.

K. "Commercial housing fund" means a fund or account designated by the City to maintain and account for all monies received from nonresidential project applicants pursuant to this chapter.

L. "Decision-making body" means the City staff person or body authorized to approve or deny an application for a planning or building permit for a residential, mixed use or nonresidential project.

M. "Density bonus units" means dwelling units approved in a residential project pursuant to California Government Code Section 65915 that are in excess of the maximum allowable residential density otherwise permitted by the City of Palo Alto.

N. "First approval" means the first of the following approvals to occur with respect to a residential project: planning permit or building permit.

O. "Housing impact fee" or "housing fee" means the fee paid by developers of residential and nonresidential projects to mitigate the impacts that such developments have on the demand for affordable housing in the City.

P. "Low income households" are those households whose income does not exceed the low income limits applicable to Santa Clara County as defined in California Health and Safety Code Section 50079.5 and published annually pursuant to Title 25 of the California Code of Regulations, Section 6932 (or its successor provision) by the California Department of Housing and Community Development, generally households with incomes between fifty percent (50%) and eighty percent (80%) of area median income.

Q. "Market rate unit" means a new dwelling unit in a residential project that is not an affordable unit.

R. “Mixed use project” means an application for a planning permit or building permit that includes the creation of one or more new dwelling units and the construction of net new gross square footage of non-residential space or the conversion of a residential use to a nonresidential use.

S. "Moderate income households" are those households whose income does not exceed the moderate income limits applicable to Santa Clara County as defined in California Health and Safety Code Section 50093 and published annually pursuant to Title 25 of the California Code of Regulations, Section 6932 (or its successor provision) by the California Department of Housing and Community Development, generally households with incomes between eighty percent (80%) and one hundred twenty percent (120%) of area median income.

T. "Nonresidential project" means an application for a planning permit or building permit that includes the new construction of net new gross square feet of nonresidential space, the conversion of a residential use to a nonresidential use, or the conversion of exempt space (as provided in Section 16.65.025) to non-exempt space.

U. "Planning permit" means any discretionary approval of a residential project, including but not limited to a comprehensive or specific plan adoption or amendment, rezoning, tentative map, parcel map, conditional use permit, variances, or architectural review.

V. "Residential housing fund" means a fund or account designated by the City to maintain and account for all monies received from residential project applicants pursuant to this chapter.

W. "Residential ownership project" means any residential project that includes the creation of one or more new dwelling units that may lawfully be sold individually. A residential ownership project also includes the conversion of a residential rental project to a residential ownership project.

X. "Residential project" means any development for which a planning permit or building permit is required that includes the creation of one or more new dwelling units, conversion of nonresidential uses to dwelling units, or the conversion of a use from a residential rental project to a residential ownership project.

Y. "Residential rental project" means any residential project on property under common ownership and control that creates one or more net new dwelling units that cannot be lawfully sold individually.

Z. "Very low income households" are those households whose income does not exceed the very low income limits applicable to Santa Clara County as defined in California Health and Safety Code Section 50105 and published annually pursuant to Title 25 of the California Code of Regulations, Section 6932 (or its successor provision) by the California Department of Housing and Community Development, generally households with incomes less than fifty percent (50%) of area median income.

16.65.025. **Exemptions**. The following development projects are exempt from the provisions of this chapter:

A. Residential projects consisting of the construction of one or two units, unless included in a mixed use project.

B. Accessory dwelling units.

C. Junior accessory dwelling units.

D. Places of worship;

E. Colleges and universities

F. Commercial recreation;

G. Hospitals and convalescent facilities;

H. Private clubs, lodges, and fraternal organizations;

I. Private education facilities;

J. Public Facilities;

K. Retail service, eating and drinking service, personal service, or automotive service when the total additional service related square footage is 1,500 square feet or less. This exemption shall apply only when the additional square footage of new development does not exceed 1,500 square feet.

New development that is larger than 1,500 square feet shall pay a fee or otherwise comply with this Chapter for all square footage, including the first 1,500 square feet;

L. New gross square footage used for (1) an on-site cafeteria, recreational facility, or day care facility provided for employees or their children and not open to the public; or (2) a hazardous materials storage facility;

M. Projects that have established a vested right not to be subject to this chapter; and

N. Any nonresidential project otherwise determined to be exempt pursuant to City Council resolution.

If a development project is exempt from this Chapter at initial construction, but later converts to a use subject to this Chapter, the converted square footage will be deemed net new square footage or dwelling units, as applicable, subject to the requirements of this Chapter.

[Exemptions contained in this section are currently contained in Municipal Code Section 16.47.020 and 16.47.30. This section has added (B) accessory dwelling units, (C) junior accessory dwelling units(M) projects with vested rights; and (N) projects exempted by Council resolution. This section has also changed "residential uses" to "(A) residential projects consisting of one or two units," which will have the effect of applying the inclusionary requirement for residential ownership projects to projects with three or more units, rather than five or more units as currently provided for in Municipal Code Section 18.14.030(a). This section also deletes an existing exception for exempt square footage that is converted to gross square footage and clarifies that use conversions are subject to ordinance as well.]

16.65.030 <u>Basic Affordable Housing Requirement – Residential Ownership Projects</u>. The provisions of this section shall apply to all residential ownership projects, including the residential ownership portion of any mixed use project containing three or more units, except for any residential ownership project exempt under Section 16.65.025.

A. Unless an alternative is approved as described in Section 16.65.080, residential ownership projects shall provide the following:

a. For projects on sites of less than five acres, fifteen percent (15%) of the dwelling units in the project shall be made available at affordable sales price to very low, low, and moderate income households;

b. For projects on sites of five acres or more, twenty percent (20%) of the dwelling units in the project shall be made available at affordable sales price to very low, low, and moderate income households; and

c. For projects that convert existing rental housing to condominiums, other residential ownership or nonresidential space or that remove existing rental housing, twenty-five percent (25%) of the dwelling units in the project shall be made available at affordable sales price to very low, low, and moderate income households.

d. Calculations of the number of affordable units required by this Section shall be based on the number of dwelling units in the residential project, excluding any density bonus units. Projects shall not receive a credit for any existing dwelling units demolished as part of the project.

[Requirements in this section are currently contained in Housing Element Program H3.1.2(a) and referenced in Municipal Code Section 18.14.030(a). There are no substantive changes except for the clarification in subparagraph d, which is based on provisions of the Density Bonus Law. The same paragraph would ensure that ownership units included in any subdivision or development of three or more units shall be subject to inclusionary requirements or in lieu fees, even if they replace existing units.]

B. The affordable units shall be made available at the following affordable sales prices:

1. For projects subject to subsections 16.65.030(A)(1) and (2), at least two-thirds of the required affordable units must be made available at affordable sales price to households earning eighty percent (80%) to one-hundred percent (100%) of the area median income, and one-third may be made available at affordable sales prices to households earning between one-hundred percent (100%) and one-hundred twenty percent (120%) of the area median income.

2. For projects subject to subsection 16.65.030(A)(3), at least four-fifths of the required affordable units must be made available at affordable sales price to households earning eighty percent (80%) to one-hundred percent (100%) of the area median income, and one-fifth may be made available at affordable sales prices to households earning between one-hundred percent (100%) and one-hundred twenty percent (120%) of the area median income.

[Requirements in this section are currently contained in Housing Element Program H3.1.2(b) and referenced in Municipal Code Section 18.14.030(a). There are no substantive changes.]

C. When the affordable housing requirements described in this Section result in a fractional unit, an in-lieu payment as specified in Section 16.65.060 may be made for the fractional unit instead of providing an affordable unit, except that, if the project contains thirty (30) or more units, an additional affordable unit shall be provided for each fractional unit of 0.50 or more. The in-lieu fee for a fractional unit shall be calculated as described in the city's affordable housing guidelines.

[Requirements in this section are currently contained in Housing Element Program H3.1.2(e). There are no substantive changes.]

16.65.040 **<u>Basic Requirement – Mixed Use, Nonresidential and Residential Rental Projects</u>.** Unless the mixed use, nonresidential or residential rental project is exempt under Section 16.65.025 or an alternative is approved as described in Section 16.65.080, all mixed use, nonresidential and residential rental projects shall pay housing impact fees as specified in Section 16.65.060 to mitigate the projects' impacts on the need for affordable housing; except that the residential ownership portion of a mixed use project containing three or more units shall comply with Section 16.65.030.

16.65.060 <u>Housing Impact Fee and In-Lieu Fee</u>.

A. **<u>Fees</u>**. The amount of any housing impact fees and in-lieu fees shall be established from time to time by ordinance or resolution of the City Council. Housing impact fees shall not exceed the cost of mitigating the impact of mixed-use, nonresidential and residential rental projects on the need for affordable housing in the City.

B. **<u>Fee Payment</u>**. Housing impact fees and in-lieu fees, if required, shall be paid prior to issuance of any building permit for a development project subject to this chapter or at a time otherwise specified by City Council ordinance or resolution.

[These sections require the payment of fees which are established by separate ordinance. Currently, Municipal Code Section 16.47.040(d) establishes a $15 per square foot fee for nonresidential and the non-residential portion of mixed-use projects and that fee has been adjusted annually via adoption of the municipal fee schedule. Impact fees are not currently charged for residential rental projects and in lieu fees are charged to residential ownership projects as specified in Housing Element Program H3.1.2(b), which is referenced in Municipal Code Section 18.14.030.]

16.65.070 Requirements for Residential Projects Containing Ownership and Rental Units and for Mixed Use Projects

A. **<u>Residential Projects Containing Ownership and Rental Units</u>**. When a residential project includes both ownership and rental dwelling units, the provisions of this chapter that apply to ownership residential projects shall apply to that portion of the development that consists of ownership dwelling units, while the provisions of this chapter that apply to rental residential project shall apply to that portion of the development that consists of rental dwelling units.

B. **<u>Mixed Use Projects Containing Residential Units</u>.** When a mixed use project contains three or more dwelling units, either residential rental or residential ownership, the provisions of this chapter that apply to residential ownership and residential rental projects shall apply to those portions of the development that consist of residential ownership or residential rental units, as applicable, while the provisions of this chapter that apply to non-residential projects shall apply to that portion of the development that consists of non-residential uses. When a mixed use project contains fewer than three dwelling units, impact fees shall apply to those units.

[*These sections require the payment of impact fees for non-residential and residential rental projects. Municipal Code Chapter 16.47 currently requires impact fees for new non-residential square footage, and this does not constitute a change. The requirement for impact fees from residential rental projects is new. These projects were subject to inclusionary requirements until the Palmer decision in 2009 when the City suspended application of this requirement. These projects will now be charged rental impact fees. This section contains a new fee requirement for mixed use projects containing less than three units.]*

16.65.075 <u>Provision of Affordable Units</u>.

A. **Standards for Affordable Units.**

1. Affordable units shall be comparable in exterior appearance and overall quality of construction to market-rate units in the same housing development. Interior finishes and amenities must equal those provided in the base model market-rate units.

2. The number of bedrooms and the size of the affordable units shall be comparable to the average number of bedrooms in the market-rate units, except that in a single-family detached development, the decision-making body may allow smaller affordable units or duplex affordable units, if permitted in the zoning district, when this furthers the provision of on-site affordable units. The affordable units shall be reasonably dispersed within the residential project, with unit locations comparable to those of the market-rate units, or, subject to the approval of the Planning and Community Environment director, may be clustered within the residential project when this furthers affordable housing opportunities.

3. The affordable units shall have the same amenities as the market rate units, including the same access to and enjoyment of common open space, parking, storage, and other facilities in the residential project.

B. **Timing of Construction.** The affordable units shall be constructed in proportion to construction of the market-rate units. No building permit shall be issued for any market-rate unit unless a proportional number of building permits have been issued for affordable units, and no certificates of occupancy or final inspections shall be issued for any market-rate units unless a proportional number of certificates of occupancy or final inspections have been issued for affordable units. An alternative phasing plan may be approved as part of the approval of the affordable housing plan described in Section 16.65.090.

C. **Continued Affordability.**

1. All affordable units provided under Section 16.65.030 or Section 16.65.080 shall be subject to a resale restriction, deed of trust, and/or regulatory agreement recorded against the property for execution by the city manager, in a form approved by the city attorney, to ensure the continued affordability of the affordable units.

2. Notwithstanding Section 18.15.040, to be considered as affordable units under this chapter, all affordable units shall remain affordable to the targeted income group for 99 years, except in the case of affordable housing developments provided as an alternate means of compliance pursuant to Section 16.65.080, the City may authorize a 55 year affordability restriction if required to maintain eligibility for tax credit financing.

3. Any household that occupies an affordable unit must occupy that unit as its principal residence, unless otherwise approved in writing for rental to a third

party for a limited period of time due to household hardship, as determined by the City.

4. No household may begin occupancy of an affordable unit until the household has been determined to be eligible to occupy that unit by the City or designee.

[These sections amplify requirements contained in Housing Element Program H.3.1.2, which is referenced in Municipal Code Section 18.14.030(a). They also increase the affordability period for affordable units to 99 years while authorizing a shorter period to accommodate tax credit funding.]

16.65.080 **Alternative Means of Compliance**. The developer of a mixed use, residential or nonresidential project may request an alternate means of compliance, as described in this section, as a component of the affordable housing plan required by Section 16.65.090.

A. **Provisions Applicable to All Alternatives.** The following provisions apply to all alternative means of compliance described in this Section 16.65.080.

1. The applicant shall bear the burden of presenting substantial evidence to support a finding of infeasibility under Section 16.65.080(B) and to support the feasibility of any proposed alternative. The applicant shall set forth in detail the factual and legal basis for any request under this section.

2. Any request under this section shall be submitted to the Planning and Community Environment Director together with an economic analysis, if required, or other supporting documentation and shall be acted upon by the City Council.

3. When the affordable housing alternative results in a fractional unit, fees shall be paid as specified in the affordable housing guidelines for any fractional units.

4. All affordable units shall conform with the provisions of Section 16.65.075.

5. The city council may approve or conditionally approve any alternative set forth in this section if it makes all of the following findings and any additional findings required for the selected alternative:

(a) The number of affordable units provided by the alternative equals or exceeds that provided by on-site units or by the payment of impact fees, as applicable to the project;

(b) The level of affordability provided by the alternative is the same or lower as provided by on-site units or by the payment of impact fees, as applicable to the project; and

(c) The alternative is consistent with the comprehensive plan and housing element and the provisions of this chapter.

B. **Residential Ownership Projects.**

1. If the provision of affordable ownership units under Section 16.65.030 is infeasible, an applicant for a residential ownership project may request, in order of priority, to: (a) provide on-site affordable rental units as provided in subsection C below; (b) provide off-site affordable units as provided in subsection D below; (c) dedicate land for affordable housing as provided in subsection D below; (d) rehabilitate and convert existing residences to affordable housing, or preserve existing affordable housing, as provided in subsection E below; or (e) pay the in-lieu fee adopted as described in Section 16.65.060. The applicant must demonstrate that each of the higher priority options is infeasible before the City will consider a lower priority option.

2. For the purposes of this section, "infeasible" means either that: (a) the affordable sales price would be less than the cost of constructing the affordable unit, including financing but excluding all other costs, including land, marketing, improvements, and profit; or (b) provision of the units would produce a confiscatory or unconstitutional result.

C. **<u>Affordable Rental Units in a Residential Ownership Project or a Residential Rental Project</u>.**

1. An applicant for a residential ownership project or a residential rental project may elect to make available dwelling units in the residential project at affordable rent rather than provide on-site for-sale affordable units or pay housing impact fees, as applicable. The city council may by ordinance or resolution specify the percentage and affordability level of rental affordable units that are equivalent to provision of on-site for-sale affordable units or payment of housing impact fees, as applicable.

2. To ensure compliance with the Costa-Hawkins Act (Chapter 2.7 of Title 5 of Part 4 of Division 3 of the Civil Code), the City may approve such a proposal only if the applicant agrees in a rent regulatory agreement with the City to limit rents in consideration for a direct financial contribution or a form of assistance specified in Chapter 4.3 (commencing with Section 65915) of Division 1 of Title 7 of the Government Code.

3. Any rent regulatory agreement for rental units in a residential ownership project shall include provisions for sale of the affordable units and relocation benefits for tenants of the affordable units if the owner of the residential ownership project later determines to offer the affordable units in the residential project for sale to moderate income households at an affordable sales price.

D. **<u>Dedication of Land and Off-Site Construction of Affordable Units</u>.**

1. The applicant may submit an affordable housing plan that proposes either to dedicate vacant land suitable for affordable housing or to construct affordable units on another site. Two or more applicants may also jointly propose the provision of vacant land suitable for affordable housing or the construction of off-site affordable units on a single site.

2. Construction of the off-site affordable units may not commence prior to the first approval of the residential project, and construction of the off-site units must occur concurrently with construction of the market-rate units in the residential project as described in Section 16.65.075.

3. The city council may approve or conditionally approve the dedication of land or off-site construction if it makes all of the following findings in addition to making the findings in subsection (A)(5) above:

   (a) Financing or a viable financing plan, which may include public funding, is in place for the off-site affordable units; and

   (b) The off-site location is suitable for the proposed affordable housing, consistent with any affordable housing guidelines and the Housing Element, and will not tend to cause residential segregation.

4. No building permit shall be issued for any units in the residential project until committed funding is available for the off-site units, or units to be constructed on land to be dedicated.

5. Off-site construction of affordable units does not qualify the residential project for a density bonus or other regulatory incentives allowed by Government Code Section 65915 unless the off-site development includes the dedication of land conforming to the provisions of Section 65915(g). No off-site alternative may be approved by the City if a density bonus or other regulatory incentive is requested for the site on which the affordable housing is to be built. Any off-site alternative must comply with the density, intensity and other development standards that are permitted under the zone for the site.

E. **Rehabilitation and Conversion of Existing Market-Rate Housing.**

1. The applicant may submit an affordable housing plan that proposes the rehabilitation and conversion of existing market-rate housing to affordable housing, or the preservation of existing affordable housing that is not deed restricted as affordable.

2. The market-rate units to be converted to affordable units shall be located in a residential project that is not subject to any existing affordability covenants except covenants restricting other units in the development.

3. The affordable housing plan shall include a plan for long-term financial sustainability of the market-rate units to be converted to affordable units, which incorporate, among other things, provisions to accommodate increases in homeowners' association fees, special assessments and maintenance costs.

4. Any existing tenants in the market-rate units to be converted to affordable units shall be eligible to remain in the units; or the applicant shall provide relocation assistance pursuant to Cal. Gov't Code §§ 7260 et seq.

5. The city council may approve or conditionally approve the proposal if it makes all of the following findings in addition to making the findings in subsection (A)(5) above:

   (a) The proposal includes substantial rehabilitation of the existing housing equal to at least 25 percent of the after-rehabilitation value of the property, inclusive of land value, and the units shall be in decent, safe and sanitary condition and in compliance with all codes;

   (b) Financing or a viable financing plan is in place for the units to be converted to affordable units; and

   (c) The off-site location is suitable for the proposed affordable housing, consistent with any affordable housing guidelines and the Housing Element, and will not tend to cause residential segregation.

6. No building permit shall be issued for any units in the residential project until regulatory agreements approved by the city have been recorded for the existing units to be converted to affordable housing.

F. **Mixed Use Projects**. An applicant for a mixed use development may submit an affordable housing plan that proposes to mitigate the affordable housing impacts of the non-residential and residential rental portions of the development through any of the options listed above or through on-site provision of affordable units conforming with applicable provisions of Section 16.65.075. In addition to making the findings in subsection (A)(3) above, the city council may approve or conditionally approve such an alternative if it determines, based on substantial evidence, that such alternative will provide equal or greater public benefit than would payment of the housing impact fee.

G. **Nonresidential Projects**. An applicant for a nonresidential development may submit an affordable housing plan that proposes to mitigate the affordable housing impacts of the development through any of the options listed above or through on-site provision of affordable units conforming with applicable provisions of Section 16.65.075. In addition to making the findings in subsection (A)(5) above, the city council may approve or conditionally approve such an alternative if it determines, based on substantial evidence, that such alternative will provide equal or greater public benefit than would payment of the housing impact fee.

[*These sections provide alternatives for developers who do not wish to meet requirements for units on site or payment of impact fees. These alternatives derive from Municipal Code Section 16.47.040, Housing Requirements, for nonresidential development, and from Section 18.14.030(b) for residential ownership development.*]

16.65.090 Application and Review Procedures.

A. **Affordable Housing Plan.**

1. All residential ownership projects and any mixed use, residential rental or nonresidential project proposing to provide affordable units under the

provisions of Section 16.65.080 shall submit an affordable housing plan concurrently with the application for the first approval of the project. The city shall provide an application form specifying the contents of the affordable housing plan. If an affordable housing plan is required, no application for a first approval the project may be deemed complete until a complete affordable housing plan is submitted. The cost of reviewing any proposed alternative, including but not limited to the cost to the City of hiring a consultant to review the application, shall be borne by the applicant.

2. No affordable housing plan is required for a mixed use, residential rental project or a nonresidential project if the applicant proposes to pay housing impact fees, or if the project is exempt under Section 16.65.025.

3. Any affordable housing plan shall be processed concurrently with all other permits required for the development project. Before approving the affordable housing plan, the decision-making body shall find that the affordable housing plan conforms to this chapter. A condition shall be attached to require recordation of an affordable housing agreement, as described in subsection B of this section below, prior to the approval of any final or parcel map or building permit for the development project.

4. The approved affordable housing plan may be amended prior to issuance of any building permit for the development project. A request for a minor modification of an approved affordable housing plan may be granted by the Planning and Community Environment Director if the modification is substantially in compliance with the original affordable housing plan and conditions of approval. Other modifications to the affordable housing plan shall be processed in the same manner as the original plan.

B. Affordable Housing Agreement.

1. Affordable housing agreements acceptable to the city manager or designee and approved as to form by the city attorney shall be recorded against the residential or nonresidential project prior to approval of any final or parcel map, or issuance of any building permit, whichever occurs first, unless the project is required only to pay impact fees.

2. The affordable housing agreement shall specify the number, type, location, size, and phasing of all affordable units, provisions for income certification and screening of potential purchasers or renters of units, and resale control mechanisms, including the financing of ongoing administrative and monitoring costs, consistent with the approved affordable housing plan and any affordable housing guidelines, as determined by the city manager or designee.

C. The City Council, by resolution, may establish fees for the ongoing administration and monitoring of the affordable units, which fees may be updated periodically, as required.

D. The Planning and Community Environment Director may adopt affordable housing guidelines to implement this chapter, and may update those guidelines periodically as required.

[These sections are procedural and do not represent substantive changes to existing affordable housing requirements.]

16.65.100 Affordable Housing Funds.

A. All housing impact fees or other funds collected under this chapter shall be deposited into the City's Commercial and Residential Housing Funds.

B. The monies in the Commercial and Residential Housing Funds and all earnings from investment of the moneys in the Funds shall be expended exclusively to provide housing affordable to very low income, lower income, and moderate income households in the City, consistent with the goals and policies contained in the City's Housing Element and for administration and compliance monitoring of the affordable housing program.

16.65.110 Administrative Relief.

A. As part of an application for the first approval of a residential or nonresidential project, a developer may request that the requirements of this chapter be waived or modified by the city council, based upon a showing that applying the requirements of this chapter would result in an unconstitutional taking of property or would result in any other unconstitutional result.

B. The request for a waiver or modification shall set forth in detail the factual and legal basis for the claim.

C. Any request for a waiver or modification shall be reviewed and considered at the same time as the project application or any affordable housing plan.

D. The waiver or modification may be approved only to the extent necessary to avoid an unconstitutional result, based upon legal advice provided by or at the behest of the City Attorney, after adoption of written findings, based on legal analysis and substantial evidence. If a waiver or modification is granted, any change in the project shall invalidate the waiver or modification, and a new application shall be required for a waiver or modification under this section.

16.65.120 Enforcement.

A. Penalties. Persons employed in the following designated employee positions are authorized to exercise the authority provided in the California Penal Code Section 836.5 and are authorized to issue citation for violations of this chapter: development services director, director of planning and community environment and their designees.

B. The city attorney shall be authorized to enforce the provisions of this chapter and all affordable housing agreements, regulatory agreements, and all other covenants or restrictions placed on affordable units, by civil action and any other proceeding or method permitted by law.

C. Failure of any official or agency to fulfill the requirements of this chapter shall not excuse any developer or owner from the requirements of this chapter. No permit, license, map, or other approval or entitlement for a residential project shall be issued, including without limitation a final inspection or certificate of occupancy, until all applicable requirements of this chapter have been satisfied.

D. The remedies provided for in this section shall be cumulative and not exclusive and shall not preclude the city from any other remedy or relief to which it otherwise would be entitled under law or equity.

<u>SECTION 4</u>. Severability. If any section, subsection, sentence, clause, phrase or word of this Ordinance is for any reason held to be invalid by a court of competent jurisdiction, such decision shall not affect the validity of the remaining portions of this Ordinance. The City Council hereby declares that it would have passed and adopted this Ordinance, and each and all provisions hereof, irrespective of the fact that one or more provisions may be declared invalid.

<u>SECTION 5</u>: CEQA: This ordinance is exempt from the California Environmental Quality Act (CEQA) under State CEQA Guidelines Section which 15061(b)(3) providing an exemption for administrative actions that do not result in physical changes to the environment; Section 15378(b)(4) providing an exemption for government funding mechanisms which do not involve a commitment to any specific project and Section 15305 (Minor Alterations in Land Use Limitations), a categorical exemption that applies to code amendments that will not have any significant environmental effects.

<u>SECTION 6</u>: Public Notice and Effective Date**.** This Ordinance shall take effect 31 days after its adoption by the City Council or concurrent with Ordinance ___, whichever occurs later.

INTRODUCED:

PASSED:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

____________________________ ________________________________

City Clerk Mayor

Not Yet Approved

APPROVED AS TO FORM:	APPROVED:
____________________________	______________________________
Senior Asst. City Attorney	City Manager
	______________________________
	Director of Planning and Community Environment

Ordinance No. _____

Ordinance of the Council of the City of Palo Alto Establishing Housing Impact Fees and Housing In-Lieu Fees for Residential, Nonresidential, and Mixed Use Developments

The Council of the City of Palo Alto ORDAINS as follows:

A. On November 10, 2014 the City Council of the City of Palo Alto adopted its 2015-2023 Housing Element which includes the policy of encouraging, fostering, and preserving diverse housing opportunities and which contemplates, among other things, an amendment of the City's below market rate program to promote this policy and to be consistent with case law related to inclusionary rental housing; and

B. To implement the affordable housing goals, policies and programs of the City's 2015-2023 Housing Element, the City Council has considered and introduced on this same date Ordinance No. ____ repealing Chapters 18.14 and 16.47 of the Palo Alto Municipal Code and adding a new chapter 16.65, Citywide Affordable Housing Requirements (the "Affordable Housing Ordinance"), which provides, among other things, that the City Council shall establish, from time to time, housing impact fees that may be applicable to residential rental projects, mixed use projects, and nonresidential projects and housing in-lieu fees that may be applicable to residential ownership projects. The Affordable Housing Ordinance further provides that the City Council may specify the percentage and affordability level of rental affordable units that are equivalent to provision of on-site for-sale affordable units or payment of housing impact fees.

C. To ensure that future development projects mitigate their impact on the need for affordable housing in Palo Alto, and to ensure that any adopted housing impact fees or in-lieu fees do not exceed the actual affordable housing impacts attributable to the development projects to which the fees relate, the City Council has received and considered two reports from Strategic Economics and Vernazza Wolfe Associates dated October and November 2015 and entitled "Residential Impact Fee Nexus Study" and "Commercial Linkage Fee Nexus Study", respectively (collectively, the "Nexus Studies"), and the findings of the Nexus Studies are incorporated into this Ordinance by this reference.

D. The Nexus Studies use widely used, appropriate methodology to determine the maximum amount needed to fully mitigate the burdens created by residential, nonresidential and mixed-use development on the need for affordable housing and establish that there is a reasonable relationship between the need for affordable housing and impacts of development for which a fee is charged, and that there is also a reasonable relationship between the impact fee’s use and the type of development for which the fee is charged.

E. To ensure that development projects remain economically feasible, the recommended housing impact fees and in-lieu fees as shown in the attached Exhibit A are lower than the maximum amount needed to fully mitigate the burdens created by new development on the need for affordable housing as determined by the Nexus Studies.

F. The City Council now desires to adopt housing impact fees and in-lieu fees for certain residential, nonresidential, and mixed-use development projects as authorized by the Affordable Housing Ordinance, which fees do not exceed the justified fees needed to mitigate the actual affordable housing impacts attributable to the development projects to which the fees relate, as determined by the Nexus Studies; and further desires to specify the percentage and affordability level of rental affordable units that are equivalent to provision of on-site for-sale affordable units or payment of housing impact fees. The City Council further finds that the housing impact fees for retail, restaurant and other non-residential uses (excluding hotels, office, medical office and research and development uses) analyzed in the May 2002 Nexus Study and set forth in the 2016-17 Municipal Fee Schedule are sufficient to mitigate the actual affordable housing impacts attributable to the development projects to which the fees relate.

G. The housing in-lieu fees adopted by this ordinance provide an alternative method for calculating the in-lieu fees described by Program H3.1.2 of the City's 2015-2023 Housing Element which, as described in the record, will in most instances provide equivalent or greater total revenue to the Residential Housing Fund.

H. In compliance with the Affordable Housing Ordinance, all in-lieu fees and impact fees collected shall be deposited into the City's Commercial and Residential Housing Funds to be used only for those purposes included in the Affordable Housing Ordinance.

I. At least ten days prior to the date this ordinance is being heard, data was made available to the public indicating the amount of cost, or estimated cost, required to provide the service for which the fee or service charge is levied and the revenue sources anticipated to provide the service, including general fund revenues, in accordance with Government Code Section 66019.

J. At least fourteen days prior to the date this ordinance is being heard, notice was provided to any persons or organizations who had requested notice, in accordance with Government Code Sections 66004 and 66019.

K. Notice of the hearing on the proposed fees was published twice in the manner set forth in Government Code Section 6062a as required by Government Code Sections 66004 and 66018.

L. The City Council has reviewed the information contained in this Ordinance and the accompanying staff report and all written and oral testimony at a meeting held on ___ __, 2016.

NOW, THEREFORE, the Council of the City of Palo Alto does ORDAIN as follows:

SECTION 1. The foregoing recitals are true and correct and incorporated by this reference.

SECTION 2. The City Council hereby repeals the housing impact and housing in lieu fees contained in the 2016-2017 Municipal Fee Schedule as adopted by City Council Ordinance 5386.

SECTION 3. The City Council hereby amends the Municipal Fee Schedule by adopting housing impact fees and in-lieu fees for residential ownership development projects, for residential rental development projects, residences in mixed-use projects, and nonresidential development, as shown on Exhibit "A", attached hereto and incorporated by this reference.

SECTION 4. The City Council may review housing impact and in-lieu fees from time to time. For any annual period during which the City Council does not review the housing impact and in-lieu fees, fee amounts shall be adjusted in accordance with Chapter 16.64.

SECTION 5. As provided in Section 16.65.080(C)(1) of the Affordable Housing Ordinance, the City Council hereby determines that the following percentages of rental affordable units that are equivalent to provision of on-site for-sale affordable units or payment of housing impact fees:

Required Affordable Rental Units (Where rental alternative requested under 16.65.080(C))		
	Rental Alternative to For-Sale Units (Sites Less than 5 Acres)*	**Rental Residential (no condo map)**
Income Category		
Very Low Income		
Low Income	**15%**	
Moderate Income		**15%**
TOTAL	**15%**	**15%**

*Rental alternative equivalents for projects over 5 acres will be subject to Council approval on a case by case basis.

SECTION 6. The City has determined that the housing mitigation fees should be adopted and administered consistent with the requirements applicable to fees for public facilities in California Government Code Section 66000 *et seq.*, commonly referred to as the Mitigation Fee Act, without determining that it is required to do so.

SECTION 7. Adoption of this ordinance is exempt from the California Environmental Quality Act because the proposed fee increase is not a project, in that it is a government funding mechanism which does not involve any commitment to any specific project (CEQA Guidelines Section 15378(b)(4)).

SECTION 8. Severability. If any section, subsection, sentence, clause, phrase or word of this Ordinance is for any reason held to be invalid by a court of competent jurisdiction, such decision shall not affect the validity of the remaining portions of this Ordinance. The City Council hereby declares that it would have passed and adopted this Ordinance, and each and all provisions hereof, irrespective of the fact that one or more provisions may be declared invalid.

SECTION 9. This Ordinance shall be effective upon the sixtieth (60^{th}) day after its passage and adoption.

INTRODUCED:

PASSED:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

______________________	______________________
City Clerk	Mayor
APPROVED AS TO FORM:	APPROVED:
______________________	______________________
Senior Asst. City Attorney	City Manager
	______________________
	Director of Planning and Community Environment
	______________________
	Director of Administrative Services

EXHIBIT A

Housing Impact Fees and In-Lieu Fees

Residential Projects:

" Residential Floor Area" for Single-Family Detached and Attached Homes includes all horizontal areas of the several floors of such buildings measured from the exterior faces of exterior walls or from the center line of party walls separating two (2) buildings, minus the horizontal areas of such buildings used exclusively for parking. Basements shall be included in this measurement when they include livable area.

"Residential Floor Area" for Apartments and Condominiums includes all horizontal areas of the several floors of such buildings measured from the exterior faces of exterior walls or from the center line of party walls separating two (2) buildings, minus the horizontal areas of such buildings used exclusively for covered porches, patios, or other outdoor space, amenities and common space, parking, elevators, stairwells or stairs between floors, hallways, and between-unit circulation.

“Net New Residential Floor Area” for Rental Projects (Apartments) means the Residential Floor Area for the net new units.

Residential Ownership Projects and Residential Ownership Units in Mixed Use Projects * (For fractional units & where in-lieu fee approved under 16.65.080(B))	**In-Lieu Fee per Square Foot of Residential Floor Area**
Single-Family Detached Home	$50
Single-Family Attached Home	$50
Condominiums	$50
Residential Rental Projects and Residential Rental Units in Mixed Use Projects*	**Impact Fee per Square Foot of Net New Residential Floor Area**
Apartments	$50

*The residential ownership portion of a mixed use project containing three or more units shall comply with Section 16.65.030 unless an alternative means of compliance is authorized under Section 16.65.080(F). The residential rental portion of a mixed use project containing three or more units shall comply with Section 16.65.040 unless an alternative means of compliance is authorized under Section 16.65.080(F). The residential component of mixed use projects containing fewer than three dwelling units shall be subject to the housing impact fees shown in this table.

Residential projects may be exempt from payment of housing impact and housing in-lieu fees as provided in Section 16.65.025.

Nonresidential Projects and Nonresidential Square Footage in Mixed-Use Projects

"Nonresidential Floor Area" includes all horizontal areas of the several floors of such buildings measured from the exterior faces of exterior walls or from the center line of party walls separating two (2) buildings, minus the horizontal areas of such buildings used exclusively for parking.

If no non-residential use existed on the site within one year prior to the issuance of a building permit for the project, the Housing Impact Fee is calculated by multiplying the Nonresidential Floor Area contained in the project by the relevant Housing Impact Fee.

Where another non-residential use existed on the site within one year prior to the issuance of a building permit for the project, the Housing Impact Fee is calculated by:

1. Multiplying the Nonresidential Floor Area contained in the project by the relevant Housing Impact Fee;

2. Multiplying the Nonresidential Floor Area of the former use by the relevant Housing Impact Fee shown in this table; and

3. Subtracting the amount calculated in Step 2 from the amount calculated in Step 1.

Nonresidential Use	Housing Impact Fee per Square Foot of Nonresidential Floor Area
Hotel	$30
Retail, Restaurants and Other Non-Residential* Uses	$20.37**
Office, Medical Office and Research and Development	$60

*Hotels and Office, medical office and research and development uses are not included in "other non-residential uses."

**This rate is carried over from the 2016-17 Municipal Fee Schedule as analyzed in the May 2002 Nexus Study and adjusted for inflation.

Nonresidential projects may be exempt from payment of housing impact fees as provided in Section 16.65.025.

Attachment C

Commercial Linkage Fee Nexus Study

November 2015

prepared for:
City of Palo Alto

STRATEGIC ECONOMICS

VWA
Vernazza Wolfe Associates, Inc.

Table of Contents

I. EXECUTIVE SUMMARY....4

Introduction....4

Background....4

Report Organization....4

Implementation Options....5

Nexus Analysis Results....5

Policy Considerations....8

II. INTRODUCTION AND METHODOLOGY....12

The Nexus Concept....12

Methodology....12

III. COMMERCIAL LINKAGE FEE NEXUS ANALYSIS....15

Nexus Analysis Steps....15

IV. HOUSING AFFORDABILITY GAP....53

Methodology....53

Estimating Affordable Rents and Sales Prices....53

Estimating Housing Development Costs....60

Calculating the Housing Affordability Gap....64

V. MAXIMUM LINKAGE FEES....68

Maximum Fee Calculation....68

VI. FEASIBILITY AND POLICY CONSIDERATIONS....69

Prototypes and Fee Levels....69

Methodology....70

Key Inputs....70

Results....75

Policy Considerations....78

VII. GLOSSARY OF TERMS AND ACRONYMS....85

Glossary of terms....85

Definition of Acronyms....88

List of Figures

Figure I-1. Maximum and Recommended Fee Levels by Prototype........ 5
Figure I-2. Commercial Prototypes 6
Figure I-3. Calculation of Worker Household Income by Prototype 7
Figure I-4. Affordable Housing Gap 7
Figure I-5. Maximum Commercial Linkage Fee by Prototype 8
Figure I-6. Comparison of Commercial Linkage Fees in Palo Alto and Neighboring Jurisdictions 8
Figure I-7. Comparison of Existing, Maximum, and Feasible Fee Levels by Prototype........ 9
Figure I-8. Commercial Linkage Fee Scenarios as Percent of Total Development Costs........ 11
Figure I-9. Total Fees and Permits per Square Foot 11
Figure III-1. Description of Commercial Prototypes 16
Figure III-2. Employment Density Data and Sources........ 18
Figure III-3. Employment Density by Prototype 19
Figure III-4. Number of Worker Households by Prototype 19
Figure III-5. Definition of Industries for Hotel Prototype 19
Figure III-6. Definition of Industries for Office/ R&D/ Medical Office Prototype 20
Figure III-7. Average Annual Wage by Prototype........ 21
Figure III-8. Occupational Mix and Average Wages for Hotel Industry 22
Figure III-9. Occupational Mix and Average Wages for Office/ R&D/ Medical Office 31
Figure III-10. Household Income Categories 51
Figure III-11. Number of Worker Households by Income Category 52
Figure IV-1. Calculation of Affordable Rents in Santa Clara County by Household Size, 2014 56
Figure IV-2. Calculation of Affordable Rents in Santa Clara County by Unit Type, 2014 57
Figure IV-3. Calculation of Affordable Sales Prices in Santa Clara County by Household Size, 2014........ 58
Figure IV-4. Calculation of Affordable Sales Prices in Santa Clara County by Unit Type, 2014 59
Figure IV-5. Affordable Housing Project Pro Forma Data........ 61
Figure IV-6. Sales of Vacant Lands in San Mateo County and Northern Santa Clara County, 2014 62
Figure IV-7. Estimate of Development Costs of Hypothetical Condominium Project 63
Figure IV-8. Rental Housing Unit Sizes and Development Costs........ 64
Figure IV-9. For-Sale Housing Unit Sizes and Development Costs........ 64
Figure IV-10. Housing Affordability Gap Calculation for Rental Housing........ 66
Figure IV-11. Housing Affordability Gap Calculation for For-Sale Condominium Housing 67
Figure IV-12. Average Housing Affordability Gap by Income Group 67
Figure V-1. Maximum Commercial Linkage Fees 68
Figure VI-1. Description of Commercial Prototypes........ 69
Figure VI-2. Linkage Fee Scenarios by Prototype (per SF)........ 70
Figure VI-3. Pro Forma Revenue Inputs by Prototype 72
Figure VI-4. Direct and Indirect Cost Inputs........ 73
Figure VI-5. Recent Commercial Vacant Land Transactions in Santa Clara County (2011-2014) 74
Figure VI-6. Feasibility Thresholds for Return on Cost 75
Figure VI-7. Pro Forma Analysis Results........ 77
Figure VI-8. Existing City Permits and Fees on Commercial Development by Prototype........ 79
Figure VI-9. Comparison to Linkage Fees in Neighboring Cities 80
Figure VI-10. Existing Linkage Fees in Bay Area Cities 81

I. EXECUTIVE SUMMARY

INTRODUCTION

In April 2014, the City of Palo Alto hired Strategic Economics and Vernazza Wolfe Associates, Inc. to develop nexus studies for commercial linkage fees and housing impact fees to mitigate the impacts of new development on the demand for affordable housing. This draft report presents the findings of the commercial linkage fee study. In addition, the report describes the methodology, data sources, and analytical steps required for the nexus analysis.

BACKGROUND

Palo Alto is considering updating its existing commercial linkage fee for office/R&D/medical office and hotel uses. The City intends to maintain its current linkage fee for retail development. Palo Alto's commercial linkage fee is currently set at $19.85 per square foot for all types of new non-residential development (except for retail spaces of less than 1,500 square feet and nonprofit uses). The purpose of the linkage fee is to mitigate the impacts of an increase in affordable housing demand from the new worker households related to the new commercial space. When a city or county adopts impact fees on new development, it must establish a reasonable relationship or connection between the development project and the fee that is charged. Studies undertaken to demonstrate this connection are called nexus studies. This nexus study quantifies the connection between the development of commercial space and the demand for affordable housing units. The funds raised by the linkage fees are deposited into a housing fund specifically reserved for use by a local jurisdiction to increase the supply of affordable housing for the workforce. Commercial linkage fees are one of several funding sources that jurisdictions can use to help meet the affordable housing needs of new workers.

REPORT ORGANIZATION

This executive summary provides an overview of the commercial linkage fee nexus analysis methodology, results, and policy considerations. The subsequent chapters of the report contain more detailed information regarding the methodology, data sources and analysis. The report is organized into six sections. Following this executive summary, Section II provides an introduction to the purpose of the study, and an overview of the methodology. Section III presents each of the steps of the commercial linkage fee analysis in detail. Section IV covers the housing affordability gap analysis. Section V presents the maximum fee calculation based on the nexus analysis and affordability gap results. The final section, Section VI, discusses financial feasibility and other policy considerations that jurisdictions typically weigh before selecting and implementing an impact fee policy.

IMPLEMENTATION OPTIONS

The per-square-foot maximum linkage fees are $177 for the hotel prototype and $264 for the office/medical office/R&D prototype. If Palo Alto elects to update its linkage fees on these uses, the recommended fee levels are as follows: $30 per square foot for hotels and $35 per square foot for office/R&D/medical office. These recommendations are based on the findings of the financial feasibility analysis, a comparison of fees in neighboring jurisdictions, and other factors as explained in the Policy Considerations section, below. The maximum, existing, and recommended fees for each prototype are shown in Figure I-1.

Figure I-1. Maximum and Recommended Fee Levels by Prototype

Prototype	Maximum Justified Fee	Existing Linkage Fee	Recommended Linkage Fee
Hotel	$177	$19.85	$30
Office/ Medical Office/ R&D	$264	$19.85	$35

Sources: Vernazza Wolfe Associates, Inc. and Strategic Economics, 2015.

NEXUS ANALYSIS RESULTS

The principal findings of the nexus analysis are presented below. More detail on each step can be found in subsequent sections of this report.

Prototypes

The first step in this nexus analysis is to define the types of new commercial developments in Palo Alto. These typical developments are called prototypes. This study identified two commercial development prototypes:

1. Hotel - includes full-service hotels, limited-service hotels, motels, and other lodging.

2. Office/ R&D/ Medical Office - covers a range of office and research and development (R&D) uses, including traditional office buildings, medical offices, and specialized spaces for highly advanced manufacturing and research.

The definition of these commercial prototypes, summarized in Figure I-2, was informed by a review of recently completed and proposed development projects in Palo Alto, as well as discussions with City staff. A retail/ restaurant development prototype was considered, but as there are few examples of recently built or proposed standalone retail projects of this type, the nexus analysis for this prototype has not been updated. The City intends to maintain its current commercial linkage fee of $19.85 on retail and restaurant development.

Figure I-2. Commercial Prototypes

	Hotel	Office/R&D/ Medical Office
Prototype Description		
Gross Building Area (GBA). excl. Parking (SF)	100,000	100,000
Efficiency Ratio (a)	N/A	0.90
Net Leasable Sq. Ft. (NSF)	N/A	90,000
Hotel Rooms	133	
Parking Spaces	133	300
Podium Parking	33	240
Surface Parking	100	60
GBA Including Structured Parking	109,975	163,000
Floor Area Ratio (b)	1.1	2.0
Land Area (Acres)	2.3	1.9
Land Area (SF)	99,977	81,500

Notes:
(a) Refers to ratio of gross building area to net leasable area. An efficiency ratio of 0.9 means that 90% of the gross building area is leasable.
(b) The floor-area-ratio (FAR) is often used as a measure of density. In this analysis, it is calculated as the gross building area (including structured podium parking) divided by the total land area.

Sources: Vernazza Wolfe Associates, Inc. and Strategic Economics, 2015.

Employment Density

The next step is to determine how many employees will work in the two prototypes. While these numbers will vary from building to building, there are sources of information that help researchers define employment "densities." The employment density measures the number of employees who work in a given amount of space. For each building prototype, an average employment density was defined based on a review of national survey data for existing commercial buildings and a review of recently completed linkage fee nexus studies in the Bay Area. The densities selected were at the lower end of each range. By using slightly lower employment estimates, the study assumes a slightly lower number of future employees in calculating affordable housing needs. Therefore, the conclusions from this study are more conservative in estimating affordable housing impacts.

Worker Household Incomes

Using these prototypes, the nexus analysis estimates the wages of future workers based on industry and occupation data. After the average wage of workers is calculated, the next step is to compute the average household income of worker households. Assuming that there are multiple wage-earners per household, the household income of worker-households is estimated. Each worker-household is then classified into area median income (AMI) categories to determine the number of households that would require affordable housing. Figure I-3 summarizes the estimated worker-household incomes for each prototype.

Figure I-3. Calculation of Worker Household Income by Prototype

Prototype	Number of Employee Households
Hotel	
Very Low Income (<=50% AMI)	30.05
Low Income (51-80% AMI)	24.13
Moderate Income (81-120% AMI)	9.58
Above Moderate (>=120%)	3.36
Total	**67.12**
Office, R&D and Medical Office Land Use	
Very Low Income (<=50% AMI)	14.40
Low Income (51-80% AMI)	51.43
Moderate Income (81-120% AMI)	36.32
Above Moderate (>=120%)	99.39
Total	**201.54**

Sources: Vernazza Wolfe Associates, Inc; Strategic Economics, 2015.

Affordability Gap

Many of the new worker households will be unable to afford market-rate housing. In order to measure this shortfall, this study has calculated the housing affordability gap, shown in Figure I-4. The housing affordability gap measures the difference between what very low, low, and moderate income households can afford to pay for housing and the cost of building new, modest rental and for-sale housing units.

Figure I-4. Affordable Housing Gap

Income Level	Average Affordability Gap
Very Low-Income (<50% AMI)	$306,164
Low-Income (50-80% AMI)	$252,258
Moderate-Income (80-120% AMI)	$249,596

Notes:
(a) Low income households are defined at 70 percent of AMI for renters and 80 percent of AMI for owners.
(b) Moderate income households are defined at 90 percent of AMI for renters and 110 percent AMI for owners.
Acronyms: AMI: Area median income.
Sources: Vernazza Wolfe Associates, Inc.; Strategic Economics, 2015.

Maximum Nexus-Based Fee

To calculate the maximum commercial impact fee, the Consultant Team began by calculating the total affordability gap by prototype, which is obtained by multiplying the average affordability gap at each income level by the number of very low, low and moderate income households for each prototype. The total affordability gap by prototype is then divided by the size of the prototype to obtain the maximum nexus-based fee per square foot (Figure I-5).

The maximum per-square-foot linkage fees are $177 for hotel and $264 for office/R&D/medical office. The maximum fees are not the recommended fees for adoption. They are the nexus-justified fees that represent the maximum that Palo Alto could charge to mitigate affordable housing demand related to commercial development.

Figure I-5. Maximum Commercial Linkage Fee by Prototype

Prototype	Hotel	Office/ R&D/ Medical Office
Square Footage	100,000	100,000
Total Affordability Gap	$17,678,344	$26,447,718
Maximum Fee per SF	$177	$264

Sources: Vernazza Wolfe Associates, Inc. & Strategic Economics, 2015.

POLICY CONSIDERATIONS

There are a number of policy considerations that can be taken into account when Palo Alto considers whether to update its commercial linkage fees on new hotel and office/ R&D/ medical office development. These may include factors such as: the likely financial impact of the proposed linkage fees on development; the additional cost of the new fees on the existing City fee structure; a comparison of the fee scenarios to existing linkage fees in nearby cities; the role of the fee in the City's overall strategy for affordable housing implementation; and the potential overlap with a residential linkage fee. This section provides a discussion of each of these policy questions for Palo Alto.

Comparison to Neighboring Jurisdictions – A comparison of the nexus fee scenarios to current commercial linkage fees charged in nearby cities is an important element of the policy analysis (Figure I-6). At present, Palo Alto has fees of $19.85 per square foot for all commercial prototypes. Palo Alto's existing fees are similar to the linkage fees adopted in San Francisco and Cupertino, which range from $10 to $24 per square foot, depending on the land use. In most cases, cities have adopted higher fee levels for office/ R&D/ medical office uses than for hotel uses. For example, in Cupertino, the commercial linkage fee for hotel is $10 per square foot, compared to $20 per square foot for office/ R&D/ medical office uses. Palo Alto's recommended linkage fees for the commercial prototypes would be higher than the existing linkage fees in San Mateo County and Santa Clara County. The recommended per-square foot hotel fee ($30) and office/R&D/medical office fee ($35) would be the highest in the region, exceeding the fees in all of the comparison cities, including San Francisco.

Figure I-6. Comparison of Commercial Linkage Fees in Palo Alto and Neighboring Jurisdictions

Jurisdiction	Hotel	Office/R&D/ Medical Office	Date Fee Was Adopted
Palo Alto	$19.85	$19.85	2002
Cupertino	$10	$20	2015
Menlo Park (a)	$8	$15	2014
Mountain View (b)	$2.50	$25	2015
San Francisco (c)	$18	$16-$24	2015
Sunnyvale (d)	$7.50	$15	2015

Notes:

(a) Buildings 10,000 SF and under are exempt from fees. A new nexus study is currently underway that may result in an updated fee.

(b) New gross floor area under 25,000 SF pays 50 percent of full fee.

(c) The fee for R&D is $16.01 and the fee for office is $24.03. The fee for a small enterprise is $18.89.

(d) The fee on the first 25,000 SF, for all three commercial uses, is discounted by 50 percent.

Sources: City staff and websites; Nonprofit Housing Association of Northern California, 2015; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2015.

Financial Feasibility – Financial feasibility is just one of several factors to consider in making a decision regarding updating an existing fee. In order to provide Palo Alto with guidance on how different fee levels could influence development, the Consultant Team conducted a pro forma feasibility analysis that tested the impact of the maximum fee and three reduced fee scenarios on developer profit for the commercial prototypes. The analysis showed that establishing a fee at the maximum fee levels was not financially feasible at this time for the prototypes. However, reduced fee scenarios (including the existing linkage fee level of $19.85 per square foot) are financially feasible for the hotel and office/ R&D/ medical office prototypes (Figure I-7). The hotel prototype can support a commercial linkage fee of up to $30 per square foot. Fee levels of up to $60 per square foot were found to be financially feasible for the office/ R&D/ medical office prototype.

Figure I-7. Comparison of Existing, Maximum, and Feasible Fee Levels by Prototype

Prototype	Existing Linkage Fee per SF	Maximum Justified Fee per SF	Maximum Feasible Fee Level per SF
Hotel	$19.85	$177	$30
Office/Medical Office/R&D	$19.85	$264	$60

Sources: City of Palo Alto; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2015.

Total Development Costs – Currently, the total development costs (including land, building and onsite improvements, parking, indirect costs, financing costs, and developer profit) are $443 per net square foot for the hotel prototype and $530 per net square foot for the office/ R&D/ medical office prototype. The maximum nexus-based linkage fee represents close to 30 percent of total development cost for the hotel and 50 percent of total development costs for the office/ R&D/ medical office prototype (Figure I-8). The existing linkage fee of $19.85 per square foot makes up three to four percent of development costs for the prototypes. A fee of $30 per square foot for the hotel prototype, which is the highest financially feasible fee level, represents six percent of total development costs. A fee of $60 per square foot for the office/R&D/medical office prototype, which is the highest feasible fee level, would represent 11 percent of total development costs.

Comparison to Existing City Fees – In addition to the existing commercial linkage fee, the City of Palo Alto has other permits and fees on new development. The City may wish to consider the amount that total fees would increase with an updated commercial linkage fee. Existing permits and fees in Palo Alto for the commercial prototypes (including the existing linkage fees of $19.85 per square foot) are estimated to be $34 per square foot for the hotel prototype and $57 per square foot for the office/ R&D/ medical office prototype.[1] If the maximum linkage fees were adopted, the total development fees and permits would be $192 per square foot for hotel and $302 for office, as shown in Figure I-9. The recommended fee of $30 per square foot for hotels and would increase total fees to $45. The recommended fee of $35 per square foot for office/R&D/medical office would result in total city fees of $73 per square foot for this prototype.

Role of Fee in Palo Alto's Overall Housing Strategy – Palo Alto currently charges a commercial linkage fee of $19.85 per square foot on all new non-residential development. These fees are payable at the time that the building permit is issued. Fee revenues are used to provide financial assistance for affordable housing developments and preservation. The City also has an inclusionary housing program that requires that 15 percent of the units in market-rate developments consisting of five or more housing units must be sold at affordable sales prices. This percentage increases to 20 percent on parcels larger than

[1] The hotel calculations were estimated based on the permits and fees paid by new hotel projects in the city; the office/R&D/medical office fees are estimates by City staff. These fee estimates are the best approximations available, and do not represent the actual cost of a proposed new development project.

five acres. In some cases, developers have the option of paying an in-lieu fee of 7.5 to 10 percent of the sales price or fair market value, whichever is greater. The developer must also pay a fee for fractional units. Revenues from the commercial linkage fee (and from residential impact fees, if they are adopted) would continue to support the City's existing affordable housing programs. It should be noted that revenues from a commercial linkage fee need to be spent on housing that benefits the workforce since the funds stem from affordable housing impacts related to new employment.

Overlap with Residential Impact Fees - In addition to the commercial linkage fee update described in this report, the City of Palo Alto is also considering implementing new residential impact fees on housing development. There may be a small share of jobs counted in the residential nexus analysis that are also included in this commercial linkage fee analysis. Thus, the two programs may have some overlap in mitigating the affordable housing demand from the same worker households. In order to reduce the potential for overlap between the two programs, it is advisable to set both the commercial linkage fees and housing impact fees at below 100 percent of the nexus-based maximum. In this way, when combined, the programs would mitigate less than 100 percent of the impact even if there were overlap in the jobs counted in the two nexus analyses.

Figure I-8. Commercial Linkage Fee Scenarios as Percent of Total Development Costs

Fee Scenario	Hotel		Office/R&D/Medical Office	
	Fee Amount	**Fee as % of TDC**	**Fee Amount**	**Fee as % of TDC**
Existing Linkage Fee	$19.85	4.29%	$19.85	3.74%
Scenario 1: Max Fee	$177	28.55%	$264	49.77%
Scenario 2	$35	7.32%	$60	11.31%
Scenario 3	$30	6.34%	$50	9.43%
Scenario 4	$20	4.32%	$35	6.60%

Figure I-9. Total Fees and Permits per Square Foot

Fee Scenario	Hotel		Office/R&D/Medical Office	
	Linkage Fee per SF	**Total Permits and Fees**	**Linkage Fee per SF**	**Total Permits and Fees**
Existing Permits and Fees	$19.85	$35	$19.85	$57
Scenario 1 (Maximum Fee)	$177	$192	$264	$301
Scenario 2	$35	$50	$60	$97
Scenario 3	$30	$45	$50	$87
Scenario 4	$20	$35	$35	$72

Sources: Vernazza Wolfe Associates, Inc. & Strategic Economics, 2015.

II. INTRODUCTION AND METHODOLOGY

According to the City of Palo Alto's Housing Element, home values in the City have been increasing steadily since 2010. The median home price in 2013 was $1.7 million, more than twice the median price in Santa Clara County. Rental rates have also escalated rapidly, with median rents ranging from $1,900 for studios to more than $8,500 for four-bedroom homes. Given the high prices and rents in the City, most of the new market-rate housing units built in Palo Alto are only affordable to high income households. Consequently, very low, low, and moderate income worker households have limited affordable housing options in the City. As one of its strategies to address the demand for affordable housing in the City, Palo Alto is considering updating its existing commercial linkage fees for hotel and office/R&D/medical office uses.

A commercial linkage fee is an impact fee that is charged on new, non-residential development to address the affordable housing demand from new workers. Palo Alto currently has a commercial linkage fee of $19.85 per square foot on new, non-residential development. The purpose of this study is to provide a new nexus analysis in the event the Palo Alto decides to adopt an updated commercial linkage fee for hotel and office/R&D/medical office uses. The funds raised by the linkage fees are deposited into a housing fund specifically reserved for use by a local jurisdiction to increase the supply of affordable housing for the workforce. Linkage fees are one of several funding sources that jurisdictions can use to help meet the affordable housing needs of new workers. For more than thirty years, California cities and counties have imposed commercial linkage fees on new, non-residential developments.

THE NEXUS CONCEPT

In order to adopt a commercial linkage fee, a nexus study is required to determine the reasonable relationship between the fee's use and the impact of the development project on which the fee is imposed. This commercial linkage fee nexus study establishes and quantifies the linkages or "nexus" between new commercial development and the need for additional housing affordable to new workers. Some of the new workers will have household incomes that qualify them for income-restricted affordable housing. This study quantifies the demand for very low income, low income, and moderate income housing that is created by new development of commercial buildings.

METHODOLOGY

When a city or county adopts a development impact fee, it must establish a reasonable relationship between the development project and the fee being charged. Studies undertaken to demonstrate this connection are called nexus studies. Nexus studies for school impact fees, traffic mitigation fees, and parks are common. For commercial linkage fees, a methodology exists that establishes a connection between the development of commercial space and the need to expand the supply of affordable housing. This study is based on this established methodology.

The purpose of a commercial linkage fee nexus analysis is to quantify the increase in demand for affordable housing that accompanies new non-residential development. There will be a net gain in employment when new commercial space is built. The ability of new workers to pay for housing costs is linked to their occupations (and hence salaries). Given anticipated incomes, there may be an affordability "gap" between what worker households can afford to pay (to rent or to buy) and the actual costs of new housing.

A nexus analysis calculates the relationship between new commercial development and household incomes of employees and then determines the employees' need for affordable housing. These steps provide the rationale for calculating the maximum justified commercial linkage fee that could be levied on non-residential development. These steps are presented in more detail below, and the subsequent sections of this report present the results of each of these steps.

Step 1. Define the commercial prototypes that represent new commercial development in Santa Clara County.
The prototypes are defined based on recently completed and proposed development projects in Santa Clara County. The purpose of defining prototypes is to estimate future employment linked to the new commercial space. Two prototypes were selected and include Hotels (133 rooms or 100,000 SF) and Office/ R&D/ Medical Office (100,000 SF). The prototype definitions include information on gross and leasable area, number of rooms (for hotel only), parking, and floor-area-ratio.

Step 2. Estimate the number of workers that will work in the new commercial space.
Based on a national survey data on employment density for commercial land uses, as well as recently completed linkage fee nexus studies in the Bay Area, the estimated employment density in hotels is approximately 0.75 workers per room (average room size of 750 SF) and one worker per 333 SF for office/ R&D/ medical office. By dividing the prototype developments by employment density figures, the number of workers for each prototype is estimated.

Step 3. Estimate the number of new households represented by these new workers.
Since there are multiple wage earners in a household, the number of new workers will be higher than the number of new households moving into Palo Alto. Therefore, it is necessary to go from projected growth in the number of workers to household growth. This adjustment is based on the average number of wage-earners per worker household for the Palo Alto (1.49) according to the U.S. Census Bureau American Community Survey 3-Year Estimates, 2010-2012.

Step 4. Estimate wages of new workers.
The first step in calculating employee wages is to establish a list of the industries that can be associated with each prototype. Using industry data from QCEW, industries (defined by NAICS Codes) were identified that are associated with each prototype, or land use. The next step is to identify all the occupations that are associated with each industry based on data provided by the U.S. Bureau of Labor Statistics (BLS). The national BLS occupational matrix is then calibrated to match the county's employment mix by weighting the national employment distribution to reflect the distribution of employment by industry within Santa Clara County. Finally, the average wage by worker is calculated using data on average annual wages by occupation in the San Jose – Sunnyvale – Santa Clara Metropolitan Statistical Area from the California Employment Development Department.

Step 5. Estimate household income of worker households.
Worker wage estimates from the previous step are then converted to household incomes. This step assumes that the income of the second wage-earner is similar to the wage of the first wage-earner. According to the U.S. Census Bureau American Community Survey 3-Year Estimates, 2010-2012, there are 1.49 wage-earners per worker household in Palo Alto. Individual worker wages are multiplied by 1.49 to represent household incomes.

Step 6. Calculate the number of households that would be eligible for affordable housing divided into three categories: very low, low, and moderate income.
The average household size in Palo Alto is estimated to be three, based on the US Census, American Community Survey 5-Year Estimates, 2008-2012. Thus, the income groups are defined for a household size of three persons based on the income categories established by California Department of Housing

and Community Development (HCD) for Santa Clara County. Households with above-moderate income are removed to determine the number that would require below market rate affordable housing.

Step 7. Estimate the affordability gap of new households requiring affordable housing.
The affordability gap represents the difference between what households can afford to pay for housing and the development cost of a modest housing unit. For very low and low income households, a rental housing gap is used. For moderate income households, the housing affordability gap is calculated separately for renter and owner households, and then the two gaps are combined to derive an average affordability gap for moderate income households.

Step 8. Estimate the total housing affordability gap of new households requiring affordable housing.
The total number of very low, low, and moderate income new worker households for the each land use prototype is multiplied by the corresponding affordable housing gap figure.

Step 9. Calculate maximum commercial linkage fees for each prototype.
The total affordability gap is then divided by 100,000 SF, the size of each commercial prototype to generate a maximum fee per square foot.

III. COMMERCIAL LINKAGE FEE NEXUS ANALYSIS

This section discusses each step of the commercial linkage analysis calculations and the maximum nexus-based fees. The analysis presented in this section should be interpreted within the context of the previous sections establishing the overall methodology for this study.

NEXUS ANALYSIS STEPS

Using the methodology described in Section II, the following describes each of the steps to calculate the linkage fees in more detail.

Commercial Prototypes

This study examined the jobs-housing linkage for two commercial development prototypes, which are described below.

1. Hotel – This building prototype includes full-service hotels, limited-service hotels, motels, and other lodging.

2. Office/ R&D/ Medical Office – This category includes a wide range of office and R&D users, including traditional office buildings, open floor-plan offices, medical offices, and specialized spaces for highly advanced manufacturing and research commonly found in Santa Clara County.

The prototypes defined above represent the types of new commercial buildings recently constructed or proposed in Santa Clara County. Each prototype was assumed to be 100,000 square feet in size. The building size is not prescriptive; it is only averaged to illustrate the overall numbers of workers and households associated with new development projects. Many linkage fee nexus studies use the 100,000 square foot number because it can easily be converted into per-square-foot calculations. The per-square-foot linkage fee can be applied to a project of any size.
Figure III-1 below describes the building characteristics of each prototype, including factors like floor-area-ratios (FARs) and parking ratios, which were established based on a review of recent commercial development projects in the county.

Figure III-1. Description of Commercial Prototypes

	Hotel	Office/R&D/ Medical Office
Prototype Description		
Gross Building Area (GBA). excl. Parking (SF)	100,000	100,000
Efficiency Ratio (a)	N/A	0.90
Net Leasable Sq. Ft. (NSF)	N/A	90,000
Hotel Rooms	133	
Parking Spaces	133	300
Podium Parking	33	240
Surface Parking	100	60
GBA Including Structured Parking	109,975	163,000
Floor Area Ratio (b)	1.1	2.0
Land Area (Acres)	2.3	1.9
Land Area (sq. ft.)	99,977	81,500

Notes:

(a) Refers to ratio of gross building area to net leasable area. An efficiency ratio of 0.9 means that 90% of the gross building area is leasable.

(b) The floor-area-ratio (FAR) is often used as a measure of density. In this analysis, it is calculated as the gross building area (including structured podium parking) divided by the total land area.

Sources: Vernazza Wolfe Associates, Inc. and Strategic Economics, 2015.

Average Employment Density and Number of Workers

For each building prototype, an average employment density was applied based on a combination of national survey data for existing commercial buildings and a review of recently completed linkage fee nexus studies in the Bay Area. Figure III-2 summarizes the building density data that formed the basis for establishing average employment density for each prototype. In order to create conservative assumptions about the number of jobs associated with new commercial development, the lower range of the density figures were selected for this analysis.

Figure III-3 describes the density for each prototype, measured by the average number of square feet per worker for each prototype. This factor is multiplied by the size of the building (100,000 square feet) to calculate the total number of workers in each commercial prototype. The density factors represent the average density for the prototypes; individual projects and buildings may actually be more or less dense. The hotel prototype is assumed to be of lower density than office/ R&D/ medical office. The density assumption generates the total number of direct workers occupying the commercial space in each prototype.

- Hotel – The hotel employment density assumption is 1,000 square feet per worker (or 0.75 workers per room). This density is at the mid-range of the densities shown in Figure III-2, and consistent with the Vallen and Vallen estimate for limited service mid-scale hotels, which are in between full-service “luxury” properties and economy properties. Given that many of the recently constructed and proposed hotel projects in Santa Clara County are limited service mid-scale hotels, this density is aligned with market trends. For a 100,000-square-foot hotel (roughly equivalent to 133 rooms), this density assumption results in a total number of 100 workers.

- Office/ R&D/ Medical Office – The average density assumption for office/R&D/medical office is estimated at 333 square feet per worker. This density estimate is slightly lower than some recent linkage fee nexus studies, but higher than the national Energy Information Administration survey. The resulting number of total workers in this prototype is estimated at 300.

Figure III-2. Employment Density Data and Sources

Employee Density Figure	Source
Hotel	
1.5 workers per full-service (luxury) hotel room	Vallen and Vallen, "Chapter 1: The Traditional Hotel Industry," Check-In, Check-Out, 2012
0.5 to 1.0 workers per room for "in-between" hotels	Vallen and Vallen, "Chapter 1: The Traditional Hotel Industry," Check-In, Check-Out, 2012
As few as 0.25 workers per room for "budget" hotels	Vallen and Vallen, "Chapter 1: The Traditional Hotel Industry," Check-In, Check-Out, 2012
2,074 square feet per worker	Energy Information Administration, 2003 Commercial Buildings Energy Consumption Survey, Rev. 2006
720 square feet per worker	A.C. Nelson, "Reshaping Metropolitan America" (based on calculations from EIA survey)
450 square feet per worker	Jobs Housing Impact Fee Draft Nexus Study: City of Napa, CA, Vernazza Wolfe Associates Inc., 2011
2,000 square feet per worker	Housing Impact Fee Nexus Study: Mountain View, CA, KMA, 2012
Office/ R&D/ Medical Office	
185-340 square feet per employee	Norm Miller, "Estimating Office Space per Worker: Implications for Future Office Space Demand," 2012
306 square feet per worker	Building Owners and Managers Association Survey, 2012
434 square feet per worker	Energy Information Administration, 2003 Commercial Buildings Energy Consumption Survey, Rev. 2006
300 square feet per worker	A.C. Nelson, "Reshaping Metropolitan America," 2013
250-350 square feet per worker	San Mateo County Housing Needs Study, Economic & Planning Systems, 2006
300 square feet per worker	Jobs Housing Impact Fee Draft Nexus Study: City of Napa, CA, Vernazza Wolfe Associates Inc., 2011
312.5 square feet per worker	Housing Impact Fee Nexus Study: Mountain View, CA, KMA, 2012

Figure III-3. Employment Density by Prototype

Commercial Prototype	Prototype Size (SF)	Average Density	Number of Workers in Prototype
Hotel	100,000 SF 133 rooms	1,000 SF per worker 0.75 workers per room	100 workers
Office/ R&D/ Medical Office	100,000 SF	333 square feet per worker	300 workers

Sources: Vernazza Wolfe Associates, Inc.; Strategic Economics, 2015.

Number of Worker Households

Based on the total number of workers directly employed in the prototypes, the total number of worker households is estimated. The number of worker households is calculated by dividing the number of workers by the average number of wage-earners per household in the Palo Alto. Based on data from the U.S. Census American Community Survey 3-Year Estimates, 2010-2012, there is an average of 1.49 workers per household in Palo Alto. The calculation of total new worker households is demonstrated in Figure III-4 below. The number of worker households associated with the prototypes is 67 for hotels and 202 for office/R&D/medical office.

Figure III-4. Number of Worker Households by Prototype

Commercial Prototype	Number of New Workers	Workers per Household	Number of New Worker Households
Hotel	100	1.49	67.11
Office/R&D/Medical Office	300	1.49	201.54

Sources: US Census, American Community Survey 3-Year Estimates, 2010-2012; Vernazza Wolfe Associates, Inc.; Strategic Economics, 2015.

Calculate Worker Wages and Household Income

The first step in calculating employee wages is to establish a list of the industries that can be associated with each prototype. Using industry data from Quarterly Census of Employment and Wages (QCEW), industries (defined by NAICS Codes) were identified that are associated with each prototype, or land use. Figure III-5 and III-6 below describe the industries that are associated with the hotel and office/ R&D/ medical office prototypes. The hotel category shown in Figure III-5 has only one industry attached to it, while the office/ R&D/ medical office uses are associated with a larger number of industries, as shown in Figure III-6.

Figure III-5. Definition of Industries for Hotel Prototype

Hotels		
721	Accommodation	100%
Total		100%

Note; Unlike other prototypes, the hotel prototype only includes one NAICS industry category.
Source: United States Bureau of Labor Statistics, Quarterly Census of Employment and Wages (QCEW), 2013.

Figure III-6. Definition of Industries for Office/ R&D/ Medical Office Prototype

NAICS Code	Description	Percent Total Workers in Prototype
5415	Computer systems design and related services	13.5%
3344	Semiconductor and electronic component mfg.	10.2%
3341	Computer and peripheral equipment mfg.	9.3%
5191	Other information services	6.6%
5417	Scientific research and development services	5.2%
5613	Employment services	4.9%
5617	Services to buildings and dwellings	3.7%
5112	Software publishers	3.6%
5413	Architectural and engineering services	3.0%
5511	Management of companies and enterprises	2.8%
3345	Electronic instrument manufacturing	2.7%
6211	Offices of physicians	2.6%
5416	Management and technical consulting services	2.6%
6212	Offices of dentists	2.0%
3342	Communications equipment manufacturing	2.0%
6214	Outpatient care centers	1.9%
5412	Accounting and bookkeeping services	1.9%
5616	Investigation and security services	1.7%
5411	Legal services	1.7%
5221	Depository credit intermediation	1.6%
5182	Data processing, hosting and related services	1.6%
7223	Special food services	1.3%
517	Telecommunications	1.3%
5611	Office administrative services	1.1%
3391	Medical equipment and supplies manufacturing	1.1%
5313	Activities related to real estate	1.0%
523	Securities, commodity contracts, investments	0.9%
5311	Lessors of real estate	0.9%
5223	Activities related to credit intermediation	0.8%
6213	Offices of other health practitioners	0.8%
5419	Other professional and technical services	0.8%
5242	Insurance agencies and brokerages	0.6%
5312	Offices of real estate agents and brokers	0.5%
5222	Nondepository credit intermediation	0.5%
5121	Motion picture and video industries	0.4%
5418	Advertising, pr, and related services	0.4%
5614	Business support services	0.4%
6215	Medical and diagnostic laboratories	0.3%
5241	Insurance carriers	0.3%
5111	Newspaper, book, and directory publishers	0.3%
5414	Specialized design services	0.3%
515	Broadcasting, except internet	0.3%
5619	Other support services	0.3%
5612	Facilities support services	0.1%
3353	Electrical equipment manufacturing	0.1%
5331	Lessors of nonfinancial intangible assets	0.1%
5122	Sound recording industries	0.0%
5259	Other investment pools and funds	0.0%
Total		100.0%

Sources: United States Bureau of Labor Statistics, Quarterly Census of Employment and Wages (QCEW), 2013; Vernazza Wolfe Associates, Inc.; Strategic Economics, 2015

The next step is to identify all the occupations that are associated with each industry based on data provided by the U.S. Bureau of Labor Statistics (BLS). National level data on occupations are the best available; state level industry-occupation data exist but do not include all relevant industries. The national BLS occupational matrix is then calibrated to match the county's employment mix by weighting the national employment distribution to reflect the distribution of employment by industry within Santa Clara County. Finally, the average wage by worker is calculated using data on average annual wages by occupation in the San Jose – Sunnyvale – Santa Clara Metropolitan Statistical Area (the smallest geographic level at which wage data are available) from the California Employment Development Department.

Figure III-7 below summarizes the results of these calculations, computing the average weighted wages[2] for each prototype. As shown, office/R&D/medical office employees have highest higher average wage of the three prototypes, due to a larger percentage of occupations in higher wage categories.

Figure III-7. Average Annual Wage by Prototype

Commercial Prototype	Weighted Average Annual Wage (a)
Hotel	$35,157
Office, R&D and Medical Office	$78,598

Notes:
(a) Average wages are weighted to take into account the proportion of jobs in each occupational wage category.

Sources: Bureau of Labor Statistics, Occupational Employment Statistics, 2013 and Quarterly Census of Employment and Wages (QCEW), 2013; California Economic Development Department, OES Employment and Wages by Occupation, 2013; Vernazza Wolfe Associates, Inc.; Strategic Economics, 2015.

The complete occupational mix, and wage data tables for each prototype are presented in Figure III-8 and Figure III-9.

[2] The weighted average wage takes into account the proportion of jobs in each occupational category.

Figure III-8. Occupational Mix and Average Wages for Hotel Industry

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Hotel Workers (c)
11-0000	Management Occupations		
11-9081	Lodging Managers	$55,616	1.624%
11-1021	General and Operations Managers	$150,054	0.988%
11-9051	Food Service Managers	$55,929	0.499%
11-2022	Sales Managers	$173,358	0.385%
11-3031	Financial Managers	$162,295	0.205%
11-3011	Administrative Services Managers	$116,009	0.169%
11-9199	Managers, All Other	$164,693	0.128%
11-3121	Human Resources Managers	$163,111	0.094%
11-1011	Chief Executives	$218,577	0.066%
11-9141	Property, Real Estate, and Community Association Managers	$75,727	0.057%
11-2021	Marketing Managers	$185,177	0.056%
11-2011	Advertising and Promotions Managers	$113,379	0.040%
11-3061	Purchasing Managers	$149,288	0.026%
11-3021	Computer and Information Systems Managers	$185,257	0.026%
11-2031	Public Relations and Fundraising Managers	$129,248	0.008%
11-3111	Compensation and Benefits Managers	$164,189	0.007%
11-9151	Social and Community Service Managers	$80,170	0.006%
11-3131	Training and Development Managers	$161,761	0.003%
11-9041	Architectural and Engineering Managers	$186,557	0.003%
11-3071	Transportation, Storage, and Distribution Managers	$110,880	0.003%
11-9021	Construction Managers	$115,374	0.002%
	Weighted Mean Annual Wage	**$106,756**	**4.396%**
13-0000	Business and Financial Operations Occupations		
13-1121	Meeting, Convention, and Event Planners	$58,851	0.487%
13-2011	Accountants and Auditors	$87,797	0.468%
13-1071	Human Resources Specialists	$84,352	0.201%
13-1199	Business Operations Specialists, All Other	$95,424	0.096%
13-1023	Purchasing Agents, Except Wholesale, Retail, and Farm Products	$79,868	0.083%
13-1161	Market Research Analysts and Marketing Specialists	$103,979	0.069%

Figure III-8. Occupational Mix and Average Wages for Hotel Industry, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Hotel Workers (c)
13-1151	Training and Development Specialists	$83,797	0.027%
13-1141	Compensation, Benefits, and Job Analysis Specialists	$90,004	0.019%
13-2051	Financial Analysts	$112,220	0.018%
13-2099	Financial Specialists, All Other	$63,667	0.013%
13-1041	Compliance Officers	$84,523	0.012%
13-1131	Fundraisers	$70,296	0.011%
13-1075	Labor Relations Specialists	$61,652	0.009%
13-1111	Management Analysts	$104,573	0.006%
13-1022	Wholesale and Retail Buyers, Except Farm Products	$58,770	0.005%
13-2031	Budget Analysts	$85,923	0.002%
13-2041	Credit Analysts	$74,760	0.002%
	Weighted Mean Annual Wage	**$78,604**	**1.528%**
15-0000	Computer and Mathematical Occupations		
15-1151	Computer User Support Specialists	$71,022	0.037%
15-1199	Computer Occupations, All Other	$95,708	0.026%
15-1142	Network and Computer Systems Administrators	$94,342	0.024%
15-1152	Computer Network Support Specialists	$91,823	0.015%
15-1121	Computer Systems Analysts	$105,259	0.009%
15-1134	Web Developers	$101,961	0.005%
15-1141	Database Administrators	$102,689	0.005%
15-1131	Computer Programmers	$95,000	0.003%
15-1132	Software Developers, Applications	$132,808	0.002%
	Weighted Mean Annual Wage	**$89,651**	**0.127%**
17-0000	Architecture and Engineering Occupations		
17-3023	Electrical and Electronics Engineering Technicians	$66,014	0.004%
17-2051	Civil Engineers	$101,748	0.003%
17-2141	Mechanical Engineers	$110,763	0.003%
	Weighted Mean Annual Wage	**$91,430**	**0.011%**

Figure III-8. Occupational Mix and Average Wages for Hotel Industry, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Hotel Workers (c)
19-0000	Life, Physical, and Social Science Occupations	$93,341	0.006%
	Weighted Mean Annual Wage	**$93,341**	**0.006%**
21-0000	Community and Social Service Occupations		
21-1099	Community and Social Service Specialists, All Other	$45,821	0.003%
	Weighted Mean Annual Wage	**$45,821**	**0.003%**
23-0000	Legal Occupations		
23-1011	Lawyers	$197,821	0.002%
23-2011	Paralegals and Legal Assistants	$66,207	0.002%
	Weighted Mean Annual Wage	**$141,415**	**0.004%**
25-0000	Education, Training, and Library Occupations		
25-3021	Self-Enrichment Education Teachers	$45,214	0.035%
25-3099	Teachers and Instructors, All Other, Except Substitute Teachers	$61,887	0.005%
25-2011	Preschool Teachers, Except Special Education	$39,943	0.003%
25-9031	Instructional Coordinators	$72,975	0.002%
	Weighted Mean Annual Wage	**$48,010**	**0.044%**
27-0000	Arts, Design, Entertainment, Sports, and Media Occupations		
27-4011	Audio and Video Equipment Technicians	$44,404	0.153%
27-2022	Coaches and Scouts	$44,647	0.076%
27-3031	Public Relations Specialists	$73,572	0.055%
27-3099	Media and Communication Workers, All Other	$52,447	0.021%
27-4099	Media and Communication Equipment Workers, All Other	$69,576	0.014%
27-1024	Graphic Designers	$64,588	0.009%
27-1023	Floral Designers	$33,640	0.008%
27-1025	Interior Designers	$65,478	0.002%
	Weighted Mean Annual Wage	**$51,110**	**0.337%**

Figure III-8. Occupational Mix and Average Wages for Hotel Industry, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Hotel Workers (c)
29-0000	Healthcare Practitioners and Technical Occupations		
29-1141	Registered Nurses	$124,633	0.006%
29-9011	Occupational Health and Safety Specialists	$91,672	0.005%
	Weighted Mean Annual Wage	**$110,755**	**0.011%**
31-0000	Healthcare Support Occupations		
31-9011	Massage Therapists	$33,182	0.435%
	Weighted Mean Annual Wage	**$33,182**	**0.435%**
33-0000	Protective Service Occupations		
33-9032	Security Guards	$31,791	1.595%
33-9092	Lifeguards, Ski Patrol, and Other Recreational Protective Service Workers	$23,660	0.402%
33-1099	First-Line Supervisors of Protective Service Workers, All Other	$55,471	0.140%
33-9099	Protective Service Workers, All Other	$44,649	0.064%
33-9021	Private Detectives and Investigators	$81,056	0.003%
	Weighted Mean Annual Wage	**$32,248**	**2.204%**
35-0000	Food Preparation and Serving Related Occupations		
35-3031	Waiters and Waitresses	$22,964	7.606%
35-2014	Cooks, Restaurant	$25,887	3.415%
35-9011	Dining Room and Cafeteria Attendants and Bartender Helpers	$19,871	2.696%
35-3011	Bartenders	$25,181	2.156%
35-3041	Food Servers, Nonrestaurant	$29,514	1.857%
35-9021	Dishwashers	$20,516	1.776%
35-1012	First-Line Supervisors of Food Preparation and Serving Workers	$35,399	1.298%
35-2021	Food Preparation Workers	$23,005	1.039%
35-9031	Hosts and Hostesses, Restaurant, Lounge, and Coffee Shop	$20,153	0.922%
35-3021	Combined Food Preparation and Serving Workers, Including Fast Food	$22,199	0.839%
35-1011	Chefs and Head Cooks	$45,637	0.750%
35-3022	Counter Attendants, Cafeteria, Food Concession, and Coffee Shop	$21,020	0.554%

Figure III-8. Occupational Mix and Average Wages for Hotel Industry, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Hotel Workers (c)
35-2012	Cooks, Institution and Cafeteria	$31,489	0.330%
35-2015	Cooks, Short Order	$24,546	0.322%
35-9099	Food Preparation and Serving Related Workers, All Other	$22,148	0.283%
35-2019	Cooks, All Other	$25,413	0.097%
35-2011	Cooks, Fast Food	$20,496	0.088%
	Weighted Mean Annual Wage	**$24,740**	**26.028%**
37-0000	Building and Grounds Cleaning and Maintenance Occupations		
37-2012	Maids and Housekeeping Cleaners	$28,799	24.645%
37-2011	Janitors and Cleaners, Except Maids and Housekeeping Cleaners	$27,549	2.606%
37-1011	First-Line Supervisors of Housekeeping and Janitorial Workers	$50,352	1.778%
37-3011	Landscaping and Groundskeeping Workers	$31,560	1.061%
37-1012	First-Line Supervisors of Landscaping, Lawn Service, and Groundskeeping Workers	$52,297	0.120%
37-3019	Grounds Maintenance Workers, All Other	$45,818	0.048%
	Weighted Mean Annual Wage	**$30,175**	**30.258%**
39-0000	Personal Care and Service Occupations		
39-5092	Manicurists and Pedicurists	$19,327	0.059%
39-3031	Ushers, Lobby Attendants, and Ticket Takers	$20,113	0.089%
39-7011	Tour Guides and Escorts	$21,110	0.048%
39-9099	Personal Care and Service Workers, All Other	$21,120	0.215%
39-6011	Baggage Porters and Bellhops	$22,894	1.366%
39-5012	Hairdressers, Hairstylists, and Cosmetologists	$23,942	0.060%
39-3091	Amusement and Recreation Attendants	$24,637	0.681%
39-3093	Locker Room, Coatroom, and Dressing Room Attendants	$25,685	0.137%
39-9021	Personal Care Aides	$26,572	0.018%
39-9032	Recreation Workers	$28,093	0.614%
39-2021	Nonfarm Animal Caretakers	$28,990	0.023%
39-9011	Childcare Workers	$29,565	0.040%
39-6012	Concierges	$32,043	0.700%

Figure III-8. Occupational Mix and Average Wages for Hotel Industry, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Hotel Workers (c)
39-9041	Residential Advisors	$35,308	0.061%
39-2011	Animal Trainers	$43,682	0.003%
39-1021	First-Line Supervisors of Personal Service Workers	$45,485	0.238%
	Weighted Mean Annual Wage	**$26,795**	**4.350%**
41-0000	Sales and Related Occupations		
41-3099	Sales Representatives, Services, All Other	$90,918	0.911%
41-2011	Cashiers	$25,771	0.809%
41-2031	Retail Salespersons	$27,121	0.316%
41-2012	Gaming Change Persons and Booth Cashiers	$21,931	0.197%
41-1011	First-Line Supervisors of Retail Sales Workers	$48,448	0.133%
41-2021	Counter and Rental Clerks	$34,428	0.077%
41-1012	First-Line Supervisors of Non-Retail Sales Workers	$111,025	0.072%
41-3041	Travel Agents	$41,745	0.034%
41-9099	Sales and Related Workers, All Other	$42,552	0.034%
41-9041	Telemarketers	$29,631	0.030%
41-4012	Sales Representatives, Wholesale and Manufacturing, Except Technical and Scientific Products	$68,867	0.020%
41-9022	Real Estate Sales Agents	$70,439	0.007%
41-3011	Advertising Sales Agents	$63,001	0.005%
	Weighted Mean Annual Wage	**$52,775**	**2.645%**
43-0000	Office and Administrative Support Occupations		
43-4081	Hotel, Motel, and Resort Desk Clerks	$24,788	12.825%
43-1011	First-Line Supervisors of Office and Administrative Support Workers	$67,296	1.502%
43-3031	Bookkeeping, Accounting, and Auditing Clerks	$49,252	1.111%
43-9061	Office Clerks, General	$39,450	0.564%
43-6014	Secretaries and Administrative Assistants, Except Legal, Medical, and Executive	$43,308	0.497%
43-4051	Customer Service Representatives	$46,518	0.454%
43-4181	Reservation and Transportation Ticket Agents and Travel Clerks	$37,617	0.453%
43-2011	Switchboard Operators, Including Answering Service	$35,683	0.369%
43-4171	Receptionists and Information Clerks	$34,590	0.250%

Figure III-8. Occupational Mix and Average Wages for Hotel Industry, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Hotel Workers (c)
43-3041	Gaming Cage Workers	$31,137	0.247%
43-5081	Stock Clerks and Order Fillers	$28,312	0.220%
43-6011	Executive Secretaries and Executive Administrative Assistants	$65,402	0.195%
43-5071	Shipping, Receiving, and Traffic Clerks	$35,207	0.126%
43-3051	Payroll and Timekeeping Clerks	$51,773	0.094%
43-9199	Office and Administrative Support Workers, All Other	$38,731	0.093%
43-4161	Human Resources Assistants, Except Payroll and Timekeeping	$51,044	0.082%
43-5032	Dispatchers, Except Police, Fire, and Ambulance	$53,920	0.076%
43-3021	Billing and Posting Clerks	$45,890	0.065%
43-3061	Procurement Clerks	$47,955	0.031%
43-5061	Production, Planning, and Expediting Clerks	$58,689	0.020%
43-5021	Couriers and Messengers	$36,189	0.016%
43-4041	Credit Authorizers, Checkers, and Clerks	$41,981	0.011%
43-4151	Order Clerks	$42,315	0.011%
43-3011	Bill and Account Collectors	$49,434	0.010%
43-9051	Mail Clerks and Mail Machine Operators, Except Postal Service	$34,691	0.008%
43-4199	Information and Record Clerks, All Other	$46,467	0.007%
43-4071	File Clerks	$34,012	0.005%
43-5111	Weighers, Measurers, Checkers, and Samplers, Recordkeeping	$30,539	0.005%
43-9011	Computer Operators	$46,204	0.005%
43-9071	Office Machine Operators, Except Computer	$33,131	0.005%
43-3099	Financial Clerks, All Other	$45,444	0.003%
	Weighted Mean Annual Wage	**$32,767**	**19.359%**
45-0000	Farming, Fishing, and Forestry Occupations		
45-2093	Farmworkers, Farm, Ranch, and Aquacultural Animals	$28,101	0.032%
45-2092	Farmworkers and Laborers, Crop, Nursery, and Greenhouse	$21,473	0.003%
45-1011	First-Line Supervisors of Farming, Fishing, and Forestry Workers	$61,161	0.002%
	Weighted Mean Annual Wage	**$29,481**	**0.038%**

Figure III-8. Occupational Mix and Average Wages for Hotel Industry, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Hotel Workers (c)
47-0000	Construction and Extraction Occupations		
47-2141	Painters, Construction and Maintenance	$52,934	0.079%
47-2031	Carpenters	$62,042	0.059%
47-2111	Electricians	$64,835	0.031%
47-1011	First-Line Supervisors of Construction Trades and Extraction Workers	$83,728	0.011%
47-2152	Plumbers, Pipefitters, and Steamfitters	$80,317	0.010%
47-2061	Construction Laborers	$44,910	0.010%
47-2073	Operating Engineers and Other Construction Equipment Operators	$69,510	0.008%
47-2041	Carpet Installers	$56,709	0.003%
47-4051	Highway Maintenance Workers	$60,564	0.002%
	Weighted Mean Annual Wage	**$60,513**	**0.213%**
49-0000	Installation, Maintenance, and Repair Occupations		
49-9071	Maintenance and Repair Workers, General	$48,997	4.553%
49-1011	First-Line Supervisors of Mechanics, Installers, and Repairers	$77,658	0.400%
49-9091	Coin, Vending, and Amusement Machine Servicers and Repairers	$36,977	0.094%
49-9099	Installation, Maintenance, and Repair Workers, All Other	$49,058	0.044%
49-9021	Heating, Air Conditioning, and Refrigeration Mechanics and Installers	$65,190	0.028%
49-9098	Helpers--Installation, Maintenance, and Repair Workers	$34,330	0.023%
49-3053	Outdoor Power Equipment and Other Small Engine Mechanics	$46,768	0.011%
49-9041	Industrial Machinery Mechanics	$55,938	0.010%
49-3023	Automotive Service Technicians and Mechanics	$51,582	0.009%
49-9094	Locksmiths and Safe Repairers	$59,969	0.008%
49-3042	Mobile Heavy Equipment Mechanics, Except Engines	$55,470	0.007%
49-9043	Maintenance Workers, Machinery	$43,226	0.007%
49-2022	Telecommunications Equipment Installers and Repairers, Except Line Installers	$65,495	0.002%
49-2094	Electrical and Electronics Repairers, Commercial and Industrial Equipment	$51,745	0.002%
	Weighted Mean Annual Wage	**$51,047**	**5.199%**
51-0000	Production Occupations		
51-6011	Laundry and Dry-Cleaning Workers	$25,879	1.611%

Figure III-8. Occupational Mix and Average Wages for Hotel Industry, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Hotel Workers (c)
51-3011	Bakers	$27,048	0.179%
51-8021	Stationary Engineers and Boiler Operators	$78,511	0.054%
51-1011	First-Line Supervisors of Production and Operating Workers	$63,406	0.051%
51-6052	Tailors, Dressmakers, and Custom Sewers	$41,613	0.018%
51-9061	Inspectors, Testers, Sorters, Samplers, and Weighers	$46,350	0.011%
51-3021	Butchers and Meat Cutters	$34,021	0.008%
51-6031	Sewing Machine Operators	$24,629	0.006%
51-6021	Pressers, Textile, Garment, and Related Materials	$24,425	0.006%
51-9012	Separating, Filtering, Clarifying, Precipitating, and Still Machine Setters, Operators, and Tenders	$40,373	0.003%
51-3092	Food Batchmakers	$25,310	0.002%
51-9198	Helpers--Production Workers	$27,546	0.002%
	Weighted Mean Annual Wage	**$28,730**	**1.950%**
53-0000	Transportation and Material Moving Occupations		
53-6021	Parking Lot Attendants	$21,595	0.464%
53-7062	Laborers and Freight, Stock, and Material Movers, Hand	$31,188	0.297%
53-1031	First-Line Supervisors of Transportation and Material-Moving Machine and Vehicle Operators	$61,604	0.034%
53-1021	First-Line Supervisors of Helpers, Laborers, and Material Movers, Hand	$52,489	0.018%
53-3033	Light Truck or Delivery Services Drivers	$36,503	0.018%
53-7061	Cleaners of Vehicles and Equipment	$25,762	0.008%
53-7199	Material Moving Workers, All Other	$39,857	0.005%
53-6031	Automotive and Watercraft Service Attendants	$27,042	0.004%
53-7051	Industrial Truck and Tractor Operators	$37,469	0.003%
53-3031	Driver/Sales Workers	$35,192	0.002%
53-3032	Heavy and Tractor-Trailer Truck Drivers	$46,564	0.002%
	Weighted Mean Annual Wage	**$27,778**	**0.854%**
	Total, Land Use	**$35,157**	**100.000%**

Notes:

(a) Occupational mix by industry was obtained from US Bureau of Labor Statistics, Occupational Employment Statistics, 2013.

(b) Wage data for the San Jose – Sunnyvale – Santa Clara MSA obtained from California Economic Development Department, OES Employment and Wages by Occupation, 2013.

(c) Distribution of workers is calculated based on the existing distribution of employment by industry in Santa Clara County, provided by Quarterly Census of Employment and Wages (QCEW), 2013.

Sources: Vernazza Wolfe Associates, Inc.; Strategic Economics, 2015.

Figure III-9. Occupational Mix and Average Wages for Office/ R&D/ Medical Office

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Office/ R&D/ Medical Office Workers (c)
11-0000	Management Occupations		
11-1021	General and Operations Managers	$150,054	2.009%
11-3021	Computer and Information Systems Managers	$185,257	1.370%
11-3031	Financial Managers	$162,295	0.706%
11-9041	Architectural and Engineering Managers	$186,557	0.475%
11-2022	Sales Managers	$173,358	0.421%
11-2021	Marketing Managers	$185,177	0.409%
11-9199	Managers, All Other	$164,693	0.398%
11-1011	Chief Executives	$218,577	0.290%
11-3011	Administrative Services Managers	$116,009	0.273%
11-9111	Medical and Health Services Managers	$139,807	0.184%
11-3121	Human Resources Managers	$163,111	0.181%
11-9141	Property, Real Estate, and Community Association Managers	$75,727	0.151%
11-3051	Industrial Production Managers	$129,691	0.118%
11-9121	Natural Sciences Managers	$189,368	0.107%
11-3061	Purchasing Managers	$149,288	0.091%
11-9021	Construction Managers	$115,374	0.059%
11-3131	Training and Development Managers	$161,761	0.045%
11-2031	Public Relations and Fundraising Managers	$129,248	0.044%
11-9051	Food Service Managers	$55,929	0.042%
11-3071	Transportation, Storage, and Distribution Managers	$110,880	0.039%
11-3111	Compensation and Benefits Managers	$164,189	0.029%
11-2011	Advertising and Promotions Managers	$113,379	0.022%
11-9151	Social and Community Service Managers	$80,170	0.021%
11-9161	Emergency Management Directors	$115,203	0.003%
11-9039	Education Administrators, All Other	$85,561	0.003%
11-9081	Lodging Managers	$55,616	0.002%
11-9013	Farmers, Ranchers, and Other Agricultural Managers	$104,976	0.002%
11-9031	Education Administrators, Preschool and Childcare Center/Program	$64,614	0.002%
11-9033	Education Administrators, Postsecondary	$110,266	0.001%
11-9032	Education Administrators, Elementary and Secondary School	$110,588	0.000%
	Weighted Mean Annual Wage	**$162,745**	**7.500%**

Figure III-9. Occupational Mix and Average Wages for Office/ R&D/ Medical Office, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Office/ R&D/ Medical Office Workers (c)
13-0000	Business and Financial Operations Occupations		
13-2011	Accountants and Auditors	$87,797	1.738%
13-1111	Management Analysts	$104,573	1.252%
13-1199	Business Operations Specialists, All Other	$95,424	1.164%
13-1161	Market Research Analysts and Marketing Specialists	$103,979	0.902%
13-1071	Human Resources Specialists	$84,352	0.876%
13-2051	Financial Analysts	$112,220	0.466%
13-1151	Training and Development Specialists	$83,797	0.384%
13-2072	Loan Officers	$82,709	0.359%
13-1023	Purchasing Agents, Except Wholesale, Retail, and Farm Products	$79,868	0.335%
13-2052	Personal Financial Advisors	$90,346	0.208%
13-1081	Logisticians	$97,520	0.194%
13-1041	Compliance Officers	$84,523	0.183%
13-2099	Financial Specialists, All Other	$63,667	0.163%
13-1031	Claims Adjusters, Examiners, and Investigators	$71,737	0.140%
13-2082	Tax Preparers	$51,506	0.135%
13-1141	Compensation, Benefits, and Job Analysis Specialists	$90,004	0.116%
13-2041	Credit Analysts	$74,760	0.101%
13-1022	Wholesale and Retail Buyers, Except Farm Products	$58,770	0.085%
13-1051	Cost Estimators	$78,709	0.061%
13-2031	Budget Analysts	$85,923	0.061%
13-1121	Meeting, Convention, and Event Planners	$58,851	0.043%
13-2021	Appraisers and Assessors of Real Estate	$75,586	0.036%
13-2061	Financial Examiners	$92,603	0.024%
13-2071	Credit Counselors	$53,299	0.017%
13-1075	Labor Relations Specialists	$61,652	0.014%
13-1131	Fundraisers	$70,296	0.012%
13-1021	Buyers and Purchasing Agents, Farm Products	$66,679	0.004%
13-1011	Agents and Business Managers of Artists, Performers, and Athletes	$111,797	0.000%
	Weighted Mean Annual Wage	**$91,169**	**9.073%**

Figure III-9. Occupational Mix and Average Wages for Office/ R&D/ Medical Office, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Office/ R&D/ Medical Office Workers (c)
15-0000	Computer and Mathematical Occupations		
15-1132	Software Developers, Applications	$132,808	4.184%
15-1121	Computer Systems Analysts	$105,259	2.702%
15-1133	Software Developers, Systems Software	$133,577	2.548%
15-1151	Computer User Support Specialists	$71,022	2.162%
15-1131	Computer Programmers	$95,000	2.144%
15-1142	Network and Computer Systems Administrators	$94,342	1.282%
15-1143	Computer Network Architects	$137,806	0.708%
15-1152	Computer Network Support Specialists	$91,823	0.667%
15-1134	Web Developers	$101,961	0.519%
15-1199	Computer Occupations, All Other	$95,708	0.475%
15-1141	Database Administrators	$102,689	0.409%
15-1122	Information Security Analysts	$106,331	0.392%
15-2031	Operations Research Analysts	$118,553	0.188%
15-1111	Computer and Information Research Scientists	$134,649	0.099%
15-2041	Statisticians	$151,990	0.049%
	Weighted Mean Annual Wage	**$110,240**	**18.527%**
17-0000	Architecture and Engineering Occupations		
17-2061	Computer Hardware Engineers	$135,975	0.598%
17-2071	Electrical Engineers	$122,822	0.484%
17-2051	Civil Engineers	$101,748	0.481%
17-3023	Electrical and Electronics Engineering Technicians	$66,014	0.468%
17-2141	Mechanical Engineers	$110,763	0.460%
17-2072	Electronics Engineers, Except Computer	$127,436	0.434%
17-2112	Industrial Engineers	$110,914	0.432%
17-2199	Engineers, All Other	$114,931	0.242%
17-1011	Architects, Except Landscape and Naval	$87,584	0.239%
17-3011	Architectural and Civil Drafters	$60,227	0.227%
17-3026	Industrial Engineering Technicians	$59,570	0.178%
17-2011	Aerospace Engineers	$109,569	0.126%

Figure III-9. Occupational Mix and Average Wages for Office/ R&D/ Medical Office, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Office/ R&D/ Medical Office Workers (c)
17-3029	Engineering Technicians, Except Drafters, All Other	$60,430	0.113%
17-3027	Mechanical Engineering Technicians	$53,712	0.105%
17-3022	Civil Engineering Technicians	$59,600	0.103%
17-3031	Surveying and Mapping Technicians	$61,684	0.099%
17-1022	Surveyors	$82,141	0.096%
17-2081	Environmental Engineers	$81,595	0.094%
17-3013	Mechanical Drafters	$66,197	0.084%
17-3012	Electrical and Electronics Drafters	$72,773	0.075%
17-2041	Chemical Engineers	$100,575	0.051%
17-2131	Materials Engineers	$106,068	0.047%
17-1012	Landscape Architects	$79,349	0.045%
17-2031	Biomedical Engineers	$116,701	0.042%
17-3024	Electro-Mechanical Technicians	$52,852	0.041%
17-3025	Environmental Engineering Technicians	$70,456	0.031%
17-3019	Drafters, All Other	$46,498	0.025%
17-2111	Health and Safety Engineers, Except Mining Safety Engineers and Inspectors	$99,077	0.023%
17-1021	Cartographers and Photogrammetrists	$73,380	0.022%
	Weighted Mean Annual Wage	**$98,983**	**5.459%**
19-0000	Life, Physical, and Social Science Occupations		
19-1042	Medical Scientists, Except Epidemiologists	$124,745	0.239%
19-2031	Chemists	$78,337	0.159%
19-4021	Biological Technicians	$51,638	0.126%
19-2041	Environmental Scientists and Specialists, Including Health	$92,946	0.120%
19-4031	Chemical Technicians	$46,266	0.111%
19-4099	Life, Physical, and Social Science Technicians, All Other	$55,968	0.101%
19-1021	Biochemists and Biophysicists	$110,044	0.091%
19-4061	Social Science Research Assistants	$50,191	0.060%
19-4091	Environmental Science and Protection Technicians, Including Health	$51,365	0.050%
19-2042	Geoscientists, Except Hydrologists and Geographers	$79,339	0.049%
19-2012	Physicists	$127,871	0.039%
19-3031	Clinical, Counseling, and School Psychologists	$87,979	0.038%
19-1029	Biological Scientists, All Other	$86,836	0.037%
19-1022	Microbiologists	$88,980	0.035%

Figure III-9. Occupational Mix and Average Wages for Office/ R&D/ Medical Office, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Office/ R&D/ Medical Office Workers (c)
19-3099	Social Scientists and Related Workers, All Other	$90,447	0.032%
19-3011	Economists	$52,377	0.030%
19-1013	Soil and Plant Scientists	$58,255	0.025%
19-3051	Urban and Regional Planners	$92,997	0.020%
19-4011	Agricultural and Food Science Technicians	$31,444	0.020%
19-1012	Food Scientists and Technologists	$70,689	0.019%
19-2032	Materials Scientists	$111,916	0.019%
19-1023	Zoologists and Wildlife Biologists	$66,925	0.016%
19-1099	Life Scientists, All Other	$95,840	0.012%
19-3094	Political Scientists	$82,718	0.005%
19-1031	Conservation Scientists	$95,759	0.004%
19-3039	Psychologists, All Other	$85,834	0.003%
19-4092	Forensic Science Technicians	$76,587	0.002%
	Weighted Mean Annual Wage	**$82,195**	**1.461%**
21-0000	Community and Social Service Occupations		
21-1014	Mental Health Counselors	$55,918	0.074%
21-1093	Social and Human Service Assistants	$41,501	0.068%
21-1023	Mental Health and Substance Abuse Social Workers	$61,148	0.067%
21-1011	Substance Abuse and Behavioral Disorder Counselors	$44,070	0.048%
21-1022	Healthcare Social Workers	$69,930	0.042%
21-1021	Child, Family, and School Social Workers	$50,990	0.032%
21-1091	Health Educators	$61,381	0.026%
21-1094	Community Health Workers	$46,822	0.022%
21-1099	Community and Social Service Specialists, All Other	$45,821	0.020%
21-1015	Rehabilitation Counselors	$44,475	0.016%
21-1013	Marriage and Family Therapists	$62,140	0.014%
21-1012	Educational, Guidance, School, and Vocational Counselors	$63,546	0.014%
21-1019	Counselors, All Other	$74,199	0.008%
21-1029	Social Workers, All Other	$81,221	0.007%
21-2011	Clergy	$55,058	0.002%
21-2021	Directors, Religious Activities and Education	$61,067	0.000%
	Weighted Mean Annual Wage	**$54,459**	**0.462%**

Figure III-9. Occupational Mix and Average Wages for Office/ R&D/ Medical Office, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Office/ R&D/ Medical Office Workers (c)
23-0000	Legal Occupations		
23-1011	Lawyers	$197,821	0.881%
23-2011	Paralegals and Legal Assistants	$66,207	0.433%
23-2093	Title Examiners, Abstractors, and Searchers	$83,375	0.066%
23-2099	Legal Support Workers, All Other	$74,493	0.032%
23-1022	Arbitrators, Mediators, and Conciliators	$81,726	0.004%
23-2091	Court Reporters	$73,188	0.002%
	Weighted Mean Annual Wage	**$148,985**	**1.419%**
25-0000	Education, Training, and Library Occupations		
25-3098	Substitute Teachers	$40,206	0.175%
25-4021	Librarians	$73,531	0.058%
25-4031	Library Technicians	$52,447	0.045%
25-9041	Teacher Assistants	$30,220	0.041%
25-2021	Elementary School Teachers, Except Special Education	$70,132	0.025%
25-9031	Instructional Coordinators	$72,975	0.022%
25-3099	Teachers and Instructors, All Other, Except Substitute Teachers	$61,887	0.019%
25-9099	Education, Training, and Library Workers, All Other	$38,617	0.018%
25-2022	Middle School Teachers, Except Special and Career/Technical Education	$67,977	0.017%
25-2031	Secondary School Teachers, Except Special and Career/Technical Education	$73,451	0.016%
25-3021	Self-Enrichment Education Teachers	$45,214	0.008%
25-2011	Preschool Teachers, Except Special Education	$39,943	0.008%
25-2059	Special Education Teachers, All Other	$62,898	0.002%
25-2052	Special Education Teachers, Kindergarten and Elementary School	$66,591	0.002%
25-1194	Vocational Education Teachers, Postsecondary	$63,101	0.002%
25-4012	Curators	$65,033	0.001%
25-3011	Adult Basic and Secondary Education and Literacy Teachers and Instructors	$76,587	0.001%
25-1071	Health Specialties Teachers, Postsecondary	$76,202	0.001%
25-4013	Museum Technicians and Conservators	$44,819	0.001%
25-2054	Special Education Teachers, Secondary School	$74,837	0.001%
25-2051	Special Education Teachers, Preschool	$65,751	0.001%
	Weighted Mean Annual Wage	**$51,545**	**0.463%**

Figure III-9. Occupational Mix and Average Wages for Office/ R&D/ Medical Office, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Office/ R&D/ Medical Office Workers (c)
27-0000	Arts, Design, Entertainment, Sports, and Media Occupations		
27-1024	Graphic Designers	$64,588	0.236%
27-3042	Technical Writers	$102,446	0.203%
27-3031	Public Relations Specialists	$73,572	0.157%
27-3041	Editors	$77,538	0.116%
27-1014	Multimedia Artists and Animators	$79,399	0.090%
27-3043	Writers and Authors	$72,833	0.043%
27-4021	Photographers	$41,066	0.041%
27-3022	Reporters and Correspondents	$50,727	0.041%
27-1025	Interior Designers	$65,478	0.038%
27-1011	Art Directors	$125,109	0.034%
27-1021	Commercial and Industrial Designers	$89,992	0.025%
27-4011	Audio and Video Equipment Technicians	$44,404	0.023%
27-3091	Interpreters and Translators	$55,604	0.022%
27-3099	Media and Communication Workers, All Other	$52,447	0.017%
27-1026	Merchandise Displayers and Window Trimmers	$34,247	0.015%
27-4032	Film and Video Editors	$43,564	0.013%
27-2022	Coaches and Scouts	$44,647	0.012%
27-1022	Fashion Designers	$53,236	0.011%
27-4012	Broadcast Technicians	$40,560	0.010%
27-3011	Radio and Television Announcers	$31,191	0.009%
27-4099	Media and Communication Equipment Workers, All Other	$69,576	0.005%
27-1027	Set and Exhibit Designers	$66,804	0.003%
27-1023	Floral Designers	$33,640	0.002%
27-3012	Public Address System and Other Announcers	$40,914	0.000%
27-1012	Craft Artists	$43,696	0.000%
27-2041	Music Directors and Composers	$69,576	0.000%
	Weighted Mean Annual Wage	**$74,013**	**1.163%**
29-0000	Healthcare Practitioners and Technical Occupations		
29-1141	Registered Nurses	$124,633	1.072%
29-2061	Licensed Practical and Licensed Vocational Nurses	$58,801	0.469%
29-1069	Physicians and Surgeons, All Other	$147,650	0.426%

Figure III-9. Occupational Mix and Average Wages for Office/ R&D/ Medical Office, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Office/ R&D/ Medical Office Workers (c)
29-2021	Dental Hygienists	$96,750	0.401%
29-1062	Family and General Practitioners	$193,329	0.240%
29-1021	Dentists, General	$148,348	0.195%
29-2071	Medical Records and Health Information Technicians	$51,233	0.178%
29-1171	Nurse Practitioners	$135,499	0.174%
29-1071	Physician Assistants	$106,938	0.164%
29-2034	Radiologic Technologists	$86,552	0.148%
29-2012	Medical and Clinical Laboratory Technicians	$55,209	0.121%
29-1123	Physical Therapists	$95,587	0.115%
29-1063	Internists, General	$185,589	0.089%
29-1067	Surgeons	$241,668	0.086%
29-2099	Health Technologists and Technicians, All Other	$59,115	0.076%
29-2057	Ophthalmic Medical Technicians	$42,118	0.072%
29-2056	Veterinary Technologists and Technicians	$44,161	0.071%
29-1061	Anesthesiologists	$248,872	0.070%
29-2055	Surgical Technologists	$64,790	0.066%
29-2011	Medical and Clinical Laboratory Technologists	$87,938	0.066%
29-1065	Pediatricians, General	$188,493	0.066%
29-2052	Pharmacy Technicians	$46,256	0.048%
29-1064	Obstetricians and Gynecologists	$237,622	0.048%
29-2032	Diagnostic Medical Sonographers	$111,440	0.047%
29-1131	Veterinarians	$115,073	0.047%
29-1122	Occupational Therapists	$90,407	0.046%
29-2081	Opticians, Dispensing	$45,527	0.044%
29-1051	Pharmacists	$135,408	0.044%
29-9011	Occupational Health and Safety Specialists	$91,672	0.039%
29-1041	Optometrists	$119,251	0.035%
29-1127	Speech-Language Pathologists	$94,686	0.033%
29-1031	Dietitians and Nutritionists	$71,083	0.029%
29-1066	Psychiatrists	$195,909	0.027%
29-1126	Respiratory Therapists	$87,635	0.026%
29-2031	Cardiovascular Technologists and Technicians	$60,774	0.026%
29-9099	Healthcare Practitioners and Technical Workers, All Other	$69,879	0.021%
29-1199	Health Diagnosing and Treating Practitioners, All Other	$78,459	0.020%

Figure III-9. Occupational Mix and Average Wages for Office/ R&D/ Medical Office, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Office/ R&D/ Medical Office Workers (c)
29-2035	Magnetic Resonance Imaging Technologists	$98,227	0.020%
29-1124	Radiation Therapists	$115,649	0.014%
29-2033	Nuclear Medicine Technologists	$117,025	0.013%
29-9012	Occupational Health and Safety Technicians	$43,109	0.009%
29-9091	Athletic Trainers	$63,263	0.009%
29-1081	Podiatrists	$132,656	0.009%
29-2053	Psychiatric Technicians	$49,787	0.006%
29-1129	Therapists, All Other	$82,232	0.006%
29-2051	Dietetic Technicians	$40,327	0.003%
29-2092	Hearing Aid Specialists	$55,240	0.002%
29-1128	Exercise Physiologists	$84,934	0.002%
29-1125	Recreational Therapists	$52,963	0.002%
	Weighted Mean Annual Wage	**$114,459**	**5.039%**
31-0000	Healthcare Support Occupations		
31-9092	Medical Assistants	$39,127	1.106%
31-9091	Dental Assistants	$41,525	0.633%
31-1014	Nursing Assistants	$34,421	0.263%
31-1011	Home Health Aides	$25,141	0.119%
31-9094	Medical Transcriptionists	$46,654	0.074%
31-9096	Veterinary Assistants and Laboratory Animal Caretakers	$35,127	0.063%
31-9097	Phlebotomists	$41,314	0.059%
31-2021	Physical Therapist Assistants	$62,888	0.044%
31-2022	Physical Therapist Aides	$35,651	0.035%
31-9099	Healthcare Support Workers, All Other	$45,042	0.035%
31-9093	Medical Equipment Preparers	$45,506	0.025%
31-9011	Massage Therapists	$33,182	0.021%
31-2011	Occupational Therapy Assistants	$45,798	0.014%
31-1015	Orderlies	$45,576	0.007%
31-9095	Pharmacy Aides	$31,136	0.005%
31-2012	Occupational Therapy Aides	$42,563	0.003%
	Weighted Mean Annual Wage	**$39,262**	**2.506%**

Figure III-9. Occupational Mix and Average Wages for Office/ R&D/ Medical Office, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Office/ R&D/ Medical Office Workers (c)
33-0000	Protective Service Occupations		
33-9032	Security Guards	$31,791	1.389%
33-1099	First-Line Supervisors of Protective Service Workers, All Other	$55,471	0.060%
33-9021	Private Detectives and Investigators	$81,056	0.030%
33-9099	Protective Service Workers, All Other	$44,649	0.020%
33-9092	Lifeguards, Ski Patrol, and Other Recreational Protective Service Workers	$23,660	0.010%
33-9091	Crossing Guards	$35,711	0.010%
33-2011	Firefighters	$88,371	0.005%
33-3012	Correctional Officers and Jailers	$74,193	0.003%
33-3041	Parking Enforcement Workers	$45,455	0.001%
33-2021	Fire Inspectors and Investigators	$91,626	0.001%
33-1021	First-Line Supervisors of Fire Fighting and Prevention Workers	$133,564	0.000%
	Weighted Mean Annual Wage	**$34,146**	**1.529%**
35-0000	Food Preparation and Serving Related Occupations		
35-3021	Combined Food Preparation and Serving Workers, Including Fast Food	$22,199	0.205%
35-3031	Waiters and Waitresses	$22,964	0.182%
35-2021	Food Preparation Workers	$23,005	0.104%
35-2012	Cooks, Institution and Cafeteria	$31,489	0.085%
35-3022	Counter Attendants, Cafeteria, Food Concession, and Coffee Shop	$21,020	0.082%
35-1012	First-Line Supervisors of Food Preparation and Serving Workers	$35,399	0.079%
35-3041	Food Servers, Nonrestaurant	$29,514	0.071%
35-9021	Dishwashers	$20,516	0.062%
35-9011	Dining Room and Cafeteria Attendants and Bartender Helpers	$19,871	0.061%
35-2014	Cooks, Restaurant	$25,887	0.040%
35-3011	Bartenders	$25,181	0.035%
35-1011	Chefs and Head Cooks	$45,637	0.023%
35-9031	Hosts and Hostesses, Restaurant, Lounge, and Coffee Shop	$20,153	0.019%
35-2019	Cooks, All Other	$25,413	0.017%
35-9099	Food Preparation and Serving Related Workers, All Other	$22,148	0.013%
35-2015	Cooks, Short Order	$24,546	0.009%
35-2011	Cooks, Fast Food	$20,496	0.006%
	Weighted Mean Annual Wage	**$24,987**	**1.092%**

Figure III-9. Occupational Mix and Average Wages for Office/ R&D/ Medical Office, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Office/ R&D/ Medical Office Workers (c)
37-0000	Building and Grounds Cleaning and Maintenance Occupations		
37-2011	Janitors and Cleaners, Except Maids and Housekeeping Cleaners	$27,549	3.532%
37-3011	Landscaping and Groundskeeping Workers	$31,560	1.945%
37-2012	Maids and Housekeeping Cleaners	$28,799	0.584%
37-2021	Pest Control Workers	$37,354	0.238%
37-1011	First-Line Supervisors of Housekeeping and Janitorial Workers	$50,352	0.232%
37-1012	First-Line Supervisors of Landscaping, Lawn Service, and Groundskeeping Workers	$52,297	0.230%
37-3013	Tree Trimmers and Pruners	$28,547	0.136%
37-3012	Pesticide Handlers, Sprayers, and Applicators, Vegetation	$33,807	0.049%
37-3019	Grounds Maintenance Workers, All Other	$45,818	0.031%
	Weighted Mean Annual Wage	**$30,824**	**6.978%**
39-0000	Personal Care and Service Occupations		
39-9021	Personal Care Aides	$26,572	0.194%
39-3031	Ushers, Lobby Attendants, and Ticket Takers	$20,113	0.058%
39-9011	Childcare Workers	$29,565	0.026%
39-2021	Nonfarm Animal Caretakers	$28,990	0.024%
39-9032	Recreation Workers	$28,093	0.016%
39-1021	First-Line Supervisors of Personal Service Workers	$45,485	0.015%
39-3091	Amusement and Recreation Attendants	$24,637	0.012%
39-6012	Concierges	$32,043	0.012%
39-9099	Personal Care and Service Workers, All Other	$21,120	0.009%
39-9041	Residential Advisors	$35,308	0.007%
39-9031	Fitness Trainers and Aerobics Instructors	$53,265	0.007%
39-7011	Tour Guides and Escorts	$21,110	0.006%
39-5012	Hairdressers, Hairstylists, and Cosmetologists	$23,942	0.005%
39-6011	Baggage Porters and Bellhops	$22,894	0.003%
39-3093	Locker Room, Coatroom, and Dressing Room Attendants	$25,685	0.001%
39-2011	Animal Trainers	$43,682	0.000%
39-5092	Manicurists and Pedicurists	$19,327	0.000%
	Weighted Mean Annual Wage	**$27,171**	**0.395%**

Figure III-9. Occupational Mix and Average Wages for Office/ R&D/ Medical Office, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Office/ R&D/ Medical Office Workers (c)
41-0000	Sales and Related Occupations		
41-3099	Sales Representatives, Services, All Other	$90,918	1.480%
41-4011	Sales Representatives, Wholesale and Manufacturing, Technical and Scientific Products	$122,303	0.645%
41-3031	Securities, Commodities, and Financial Services Sales Agents	$94,597	0.412%
41-4012	Sales Representatives, Wholesale and Manufacturing, Except Technical and Scientific Products	$68,867	0.334%
41-9031	Sales Engineers	$121,759	0.235%
41-1012	First-Line Supervisors of Non-Retail Sales Workers	$111,025	0.222%
41-3021	Insurance Sales Agents	$73,372	0.213%
41-2031	Retail Salespersons	$27,121	0.206%
41-9041	Telemarketers	$29,631	0.184%
41-2011	Cashiers	$25,771	0.150%
41-9022	Real Estate Sales Agents	$70,439	0.121%
41-3011	Advertising Sales Agents	$63,001	0.110%
41-2021	Counter and Rental Clerks	$34,428	0.105%
41-9099	Sales and Related Workers, All Other	$42,552	0.060%
41-9011	Demonstrators and Product Promoters	$26,396	0.058%
41-1011	First-Line Supervisors of Retail Sales Workers	$48,448	0.049%
41-9021	Real Estate Brokers	$104,837	0.028%
41-2022	Parts Salespersons	$36,575	0.005%
41-3041	Travel Agents	$41,745	0.004%
	Weighted Mean Annual Wage	**$83,961**	**4.621%**
43-0000	Office and Administrative Support Occupations		
43-9061	Office Clerks, General	$39,450	2.848%
43-4051	Customer Service Representatives	$46,518	2.571%
43-6014	Secretaries and Administrative Assistants, Except Legal, Medical, and Executive	$43,308	2.003%
43-3031	Bookkeeping, Accounting, and Auditing Clerks	$49,252	1.528%
43-4171	Receptionists and Information Clerks	$34,590	1.285%
43-1011	First-Line Supervisors of Office and Administrative Support Workers	$67,296	1.261%
43-6011	Executive Secretaries and Executive Administrative Assistants	$65,402	0.904%
43-3071	Tellers	$31,886	0.879%
43-6013	Medical Secretaries	$44,938	0.773%
43-3021	Billing and Posting Clerks	$45,890	0.657%

Figure III-9. Occupational Mix and Average Wages for Office/ R&D/ Medical Office, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Office/ R&D/ Medical Office Workers (c)
43-9021	Data Entry Keyers	$33,820	0.411%
43-5081	Stock Clerks and Order Fillers	$28,312	0.391%
43-3011	Bill and Account Collectors	$49,434	0.379%
43-6012	Legal Secretaries	$62,648	0.365%
43-5071	Shipping, Receiving, and Traffic Clerks	$35,207	0.346%
43-5061	Production, Planning, and Expediting Clerks	$58,689	0.307%
43-4131	Loan Interviewers and Clerks	$47,712	0.275%
43-4071	File Clerks	$34,012	0.229%
43-9199	Office and Administrative Support Workers, All Other	$38,731	0.186%
43-3051	Payroll and Timekeeping Clerks	$51,773	0.172%
43-9011	Computer Operators	$46,204	0.144%
43-4161	Human Resources Assistants, Except Payroll and Timekeeping	$51,044	0.144%
43-9041	Insurance Claims and Policy Processing Clerks	$41,779	0.135%
43-4111	Interviewers, Except Eligibility and Loan	$48,452	0.134%
43-4141	New Accounts Clerks	$41,475	0.095%
43-9051	Mail Clerks and Mail Machine Operators, Except Postal Service	$34,691	0.093%
43-2011	Switchboard Operators, Including Answering Service	$35,683	0.086%
43-4199	Information and Record Clerks, All Other	$46,467	0.082%
43-9071	Office Machine Operators, Except Computer	$33,131	0.081%
43-4151	Order Clerks	$42,315	0.072%
43-4011	Brokerage Clerks	$57,261	0.066%
43-5032	Dispatchers, Except Police, Fire, and Ambulance	$53,920	0.062%
43-4041	Credit Authorizers, Checkers, and Clerks	$41,981	0.060%
43-5021	Couriers and Messengers	$36,189	0.058%
43-4121	Library Assistants, Clerical	$34,488	0.055%
43-9022	Word Processors and Typists	$51,013	0.046%
43-3061	Procurement Clerks	$47,955	0.040%
43-3099	Financial Clerks, All Other	$45,444	0.040%
43-5111	Weighers, Measurers, Checkers, and Samplers, Recordkeeping	$30,539	0.023%
43-9031	Desktop Publishers	$58,750	0.018%
43-5011	Cargo and Freight Agents	$38,650	0.013%
43-9081	Proofreaders and Copy Markers	$48,371	0.013%
43-9111	Statistical Assistants	$54,203	0.010%

Figure III-9. Occupational Mix and Average Wages for Office/ R&D/ Medical Office, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Office/ R&D/ Medical Office Workers (c)
43-4181	Reservation and Transportation Ticket Agents and Travel Clerks	$37,617	0.009%
43-4081	Hotel, Motel, and Resort Desk Clerks	$24,788	0.008%
43-5041	Meter Readers, Utilities	$52,330	0.006%
43-5031	Police, Fire, and Ambulance Dispatchers	$71,660	0.004%
43-4061	Eligibility Interviewers, Government Programs	$58,831	0.003%
43-4031	Court, Municipal, and License Clerks	$42,184	0.001%
	Weighted Mean Annual Wage	**$45,403**	**19.372%**
45-0000	Farming, Fishing, and Forestry Occupations		
45-2092	Farmworkers and Laborers, Crop, Nursery, and Greenhouse	$21,473	0.013%
45-2093	Farmworkers, Farm, Ranch, and Aquacultural Animals	$28,101	0.006%
45-1011	First-Line Supervisors of Farming, Fishing, and Forestry Workers	$61,161	0.002%
45-2091	Agricultural Equipment Operators	$54,786	0.002%
45-2011	Agricultural Inspectors	$55,849	0.002%
45-4011	Forest and Conservation Workers	$19,510	0.001%
45-2041	Graders and Sorters, Agricultural Products	$20,370	0.000%
	Weighted Mean Annual Wage	**$31,456**	**0.026%**
47-0000	Construction and Extraction Occupations		
47-2061	Construction Laborers	$44,910	0.350%
47-4011	Construction and Building Inspectors	$82,189	0.097%
47-2111	Electricians	$64,835	0.089%
47-2031	Carpenters	$62,042	0.088%
47-1011	First-Line Supervisors of Construction Trades and Extraction Workers	$83,728	0.036%
47-2073	Operating Engineers and Other Construction Equipment Operators	$69,510	0.033%
47-2152	Plumbers, Pipefitters, and Steamfitters	$80,317	0.032%
47-2141	Painters, Construction and Maintenance	$52,934	0.031%
47-2051	Cement Masons and Concrete Finishers	$50,759	0.009%
47-4099	Construction and Related Workers, All Other	$60,645	0.007%
47-2081	Drywall and Ceiling Tile Installers	$62,062	0.006%
47-2221	Structural Iron and Steel Workers	$83,677	0.004%
47-4071	Septic Tank Servicers and Sewer Pipe Cleaners	$42,704	0.004%
47-3012	Helpers--Carpenters	$49,079	0.004%

Figure III-9. Occupational Mix and Average Wages for Office/ R&D/ Medical Office, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Office/ R&D/ Medical Office Workers (c)
47-2022	Stonemasons	$46,306	0.004%
47-4041	Hazardous Materials Removal Workers	$42,127	0.003%
47-2181	Roofers	$51,558	0.003%
47-2151	Pipelayers	$62,285	0.002%
47-2041	Carpet Installers	$56,709	0.002%
47-4051	Highway Maintenance Workers	$60,564	0.002%
47-2161	Plasterers and Stucco Masons	$54,270	0.001%
47-2021	Brickmasons and Blockmasons	$59,947	0.001%
47-2044	Tile and Marble Setters	$44,141	0.001%
47-3019	Helpers, Construction Trades, All Other	$28,061	0.001%
47-3014	Helpers--Painters, Paperhangers, Plasterers, and Stucco Masons	$29,650	0.001%
47-2082	Tapers	$63,074	0.001%
47-4021	Elevator Installers and Repairers	$87,219	0.001%
47-2211	Sheet Metal Workers	$69,014	0.001%
47-2071	Paving, Surfacing, and Tamping Equipment Operators	$49,221	0.001%
47-2121	Glaziers	$71,402	0.000%
47-3011	Helpers--Brickmasons, Blockmasons, Stonemasons, and Tile and Marble Setters	$38,929	0.000%
47-2042	Floor Layers, Except Carpet, Wood, and Hard Tiles	$64,045	0.000%
	Weighted Mean Annual Wage	**$58,523**	**0.813%**
49-0000	Installation, Maintenance, and Repair Occupations		
49-9071	Maintenance and Repair Workers, General	$48,997	0.675%
49-2022	Telecommunications Equipment Installers and Repairers, Except Line Installers	$65,495	0.243%
49-2011	Computer, Automated Teller, and Office Machine Repairers	$46,697	0.184%
49-1011	First-Line Supervisors of Mechanics, Installers, and Repairers	$77,658	0.127%
49-9052	Telecommunications Line Installers and Repairers	$63,724	0.122%
49-9099	Installation, Maintenance, and Repair Workers, All Other	$49,058	0.114%
49-2098	Security and Fire Alarm Systems Installers	$64,885	0.068%
49-9041	Industrial Machinery Mechanics	$55,938	0.066%
49-2094	Electrical and Electronics Repairers, Commercial and Industrial Equipment	$51,745	0.046%
49-9098	Helpers--Installation, Maintenance, and Repair Workers	$34,330	0.030%
49-3011	Aircraft Mechanics and Service Technicians	$63,317	0.024%
49-3023	Automotive Service Technicians and Mechanics	$51,582	0.023%

Figure III-9. Occupational Mix and Average Wages for Office/ R&D/ Medical Office, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Office/ R&D/ Medical Office Workers (c)
49-9094	Locksmiths and Safe Repairers	$59,969	0.023%
49-9021	Heating, Air Conditioning, and Refrigeration Mechanics and Installers	$65,190	0.017%
49-3031	Bus and Truck Mechanics and Diesel Engine Specialists	$55,745	0.015%
49-9043	Maintenance Workers, Machinery	$43,226	0.015%
49-9062	Medical Equipment Repairers	$56,416	0.011%
49-3053	Outdoor Power Equipment and Other Small Engine Mechanics	$46,768	0.011%
49-3042	Mobile Heavy Equipment Mechanics, Except Engines	$55,470	0.009%
49-9051	Electrical Power-Line Installers and Repairers	$91,072	0.008%
49-9012	Control and Valve Installers and Repairers, Except Mechanical Door	$62,330	0.006%
49-3093	Tire Repairers and Changers	$30,300	0.004%
49-9069	Precision Instrument and Equipment Repairers, All Other	$54,798	0.004%
49-3021	Automotive Body and Related Repairers	$47,826	0.004%
49-2097	Electronic Home Entertainment Equipment Installers and Repairers	$41,719	0.004%
49-2091	Avionics Technicians	$65,780	0.003%
49-3041	Farm Equipment Mechanics and Service Technicians	$43,847	0.001%
49-9031	Home Appliance Repairers	$42,004	0.001%
49-9091	Coin, Vending, and Amusement Machine Servicers and Repairers	$36,977	0.001%
49-2093	Electrical and Electronics Installers and Repairers, Transportation Equipment	$65,251	0.000%
49-3091	Bicycle Repairers	$26,890	0.000%
49-2096	Electronic Equipment Installers and Repairers, Motor Vehicles	$37,638	0.000%
	Weighted Mean Annual Wage	**$55,278**	**1.862%**
51-0000	Production Occupations		
51-2092	Team Assemblers	$34,315	1.193%
51-2022	Electrical and Electronic Equipment Assemblers	$37,365	0.820%
51-9198	Helpers--Production Workers	$27,546	0.702%
51-9061	Inspectors, Testers, Sorters, Samplers, and Weighers	$46,350	0.532%
51-2099	Assemblers and Fabricators, All Other	$38,137	0.473%
51-9199	Production Workers, All Other	$36,491	0.387%
51-9111	Packaging and Filling Machine Operators and Tenders	$29,762	0.339%
51-4041	Machinists	$49,918	0.238%
51-1011	First-Line Supervisors of Production and Operating Workers	$63,406	0.228%
51-9141	Semiconductor Processors	$37,050	0.226%

Figure III-9. Occupational Mix and Average Wages for Office/ R&D/ Medical Office, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Office/ R&D/ Medical Office Workers (c)
51-4031	Cutting, Punching, and Press Machine Setters, Operators, and Tenders, Metal and Plastic	$35,860	0.140%
51-4121	Welders, Cutters, Solderers, and Brazers	$43,484	0.126%
51-2023	Electromechanical Equipment Assemblers	$36,531	0.100%
51-4011	Computer-Controlled Machine Tool Operators, Metal and Plastic	$42,335	0.059%
51-9081	Dental Laboratory Technicians	$41,827	0.045%
51-4072	Molding, Coremaking, and Casting Machine Setters, Operators, and Tenders, Metal and Plastic	$31,632	0.045%
51-4193	Plating and Coating Machine Setters, Operators, and Tenders, Metal and Plastic	$36,145	0.036%
51-5112	Printing Press Operators	$37,416	0.034%
51-4199	Metal Workers and Plastic Workers, All Other	$43,097	0.034%
51-2021	Coil Winders, Tapers, and Finishers	$55,529	0.032%
51-6011	Laundry and Dry-Cleaning Workers	$25,879	0.028%
51-9151	Photographic Process Workers and Processing Machine Operators	$35,047	0.019%
51-4081	Multiple Machine Tool Setters, Operators, and Tenders, Metal and Plastic	$42,477	0.017%
51-6021	Pressers, Textile, Garment, and Related Materials	$24,425	0.017%
51-6031	Sewing Machine Operators	$24,629	0.013%
51-9121	Coating, Painting, and Spraying Machine Setters, Operators, and Tenders	$33,817	0.013%
51-3011	Bakers	$27,048	0.012%
51-4111	Tool and Die Makers	$51,310	0.011%
51-3099	Food Processing Workers, All Other	$28,694	0.011%
51-4122	Welding, Soldering, and Brazing Machine Setters, Operators, and Tenders	$44,744	0.011%
51-4012	Computer Numerically Controlled Machine Tool Programmers, Metal and Plastic	$64,290	0.010%
51-3092	Food Batchmakers	$25,310	0.010%
51-5113	Print Binding and Finishing Workers	$31,795	0.010%
51-4033	Grinding, Lapping, Polishing, and Buffing Machine Tool Setters, Operators, and Tenders, Metal and Plastic	$31,053	0.010%
51-2041	Structural Metal Fabricators and Fitters	$43,504	0.009%
51-5111	Prepress Technicians and Workers	$46,035	0.009%
51-9196	Paper Goods Machine Setters, Operators, and Tenders	$42,264	0.009%
51-3022	Meat, Poultry, and Fish Cutters and Trimmers	$24,923	0.008%
51-9011	Chemical Equipment Operators and Tenders	$46,828	0.007%
51-8031	Water and Wastewater Treatment Plant and System Operators	$76,488	0.007%
51-8012	Power Distributors and Dispatchers	$118,172	0.006%
51-7011	Cabinetmakers and Bench Carpenters	$38,086	0.006%
51-9032	Cutting and Slicing Machine Setters, Operators, and Tenders	$29,569	0.006%

Figure III-9. Occupational Mix and Average Wages for Office/ R&D/ Medical Office, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Office/ R&D/ Medical Office Workers (c)
51-8021	Stationary Engineers and Boiler Operators	$78,511	0.005%
51-4061	Model Makers, Metal and Plastic	$50,701	0.005%
51-9023	Mixing and Blending Machine Setters, Operators, and Tenders	$42,508	0.005%
51-4034	Lathe and Turning Machine Tool Setters, Operators, and Tenders, Metal and Plastic	$42,742	0.005%
51-9194	Etchers and Engravers	$26,763	0.005%
51-9021	Crushing, Grinding, and Polishing Machine Setters, Operators, and Tenders	$37,751	0.004%
51-9012	Separating, Filtering, Clarifying, Precipitating, and Still Machine Setters, Operators, and Tenders	$40,373	0.004%
51-4022	Forging Machine Setters, Operators, and Tenders, Metal and Plastic	$41,105	0.003%
51-9041	Extruding, Forming, Pressing, and Compacting Machine Setters, Operators, and Tenders	$33,756	0.003%
51-9195	Molders, Shapers, and Casters, Except Metal and Plastic	$38,971	0.003%
51-7099	Woodworkers, All Other	$36,155	0.003%
51-9122	Painters, Transportation Equipment	$51,656	0.003%
51-3091	Food and Tobacco Roasting, Baking, and Drying Machine Operators and Tenders	$32,750	0.002%
51-4032	Drilling and Boring Machine Tool Setters, Operators, and Tenders, Metal and Plastic	$37,741	0.002%
51-8091	Chemical Plant and System Operators	$53,252	0.002%
51-4035	Milling and Planing Machine Setters, Operators, and Tenders, Metal and Plastic	$37,324	0.002%
51-8099	Plant and System Operators, All Other	$74,231	0.002%
51-9191	Adhesive Bonding Machine Operators and Tenders	$31,784	0.002%
51-9123	Painting, Coating, and Decorating Workers	$38,269	0.002%
51-9022	Grinding and Polishing Workers, Hand	$29,680	0.002%
51-6052	Tailors, Dressmakers, and Custom Sewers	$41,613	0.002%
51-9051	Furnace, Kiln, Oven, Drier, and Kettle Operators and Tenders	$52,256	0.001%
51-9192	Cleaning, Washing, and Metal Pickling Equipment Operators and Tenders	$23,551	0.001%
51-8013	Power Plant Operators	$84,833	0.001%
51-4191	Heat Treating Equipment Setters, Operators, and Tenders, Metal and Plastic	$50,609	0.001%
51-3093	Food Cooking Machine Operators and Tenders	$28,593	0.001%
51-4194	Tool Grinders, Filers, and Sharpeners	$50,131	0.001%
51-8093	Petroleum Pump System Operators, Refinery Operators, and Gaugers	$77,972	0.001%
51-9031	Cutters and Trimmers, Hand	$24,446	0.001%
51-6062	Textile Cutting Machine Setters, Operators, and Tenders	$27,109	0.000%
51-3021	Butchers and Meat Cutters	$34,021	0.000%
51-7021	Furniture Finishers	$29,630	0.000%

Figure III-9. Occupational Mix and Average Wages for Office/ R&D/ Medical Office, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Office/ R&D/ Medical Office Workers (c)
51-7041	Sawing Machine Setters, Operators, and Tenders, Wood	$33,543	0.000%
	Weighted Mean Annual Wage	**$37,809**	**6.124%**
53-0000	Transportation and Material Moving Occupations		
53-7062	Laborers and Freight, Stock, and Material Movers, Hand	$31,188	2.554%
53-7064	Packers and Packagers, Hand	$23,607	0.672%
53-7051	Industrial Truck and Tractor Operators	$37,469	0.285%
53-3032	Heavy and Tractor-Trailer Truck Drivers	$46,564	0.199%
53-3033	Light Truck or Delivery Services Drivers	$36,503	0.137%
53-7063	Machine Feeders and Offbearers	$33,475	0.052%
53-1021	First-Line Supervisors of Helpers, Laborers, and Material Movers, Hand	$52,489	0.037%
53-3099	Motor Vehicle Operators, All Other	$48,302	0.030%
53-3041	Taxi Drivers and Chauffeurs	$31,493	0.026%
53-7061	Cleaners of Vehicles and Equipment	$25,762	0.023%
53-1031	First-Line Supervisors of Transportation and Material-Moving Machine and Vehicle Operators	$61,604	0.021%
53-7081	Refuse and Recyclable Material Collectors	$46,188	0.017%
53-3031	Driver/Sales Workers	$35,192	0.016%
53-6021	Parking Lot Attendants	$21,595	0.014%
53-2012	Commercial Pilots	$69,308	0.010%
53-3021	Bus Drivers, Transit and Intercity	$56,828	0.004%
53-6031	Automotive and Watercraft Service Attendants	$27,042	0.004%
53-3022	Bus Drivers, School or Special Client	$36,117	0.004%
53-6051	Transportation Inspectors	$87,640	0.003%
53-7032	Excavating and Loading Machine and Dragline Operators	$62,966	0.003%
53-6099	Transportation Workers, All Other	$33,607	0.001%

Figure III-9. Occupational Mix and Average Wages for Office/ R&D/ Medical Office, Continued

Occupation Code	Occupation Name (a)	Average Annual Wage (b)	% of Total Office/ R&D/ Medical Office Workers (c)
53-7199	Material Moving Workers, All Other	$39,857	0.001%
53-1011	Aircraft Cargo Handling Supervisors	$54,846	0.000%
53-2022	Airfield Operations Specialists	$67,925	0.000%
	Weighted Mean Annual Wage	**$32,020**	**4.116%**
	Total, Land Use	**$78,597.78**	**100.000%**

Notes:

(a) Occupational mix by industry was obtained from US Bureau of Labor Statistics, Occupational Employment Statistics, 2013.

(b) Wage data for the San Jose – Sunnyvale – Santa Clara Metropolitan Statistical Area obtained from California Economic Development Department, OES Employment and Wages by Occupation, 2013.

(c) Distribution of workers is calculated based on the existing distribution of employment by industry in Santa Clara County, provided by Quarterly Census of Employment and Wages (QCEW), 2013.

Sources: Vernazza Wolfe Associates, Inc.; Strategic Economics, 2015.

Household Incomes

Based on the employee wage calculations discussed above, household incomes are estimated for each prototype. This step assumes that the income of the second wage-earner is similar to the wage of the first wage-earner. In order to calculate the annual household income, the average worker wage is multiplied by the number of wage-earners per household. According to the U.S. Census Bureau American Community Survey 3-Year Estimates, 2010-2012, there is an average of 1.49 wage-earners per household in Palo Alto. The average annual wage per employee within each occupation was multiplied by 1.49 in order to determine annual average household income.

Employee households are then categorized as very low, low, moderate, and above moderate income based on the income definitions and cut-offs established by the California Housing and Community Development Department (HCD). According to the U.S. Census Bureau American Community Survey 5-Year Estimates, 2008-2012, the average household size in the City of Palo Alto is 2.41. This has been rounded to 2, the nearest whole number. The income categories for very low, low, moderate, and above moderate income households are therefore based on the household size of two persons, using the California Department of Housing and Community Development's definitions of income thresholds for area median income, as shown in Figure III-10.

Figure III-10. Household Income Categories

Income Category	2-Person Household
Very Low Income (<=50% AMI)	$42,450
Low Income (51-80% AMI)	$67,900
Moderate Income (81-120% AMI)	$101,300
Above Moderate Income (>=120%)	>$101,300

Source: California Department of Housing and Community Development, "State Income Limits for 2014", February 28, 2014.

Using the income categories described above, the new worker households were sorted into income groups. As shown in Figure III-11 below, most hotel worker households are in very low and low income categories, and about half of office/ R&D/ medical office workers are in very low, low, and moderate income categories. Above moderate income households were removed from the subsequent steps of the nexus analysis, as it is determined that these income groups would be able to afford market-rate housing.

Figure III-11. Number of Worker Households by Income Category

Prototype	Number of Worker Households
Hotel	
Very Low Income (<=50% AMI)	30.05
Low Income (51-80% AMI)	24.13
Moderate Income (81-120% AMI)	9.58
Above Moderate (>=120%)	3.36
Total	**67.12**
Office, R&D and Medical Office Land Use	
Very Low Income (<=50% AMI)	14.40
Low Income (51-80% AMI)	51.43
Moderate Income (81-120% AMI)	36.32
Above Moderate (>=120%)	99.39
Total	**201.54**

Sources: Vernazza Wolfe Associates, Inc; Strategic Economics, 2015.

IV. HOUSING AFFORDABILITY GAP

Estimating the housing affordability gap is necessary to calculate the maximum housing impact fee. This section summarizes the approach to calculating the housing affordability gap and the results of the analysis.

METHODOLOGY

The housing affordability gap is defined as the difference between what very low, low, and moderate income households can afford to pay for housing and the development cost of new, modest housing units. Calculating the housing affordability gap involves the following three steps:

1. Estimating affordable rents and housing prices for households in target income groups.

2. Estimating development costs of building new, modest housing units, based on current cost and market data.

3. Calculating the different between what renters and owners can afford to pay for housing and the cost of development of rental and ownership units.

The housing affordability gap is estimated at a countywide level because the California Department of Housing and Community Development Department (HCD) and U.S. Housing and Urban Development Department (HUD) define the ability to pay for housing at the county (rather than the city) level. This analysis uses 2014 income limits published by California Department of Housing and Community Development (HCD).

ESTIMATING AFFORDABLE RENTS AND SALES PRICES

The first step in calculating the housing affordability gap is to determine the maximum amount that households at the targeted income levels can afford to pay for housing. For eligibility purposes, most affordable housing programs define very low income households as those earning approximately 50 percent or less of area median income (AMI), low income households as those earning between 51 and 80 percent of AMI, and moderate income households as those earning between 81 and 120 percent of AMI. In order to ensure that the affordability of housing does not use the top incomes in each category, the analysis uses a point within the income ranges for the low and moderate income groups.[3]

Figure IV-1 and Figure IV-2 show the calculations for rental housing. The maximum affordable monthly rent is calculated as 30 percent of gross monthly household income, minus a deduction for utilities. For example, a very low income, three-person household could afford to spend $1,194 on total monthly housing costs. After deducting for utilities, $1,145 a month is available to pay for rent (Figure IV-1).

Figure IV-3 and Figure IV-4 demonstrate housing affordability for homeowners. Homeowners are assumed to pay a maximum of 35 percent of gross monthly income on total housing costs, depending on income level. The maximum affordable price for for-sale housing is then calculated based on the total monthly mortgage payment that a homeowner could afford, using standard loan terms used by CalHFA

[3] For rental housing, 70 percent of AMI is used to represent low income households and 90 percent of AMI is used to represent moderate income households. For ownership housing, it is assumed that moderate income homebuyers may earn slightly less than the maximum for that income category (110 percent of AMI). Higher income limits are used for ownership than for rental housing because ownership housing is more expensive to purchase and maintain.

programs and many private lenders for first-time homebuyers, including a five percent down payment (Figure IV-3). For example, a moderate income, three-person household could afford to spend $3,046 a month on total housing costs, allowing for the purchase of a $359,897 home.

Key assumptions used to calculate the maximum affordable rents and housing prices are discussed below.

- **Unit types:** For rental housing, the analysis included studios, one-, two-, and three-bedroom units. For for-sale housing, one-, two-, and three-bedroom units were included. These unit types represent the affordable and modest market-rate apartment and condominium units available in Palo Alto. Condominiums were used to represent modest for-sale housing because single-family homes in Palo Alto tend to be significantly more expensive than condominiums.

- **Occupancy and household size assumptions.** Because income levels for affordable housing programs vary by household size, calculating affordable unit prices requires defining household sizes for each unit type. Consistent with California Health and Safety Code Section 50052.5(h), unit occupancy was generally estimated as the number of bedrooms plus one. For example, a studio unit is assumed to be occupied by one person, a one bedroom unit is assumed to be occupied by two people, and so on. Several adjustments to this general assumption were made in order to capture the full range of household sizes. In particular, it is assumed that one-bedroom condominiums could be occupied by one- or two-person households, and three-bedroom apartments and condominiums could be occupied by four- or five-person households.[4]

- **Targeted income levels for rental housing:** For rental housing, affordable rents were calculated for very low income, low income, and moderate income households (see Figure IV-1 and Figure IV-2). For eligibility purposes, most affordable housing programs define very low income households as those earning 50 percent or less of area median income (AMI), low income households as those earning between 51 and 80 percent of AMI, and moderate income households as those earning between 81 and 120 percent of AMI. However, defining affordable housing expenses based at the top of each income range would result in prices that are not affordable to most of the households in each category. Thus, this analysis does not use the maximum income level for all of the income categories. Instead, for rental housing, 70 percent of AMI is used to represent low income households and 90 percent of AMI is used to represent moderate income households.

- **Targeted income levels for ownership housing** For ownership housing, affordable home prices were calculated only for moderate income households, because very low and low income households are unlikely to be homebuyers. Higher income limits are used for ownership than for rental housing because ownership housing is more expensive to purchase and maintain. It is assumed that moderate income homebuyers may earn slightly less than the maximum for that income category (110 percent of AMI).

- **Maximum monthly housing costs.**[5] For all renters, maximum monthly housing costs are assumed to be 30 percent of gross household income. For homebuyers, 35 percent of gross income is assumed to be available for monthly housing costs, reflecting the higher incomes of this

[4] For these unit types, the maximum affordable home price (or rent) is calculated as the average price (or rent) that the relevant household sizes can afford to pay. For example, the maximum affordable home price for a one-bedroom condominium is calculated as the average of the maximum affordable home price for one- and two-person households.

[5] The calculation of homeowner affordability is conservative in that the model accounts for additional costs for buyers (such as utility costs) that might not be considered by all lenders.

group.[6] These standards are based on California's Health & Safety Code Sections 50052.5 and 50053.

- **Utilities.** The monthly utility cost assumptions are based on Santa Clara County's "2013 Utility Allowance Schedule."[7] Both renters and owners are assumed to pay for heating, cooking, other electric, and water heating. In addition, owners are assumed to pay for water and trash collection.[8]

- **Mortgage terms & costs included for ownership housing.** For ownership housing, the mortgage calculations are based on the terms typically offered to first-time homebuyers (such as the terms offered by the California Housing Finance Authority), which is a 30-year mortgage with a five percent down payment. A five percent down payment standard is also used by many private lenders for first-time homebuyers. Based on recent interest rates to first-time buyers, the analysis assumes a 5.375 percent annual interest rate.[9] In addition to mortgage payments and utilities, monthly ownership housing costs include homeowner association (HOA) dues,[10] property taxes,[11] private mortgage insurance,[12] and hazard and casualty insurance.[13]

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[6] The assumption that homebuyers spend 35 percent of gross household income on housing results in a reduced affordability gap than if 30 percent of gross household income were used instead.

[7] Santa Clara County, "Utility Allowance Schedule", 2013.

[8] Based on the most common types of fuel for owner and rental units in Palo Alto, all units are assumed to have natural gas heating and water heating systems; for-sale units are also assumed to have natural gas stoves, while rental units are assumed to use electric stoves. Sources: U.S. Census Bureau, 2008-2012 American Community Survey, "Table B25117: Tenure by House Heating Fuel," City of Palo Alto; U.S. Census Bureau, 2011 American Housing Survey, "Table C-03-AH-M, San Jose-Sunnyvale-Santa Clara: Heating, Air Conditioning, and Appliances – All Housing Units."

[9] Sources: CalHFA Mortgage Calculator, accessed March 2014; Zillow.com, "Current Mortgage Rates and Home Loans," accessed March 2014; interviews with California Housing Finance Agency (CalHFA) Preferred Loan Officers, March 2014.

[10] HOA fees are estimated at $300 per unit per month, based on common HOA fees in Santa Clara County as reported in: Polaris Pacific, "Silicon Valley Condominium Market," February 2014.

[11] The annual property tax rate is estimated at 1.16, based on the total direct and overlapping property tax rate for Palo Alto reported in the City's 2012-13 Comprehensive Annual Financial Report (page 144).

[12] The annual private mortgage insurance premium rate is estimated at 0.89 percent of the total mortgage amount, consistent with standard requirements for conventional loans with a five percent down payment. Sources: Genworth, February 2014; MGIC, December 2013; Radian, April 2014.

[13] The annual hazard and casualty insurance rate is assumed to be 0.35 percent of the sales price, consistent with standard industry practice.

Figure IV-1. Calculation of Affordable Rents in Santa Clara County by Household Size, 2014

Persons per Household (HH)	1	2	3	4	5
Very Low Income (50% AMI)					
Maximum Household Income at 50% AMI	$37,150	$42,450	$47,750	$53,050	$57,300
Maximum Monthly Housing Cost (a)	$929	$1,061	$1,194	$1,326	$1,433
Utility Deduction	$29	$40	$49	$60	$60
Maximum Available for Rent (HH Size) (b)	$900	$1,021	$1,145	$1,266	$1,373
Low Income (70% AMI)					
Maximum Household Income at 70% AMI	$51,695	$59,080	$66,465	$73,850	$79,765
Maximum Monthly Housing Cost (a)	$1,292	$1,477	$1,662	$1,846	$1,994
Utility Deduction	$29	$40	$49	$60	$60
Maximum Available for Rent (HH Size) (b)	$1,263	$1,437	$1,613	$1,786	$1,934
Moderate Income (90% AMI)					
Maximum Household Income at 90% AMI	$66,465	$75,960	$85,455	$94,950	$102,555
Maximum Monthly Housing Cost (a)	$1,662	$1,899	$2,136	$2,374	$2,564
Utility Deduction	$29	$40	$49	$60	$60
Maximum Available for Rent (HH Size) (b)	$1,633	$1,859	$2,087	$2,314	$2,504

Notes:

(a) 30 percent of maximum monthly household income.

(b) Maximum monthly housing cost minus utility deduction.

Acronyms:

AMI: Area median income

HH: Household

Sources: California Department of Housing and Community Development, "State Income Limits for 2014," February 28, 2014 and “Overpayment and Overcrowding,” 2010; Housing Authority of Santa Clara County, "2013 Utility Allowances Schedule," Santa Clara County, October 2013; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

Figure IV-2. Calculation of Affordable Rents in Santa Clara County by Unit Type, 2014

Affordable Rents by Unit Type (a)	Studio	1 Bedroom	2 Bedroom	3 Bedroom
Very Low Income (50% AMI)	$900	$1,021	$1,145	$1,319
Low Income (70% AMI)	$1,263	$1,437	$1,613	$1,860
Moderate Income (90% AMI)	$1,633	$1,859	$2,087	$2,409

(a) Affordable rents are calculated as follows: Studios are calculated as one-person households; One-bedroom units are calculated as two-person households; Two-bedroom units are calculated as three-person households; Three-bedroom units are calculated as an average of four and five person households.

Sources: California Department of Housing and Community Development, "State Income Limits for 2014," February 28, 2014 and "Overpayment and Overcrowding," 2010; Housing Authority of Santa Clara County, "2013 Utility Allowances Schedule," Santa Clara County, October 2013; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

Figure IV-3. Calculation of Affordable Sales Prices in Santa Clara County by Household Size, 2014

Household Size (Persons per HH)	**1**	**2**	**3**	**4**	**5**
Moderate Income (110% AMI) (g)					
Maximum Household Income at 110% AMI	$81,235	$92,840	$104,445	$116,050	$125,345
Maximum Monthly Housing Cost (a)	$2,369	$2,708	$3,046	$3,385	$3,656
Monthly Deductions					
Utilities	$113	$113	$125	$174	$174
HOA Dues	$300	$300	$300	$300	$300
Property Taxes and Insurance (b)	$527	$619	$706	$785	$858
Monthly Income Available for Mortgage Payment (c)	$1,429	$1,676	$1,915	$2,126	$2,324
Maximum Mortgage Amount (d)	$255,155	$299,376	$341,902	$379,732	$415,083
Maximum Affordable Sales Price - HH Size (e)	$268,584	$315,133	$359,897	$399,717	$436,929

Notes:

(a) 30 percent of monthly household income for very low and low income households; 35 percent of monthly household income for moderate-income households

(b) Assumes annual property tax rate of 1.16 percent of sales price; annual private mortgage insurance premium rate of 0.89 percent of mortgage amount; annual hazard and casualty insurance rate of 0.35 percent of sales price

(c) Maximum monthly housing cost minus deductions

(d) Assumes 5.375 percent interest rate and 30 year loan term. Assumes CalHFA first-time homebuyer program.

(e) Assumes 5 percent down payment (95 percent loan-to-value ratio). Assumes CalHFA first-time homebuyer program.

(f) Calculated as an average of household sizes occupying unit type. 1-bedroom units are assumed to accommodate 1- and 2-person households; 3-bedroom units are assumed to accommodate 4- and 5-person households.

(g) Calculated as 110 percent of the median household income reported by HCD for each household size.

Acronyms:

AMI: Area median income
HH: Household
HOA: Homeowners association

Sources: California Department of Housing and Community Development, "State Income Limits for 2014," February 28, 2014 and “Overpayment and Overcrowding,” 2010; Housing Authority of Santa Clara County, "2013 Utility Allowances Schedule," Santa Clara County, October 2013; Mortgage insurance provider websites; Interviews with California Housing Finance Agency (CalHFA) Preferred Loan Officers, March 2014; CalHFA Mortgage Calculator, March 2014; Zillow.com, March 2014; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

Figure IV-4. Calculation of Affordable Sales Prices in Santa Clara County by Unit Type, 2014

Affordable Sales Price by Unit Type (a)	**1 Bedroom**	**2 Bedroom**	**3 Bedroom**
Moderate Income (110% AMI)	$291,858	$359,897	$418,323

(a) One-bedroom units are calculated as an average of one- and two-person households; Two-bedroom units are calculated as three-person households; and three-bedroom units are calculated as an average of four and five person households.

Sources: California Department of Housing and Community Development, "State Income Limits for 2014," February 28, 2014 and "Overpayment and Overcrowding," 2010; Housing Authority of Santa Clara County, "2013 Utility Allowances Schedule," Santa Clara County, October 2013; Mortgage insurance provider websites; Interviews with California Housing Finance Agency (CalHFA) Preferred Loan Officers, March 2014; CalHFA Mortgage Calculator, March 2014; Zillow.com, March 2014; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

ESTIMATING HOUSING DEVELOPMENT COSTS

The second step in calculating the housing affordability gap is to estimate the cost of developing new, modest housing units. Modest housing is defined slightly differently for rental and ownership housing. For rental housing, the costs and characteristics of modest housing are similar to recent projects developed in Palo Alto by the affordable rental housing sector. However, there are no examples of new modest ownership housing units built in Palo Alto by the private or nonprofit sectors. The new for-sale homes in Palo Alto are typically luxury custom-built single family homes and large upscale condominium units, which are too costly to meet the standard for modest housing. For the purposes of this affordability gap analysis, modest for-sale housing units are defined as compact, non-luxury multifamily condominium units.

The calculation of housing development costs used in the housing affordability gap requires several steps. Because the gap covers both rental housing and for-sale housing, it is necessary to estimate costs for each. The following describes the data sources used to calculate rental and for-sale housing development costs.

Rental Housing

Rental housing development costs were based on pro forma data obtained from recent affordable housing projects in Palo Alto. Figure IV-5 shows the description of these projects and summarizes the information that was used to generate a per-square-foot cost of $446 used in the cost analysis. These costs include site acquisition costs, hard costs (on- and off-site improvements), soft costs (such as design, city permits and fees, construction interest, and contingencies), and developer fees. The costs from the rental housing pro formas were also cross-referenced against proprietary pro formas available to the consultant team from other private development projects in order to ensure accuracy.

Since these projects assumed state and federal funding, the labor costs included in the original pro formas reflect the prevailing wage requirement imposed by state and local governments. The costs shown in Figure IV-5 have been adjusted to subtract out the prevailing wage requirement because the development cost model used in the housing affordability gap analysis does not assume receipt of government subsidies. A rule of thumb used by local economists who assist affordable housing developers in obtaining public financing, is to estimate that, under the prevailing wage requirement, labor costs are 25 percent higher than would otherwise be the case. Therefore, on-site and off-site improvement costs obtained from the original pro formas are reduced by 25 percent to reflect actual labor costs that would apply to construction projects that do not have these requirements.[14] Finally, on average, land acquisition costs accounted for 20 percent or less of these total adjusted costs.

[14] These prevailing wage requirements refer only to labor cost requirements on construction projects that receive funding from the state or federal government. These are not the same as minimum wage requirements that individual cities may adopt.

Figure IV-5. Affordable Housing Project Pro Forma Data

Project Description	Maybelle	Alma Garden Apts
Location	Palo Alto	Palo Alto
Date of Pro Forma	2013	2013
Land Area (acres)	1.03	0.6
Gross Building Area (SF)	56,192	63,885
Number of Units	60	50
Parking Type	Uncovered	Underground
Parking Spaces/ Unit	0.8	1.0
Land Acquisition Costs	$7,498,524 ($167 per SF of land)	$7,480,000 ($286 per SF of land)
Project Costs per SF of Gross Building Area		
Land Cost (a)	$133	$117
Hard Costs (b)	$160	$153
Soft Costs (c)	$91	$192
Developer Fees	$25	$22
Total Project Costs (d)	$409	$484

Notes:

(a) Calculated per square foot of gross building area.
(b) Excludes prevailing wage requirements for on-site and off-site hard costs.

(c) Includes design, engineering, city permits and fees, construction interest, contingencies, legal, etc.

(d) Total costs include developer fees.

Acronyms:

SF: Square feet
Source: Pro Forma Data provided by City of Palo Alto; Vernazza Wolfe Associates, Inc; Strategic Economics, 2014.

To ensure that the land value assumptions used in the rental development cost estimates (ranging from $167 to $286 per square foot of land) were reasonable, the consultant team analyzed recent sales of vacant properties in Santa Clara County using DataQuick, a commercial vendor that tracks real estate transactions. As shown below in Figure IV-6, land values in Southern San Mateo County and Northern Santa Clara County are highly variable from city to city, ranging from $96 to $228 per square foot. The analysis demonstrates that the land costs for the affordable rental housing projects shown in Figure IV-5 are generally consistent with the land values in the market area.

Figure IV-6. Sales of Vacant Lands in San Mateo County and Northern Santa Clara County, 2014

Property	Location	Sales Date	Sales Price	Site Size (SF)	Average Sales Price/ SF
Page Mill	Palo Alto	2012	$3,959,000	26,926	$147
389 El Camino Real	Menlo Park	2012	$12,200,000	53,579	$228
1300 El Camino Real	Menlo Park	2012	$24,500,000	148,165	$165
E. side of Tilton Avenue, N. of El Camino Real	San Mateo	2012	$4,505,000	33,572	$134
1275 El Camino Real	Menlo Park	2014	$3,600,000	17,960	$200
3877 El Camino Real	Palo Alto	2013	$4,450,000	32,825	$136
536 N Wishman Rd	Mountain View	2014	$1,050,000	7,000	$150
1958 Latham St	Mountain View	2014	$1,600,000	16,600	$96
Value Range per SF of Land					$96 - $228

Source: City of Palo Alto; Independent appraisals; Loopnet, 2015; Strategic Economics, 2015.

For-Sale Housing

Market-rate for-sale housing units in Palo Alto are priced at over $1 million; these units are too upscale to be considered "modest" units. Because of the lack of examples of built modest units in the City, the cost of developing new, modest for-sale housing was estimated using published industry data sources, recent financial feasibility studies, and data from other projects in Santa Clara County. The Consultant Team estimated the development costs of a hypothetical condominium project, as described in Figure IV-7.[15] Land costs were estimated based on recent DataQuick sales of multi-family zoned properties in Southern San Mateo County and Northern Santa Clara County. As shown in Figure IV-6, land values vary depending on location and lot size, ranging from $96 to $228 per square foot. Because most transactions occurred in 2012 and 2013 in other lower cost jurisdictions, the current land value for multi-family land for condominium development in Palo Alto was estimated at $200 per square foot.

RS Means cost data, adjusted for the Bay Area's construction costs, was used to calculate hard costs. Based on a review of recent financial feasibility analyses in the Bay Area, soft costs were estimated at 30 percent of hard costs, and developer fees and profits were estimated at 12 percent of hard and soft costs. Using this method, the development costs are estimated at approximately $500 per net square foot of building area.

[15] The hypothetical condominium building type is a Type V building with underground parking and floor-area ratio of 1.7.

Figure IV-7. Estimate of Development Costs of Hypothetical Condominium Project

Building Characteristics	
Land Area (SF)	110,727
Gross Building Area (SF)	188,235
Net Building Area (SF)	160,000
Number of Units	100
Parking Type	Underground
Parking Spaces/ Unit	2
Floor-area ratio (FAR)	1.7
Density (units per acre)	39
Average Unit Size	1,600
Land Acquisition Costs per Square Foot (a)	$200
Development Cost	**Cost per Net SF**
Land Cost (b)	$138
Hard Costs	$250
Soft Costs (c)	$75
Developer Fees (d)	$39
Total Development Costs	$502

Notes:

(a) Land value is estimated at $200 per square foot based on recent transactions in market area.
(b) Calculated based on RS Means cost estimates per square foot of net building area.
(c) Estimated at 30 percent of hard costs. Includes design, engineering, city permits and fees, construction interest, contingencies, legal, etc.
(d) Estimated at 12 percent of hard costs and soft costs.

Sources: RS Means, 2014; DataQuick 2014; Recent financial feasibility studies; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

Cost Estimates by Unit Size

The data sources described above also provided information on estimated unit sizes**.** Unit size information is needed to translate costs/sales prices per square foot to unit costs. Unit sizes are estimated separately for rental and for-sale units. For the rental units, the recent inventory of projects developed by MidPen Housing was analyzed. For ownership units, the average sizes of recently built condominium units (Figure IV-7) were analyzed.

Figure IV-8 provides the unit sizes and development cost estimates for rental units. Per-unit development costs were calculated by multiplying average unit sizes by the per-square foot development costs of $446. Rental unit costs range from $223,000 for studio units to $499,520 for three-bedroom units.

Figure IV-9 summarizes the costs of condominium units. The per-unit costs were derived by multiplying the average unit size by the development cost, estimated at $500 per square foot. On a per unit basis, condominium development costs are $450,000 for one-bedroom units, $650,000 for two-bedroom units, and $875,000 for three-bedroom units.

Figure IV-8. Rental Housing Unit Sizes and Development Costs

Unit Type	Estimated Cost per Net SF	Unit Size (net SF)	Development Costs
Studio	$446	500	$223,000
One bedroom	$446	700	$312,200
Two bedroom	$446	900	$401,400
Three bedroom	$446	1,120	$499,520

Acronyms:
SF: Square feet
Sources: Confidential Pro Forma Data; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

Figure IV-9. For-Sale Housing Unit Sizes and Development Costs

Unit Type	Estimated Cost per Net SF	Unit Size (net SF)	Development Costs
One bedroom	$500	900	$450,000
Two bedroom	$500	1,300	$650,000
Three bedroom	$500	1,750	$875,000

Acronyms:
SF: Square feet
Sources: DataQuick, 2014; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

CALCULATING THE HOUSING AFFORDABILITY GAP

The final step in the analysis is to calculate the housing affordability gap, or the difference between what renters and owners can afford to pay and the total cost of developing new units. The purpose of the housing affordability gap calculation is to help determine the fee amount that would be necessary to cover the cost of developing housing for very low, low, and moderate income households. The calculation does not assume the availability of any other source of housing subsidy because not all "modest" housing is built with public subsidies, and tax credits and tax-exempt bond financing are highly competitive programs that will not always be available to developers of modest housing units.

Figure IV-10 shows the housing affordability gap calculation for rental units. For each rental housing unit type and income level, the gap is defined as the difference between the per-unit cost of development and the supportable debt per unit. The supportable debt is calculated based on the net operating income generated by an affordable monthly rent, incorporating assumptions about operating expenses (including property taxes, insurance, etc.), reserves, vacancy and collection loss, and mortgage terms based on discussions with local affordable housing developers. Because household sizes are not uniform and the types of units each household may occupy is variable, the average housing affordability gap is calculated by averaging the housing affordability gaps for the various unit sizes.

Figure IV-11 shows the housing affordability gap calculation for ownership units. For each unit type, the gap is calculated as the difference between the per-unit cost of development and the affordable sales price for each income level. As with rental housing, the average housing affordability gap is calculated by averaging the housing affordability gaps across unit sizes in order to reflect that households in each income group vary in size, and may occupy any of these unit types.

Finally, the tenure-neutral estimates of the housing affordability gap were estimated for very low, low, and moderate income households (Figure IV-12). Because very low and low income households that are looking for housing in today's market are much more likely to be renters, an ownership gap was not calculated for these income groups. The rental gap represents the overall affordability gap for these two income groups. On the other hand, moderate income households could be either renters or owners.

Therefore, the rental and ownership gaps are averaged for this income group to calculate the overall affordability gap for moderate income households. The calculated average affordability gap per unit is $306,164 for very low income households; $252,258 for low income households, and $249,596 for moderate income households. The housing affordability gap is highest for very low income households because they can afford to pay the least amount for housing.

Figure IV-10. Housing Affordability Gap Calculation for Rental Housing

Income Level and Unit Type	Unit Size (SF)	Maximum Monthly Rent (a)	Annual Rental Revenue	Net Operating Income (b)	Available for Debt Service (c)	Supportable Debt (d)	Development Costs (e)	Affordability Gap (f)
Very-Low Income (50% AMI)								
Studio	500	$900	$10,797	$2,757	$2,206	$29,166	$223,000	$193,834
1 Bedroom	700	$1,021	$12,255	$4,142	$3,314	$43,818	$312,200	$268,382
2 Bedroom	900	$1,145	$13,737	$5,550	$4,440	$58,711	$401,400	$342,689
3 Bedroom	1,120	$1,319	$15,833	$7,541	$6,033	$79,769	$499,520	$419,751
Average Affordability Gap								**$306,164**
Low Income (70% AMI)								
Studio	500	$1,263	$15,161	$6,902	$5,522	$73,016	$223,000	$149,984
1 Bedroom	700	$1,437	$17,244	$8,882	$7,105	$93,954	$312,200	$218,246
2 Bedroom	900	$1,613	$19,352	$10,884	$8,707	$115,133	$401,400	$286,267
3 Bedroom	1,120	$1,860	$22,322	$13,706	$10,965	$144,987	$499,520	$354,533
Average Affordability Gap								**$252,258**
Moderate Income (90% AMI)								
Studio	500	$1,633	$19,592	$11,112	$8,890	$117,544	$223,000	$105,456
1 Bedroom	700	$1,859	$22,308	$13,693	$10,954	$144,843	$312,200	$167,357
2 Bedroom	900	$2,087	$25,049	$16,296	$13,037	$172,383	$401,400	$229,017
3 Bedroom	1,120	$2,409	$28,906	$19,960	$15,968	$211,146	$499,520	$288,374
Average Affordability Gap								**$197,551**

Notes:

(a) Affordable Rents are based on HCD FY 2014 Income Limits for Santa Clara County. See Figure 2, above.
(b) Amount available for debt. Assumes 5% vacancy and collection loss and $7,500 per unit for operating expenses and reserves, based on pro formas for affordable housing projects recently proposed in Palo Alto.

(c) Assumes 1.25 Debt Coverage Ratio.

(d) Assumes 6.38%, 30 year loan. Calculations based on annual payments.

(e) Assumes development cost of $446 per net square foot on rental units.

(f) Calculated as the difference between development costs and supportable debt. Rounded to nearest whole number.

Acronyms:
SF: Square feet
AMI: Area median income

Sources: Selected Palo Alto Rental Housing Pro Formas; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

Figure IV-11. Housing Affordability Gap Calculation for For-Sale Condominium Housing

Income Level and Unit Type	Unit Size (SF)	Affordable Sales Price (a)	Development Costs (b)	Affordability Gap (c)
Moderate Income (110% of AMI)				
1 Bedroom	900	$291,858	$450,000	$158,142
2 Bedroom	1,300	$359,897	$650,000	$290,103
3 Bedroom	1,750	$418,323	$875,000	$456,677
Average Affordability Gap				**$301,641**

(a) See calculation in Figure IV-9, above.
(b) Assumes $500/SF for development costs, based on recent condominium sales.
(c) Calculated as the difference between affordable sales price and development cost; rounded to nearest whole number.

Acronyms:

SF: Square feet

AMI: Area median income
Sources: DataQuick Sales Data, 2008-2012; Vernazza Wolfe Associates, Inc. and Strategic Economics, 2015.

Figure IV-12. Average Housing Affordability Gap by Income Group

Income Level	Rental Gap	Ownership Gap	Average Affordability Gap
Very Low-Income (50% AMI) (a)	$306,164	N/A	$306,164
Low-Income (70% - 80% AMI) (b)	$252,258	N/A	$252,258
Moderate-Income (90% - 110% AMI) (c)	$197,551	$301,641	$249,596

Notes:
(a) Based on rental housing only; very-low-income gap was not calculated for ownership housing.
(b) Low-income households are assumed to earn 70 percent of AMI for rental housing and 80 percent of AMI for ownership housing.
(c) Moderate-income households are assumed to earn 90 percent of AMI for rental housing and 110 percent of AMI for ownership housing.

Acronyms:

AMI: Area median income

Source: Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

V. MAXIMUM LINKAGE FEES

This section builds on the findings of the previous analytical steps to calculate the maximum justified linkage fees for each commercial prototype.

MAXIMUM FEE CALCULATION

To derive the maximum nexus-based fee, the housing affordability gap (see Section IV) is applied to the number of lower-income worker households linked to the prototypes. This is the basis for developing an estimate of the total affordability gap for each prototype. The total gap for each prototype is then divided by the size of each development prototype to calculate a single maximum fee per square foot.

Figure V-1 presents the results of the linkage fee calculations for each prototype. The calculations shown below assume that 100 percent of the very low, low, and moderate income households linked to the new commercial space would be accommodated in Palo Alto. The maximum fee results (rounded to the nearest dollar) are $177 per square foot for hotel and $264 per square foot for office/ R&D/ medical office.

The calculated linkage fees are high for two reasons: 1) the cost of housing development in Palo Alto is high, creating a large affordability gap for very low, low, and moderate income households; 2) many of the workers associated with new commercial development, especially those in the hotel industry, earn low wages and fall into very low and low income household categories. Although average wages for hotel workers are lower than for office workers, the density of workers in hotels is lower than in office/ R&D/ medical office space; therefore maximum linkage fees for hotels are lower than for offices. .

The maximum fees shown in Figure V-1 are not the recommended fees for adoption. They are the nexus-justified fees that represent the maximum that Palo Alto could charge to mitigate affordable housing demand related to commercial development.

Figure V-1. Maximum Commercial Linkage Fees

	Very Low, Low, and Moderate Income Worker Households	Total Affordability Gap	Size of Prototype (SF)	Maximum Fee (per SF)
Hotel	64	$17,678,344	100,000	$177
Office, R&D and Medical Office	102	$26,447,718	100,000	$264

Note: Maximum fee per square foot has been rounded to the nearest dollar.

Sources: Vernazza Wolfe Associates, Inc; Strategic Economics, 2015.

VI. FEASIBILITY AND POLICY CONSIDERATIONS

There are a number of policy considerations that can be taken into account when a jurisdiction considers an update to its commercial linkage fee. These policy factors include the financial impact of fee scenarios on future development, the potential increase to the city's existing fees on commercial development, a comparison of proposed linkage fees with those fees already charged in adjacent jurisdictions, and how potential revenues from new linkage fees can benefit the City's overall affordable housing goals. This section provides a discussion of some of the key financial and policy questions for Palo Alto.

PROTOTYPES AND FEE LEVELS

Commercial Prototypes

As described in Section III, the analysis estimates linkage fees for two commercial prototypes: hotel and office/ R&D/ medical office. The building characteristics, including size, density (floor-area-ratio), and parking assumptions are based on a review of recently built and proposed projects in Palo Alto (Figure VI-1). The financial feasibility of potential fee levels is tested for each of these prototypes.

Figure VI-1. Description of Commercial Prototypes

	Hotel	Office/R&D/ Medical Office
Prototype Description		
Gross Building Area (GBA). excl. Parking (SF)	100,000	100,000
Efficiency Ratio (a)	N/A	0.90
Net Leasable Sq. Ft. (NSF)	N/A	90,000
Hotel Rooms	133	
Parking Spaces	133	300
Podium Parking	33	240
Surface Parking	100	60
GBA Including Structured Parking	109,975	163,000
Floor Area Ratio (b)	1.1	2.0
Land Area (Acres)	2.3	1.9
Land Area (sq. ft.)	99,977	81,500

Notes:
(a) Refers to ratio of gross building area to net leasable area. An efficiency ratio of 0.9 means that 90% of the gross building area is leasable.
(b) The floor-area-ratio (FAR) is often used as a measure of density. In this analysis, it is calculated as the gross building area (including structured podium parking) divided by the total land area.

Sources: Vernazza Wolfe Associates, Inc. and Strategic Economics, 2015.

Fee Levels

In order to provide Palo Alto with some guidance on how proposed fees could impact development decisions, the Consultant Team conducted a financial feasibility analysis that tested the impact of the maximum linkage fee, the existing fee, and other potential fee levels, on developer profit. Figure VI-2 illustrates the different per-square-foot fee scenarios, by prototype.

Figure VI-2. Linkage Fee Scenarios by Prototype (per SF)

Fee Scenarios	Hotel	Office/ R&D/ Medical Office
Existing Fee (rounded)	$19.85	$19.85
Scenario 1: Maximum Fee	$177	$264
Scenario 2	$35	$60
Scenario 3	$30	$50
Scenario 4	$20	$35

Sources: Vernazza Wolfe Associates, Inc; Strategic Economics, 2015.

METHODOLOGY

Financial feasibility was tested using a pro forma model that measures the return on cost of the commercial prototypes. Return on cost is a commonly used metric indicating the profitability of a project. The pro forma model tallies all development costs, including land, direct construction costs, indirect costs (including financing), and developer fees. Revenues from lease rates or hotel room rates are the basis for calculating annual income from the new commercial development. The total operating costs are subtracted from the total revenues to calculate the annual net operating income. The return on cost is then estimated by dividing the annual net operating income by the total development costs. The fee levels were then added as an additional development cost to measure the resulting change in the developer's return on cost.

KEY INPUTS

The key revenue and cost inputs to the financial pro forma analysis are based on market research and published resources. The data inputs are explained in more detail below.

Revenues

To estimate income from commercial development, the pro forma analysis used rental data from Costar for the Palo Alto market for existing office buildings. A 10 percent revenue increase was applied to account for the value premium of new office/R&D space. To calculate hotel revenues, the Consultant Team interviewed hotel managers of hotel properties in Palo Alto to determine average daily rates and occupancy rates. [16] The surveyed managers reported average rates of between $150 and $400 for weekend, off-peak stays, and between $289 and $800 for peak, weekday stays. Occupancy rates were reported at between 78 percent and 95 percent. Based on these findings, the analysis estimated average daily rate at $240 per night, and occupancy rates at 83 percent. The revenue inputs for each land use prototype are shown in Figure VI-3.

[16] Properties surveyed include Hilton Garden Inn, Homewood Suites, The Epiphany, Hotel Keen, Dinah's Garden Hotel, Sheraton Palo Alto, and Garden Court Hotel.

Direct and Indirect Costs

Cost estimates for the commercial prototypes include direct construction costs (site work, building costs, and parking), indirect costs, financing costs, and developer overhead and profit. Direct building construction cost estimates for office/ R&D/ medical office are based on RS Means. Hotel construction costs were estimated based on recent data from HVS Consulting and Smith Travel Research, and include costs for Furniture, Fixtures, and Equipment (FF&E). Direct and indirect cost inputs for the pro forma analysis are shown in Figure VI-4.

Land Costs

One of the critical cost factors for a commercial development project is land cost. To determine the land value of sites zoned for commercial uses, the Consultant Team analyzed recent sales transactions in Santa Clara County and reviewed third-party property appraisals. The high average value of land per square foot in Palo Alto, illustrated in Figure VI-5, is partly due to the relatively smaller average size of the sold parcels. As a result, the Consultant Team estimated a commercial land value of $160 per square foot, closer to the sub-market average.[17] This approximate land cost is an estimate for the purposes of this analysis; the value of any particular site is likely to vary based on its location, amenities, and property owner expectations, among other factors.

Return on Cost Thresholds

In order to understand how the different fee levels impact financial feasibility, the return on cost results can be compared to an investor's expectations for each type of development. The thresholds for this analysis were pegged to investor expectations regarding overall capitalization rates (cap rate) for each product type in the Bay Area. The cap rate, which is measured by dividing net income generated by a property by the total project value, is a commonly used metric to estimate potential returns. Lower cap rates signify high performing markets. In this analysis, the total project value is equivalent to the total development cost. PWC Real Estate Investor Survey (Fourth Quarter 2014) was the primary data source for determining cap rates for office/ R&D/ medical office uses. For hotel, cap rate data was obtained from HVS, a consulting firm that tracks hotel markets.

To ensure that the financial analysis is conservative and does not reflect peak market conditions, the thresholds selected for determining project feasibility are slightly higher than the published cap rates. It was determined that the threshold for the return on cost is between 6.75 percent and 7.0 percent for office/ R&D/ medical office and between 7.0 percent and 7.25 percent for hotel (see Figure VI-6).

[17] The commercial land value used in the pro forma analysis is different from the calculated land value for the affordability gap analysis because it is for commercially zoned land rather than multifamily zoned land.

Figure VI-3. Pro Forma Revenue Inputs by Prototype

Prototypes	Metric	Input
Hotel		
Average Daily Rate (a)	Daily per Room	$240
Occupancy Rate (a)	Annual	83%
RevPAR (b)	Daily per Room	$198
Gross Annual Room Income	Annual per Room	$72,270
Gross Annual Other Revenue	Annual per Room	$10,950
Less: Vacancy (c)		$0
Less: Operating Expenses (d)	70%	($58,254)
Annual Net Operating Income		$24,966
Office/R&D		
Revenues and Expenses (d)		
Monthly Rent - Gross	per NSF	$68
Operating Expenses	% of Gross	28%
Vacancy Rate	% of Gross	5%
Estimates		
Net Square Footage		90,000
Annual Gross Revenues		$6,120,000
Operating Expenses		($1,713,600)
Vacancy Rate		($306,000)
Net Operating Income		$4,100,400

Notes:

(a) Based on a survey of Palo Alto hotel managers, including Hilton Garden Inn, Homewood Suites, The Epiphany, Hotel Keen, Dinah's Garden Hotel, Sheraton Palo Alto, and Garden Court Hotel. Hotel property managers reported average rates of between $150 and $400 for weekend and off-peak days, and between $289 and $800 for peak, weekday stays. Occupancy rates were reported at between 78 percent and 95 percent. RevPAR (revenue per available room) is calculated as occupancy percentage times average daily rate.

(b) RevPAR, a measure of revenue per room, is calculated by multiplying the occupancy rate by the average daily rate.

(c) Vacancy is already reflected in RevPAR estimate.

(d) Costar Group average rents in the Palo Alto market. A premium of 10% is applied to account for newer product.

Sources: Palo Alto hotel property managers; HVS and STR Consulting, 2014; Costar, 2015; Vernazza Wolfe Associates, Inc. and Strategic Economics, 2015.

Figure VI-4. Direct and Indirect Cost Inputs

Development Assumptions	Metric	Hotel	Office/R&D/ Medical Office
Direct Costs (a)			
Building & On-Site Improvements (b)	per sq. ft. of GBA	$200	$200
Parking Costs - Podium	per space	$25,000	$25,000
Parking Costs - Surface	per space	$2,500	$2,500
Indirect Costs (c)			
A&E & Consulting	% of Direct Costs	8.0%	8.0%
Tenant Improvements	per NSF	N/A	$40
Permits & Fees (d)	total	$1,490,679	$3,745,450
Taxes, Insurance, Legal & Accounting	% of Direct Costs	3.0%	3.0%
Financing Costs	% of Direct Costs	6.0%	6.0%
Developer Overhead &Fee	% of Direct Costs	8.5%	8.5%
Contingency	% of Indirect Costs	5.0%	5.0%

Notes:

(a) Review of pro formas for similar projects in Silicon Valley region; RS Means, 2014.

(b) Hotel costs include Furniture, Fixtures & Equipment (FF&E).

(c) Review of pro formas for similar projects in Bay Area.

(d) For the hotel prototype, permit and fee calculations are based on recently developed hotel projects in the City. For the office/R&D/medical office prototype, permits & fee calculations were provided by the City of Palo Alto. These are estimates for the prototypes created in this analysis and do not represent actual costs for specific development projects.

Sources: Project pro formas; RS Means, 2014; HVS and STR Consulting; City of Palo Alto; Strategic Economics, 2015.

Figure VI-5. Recent Commercial Vacant Land Transactions in Santa Clara County (2011-2014)

Property	City	Site Area	Sale Price	Sale Price/ SF of Land
1236 College Avenue	Palo Alto	5,750	$2,795,000	$486.09
3502 Emma Court	Palo Alto	7,369	$2,150,000	$291.76
382 Curtner Avenue	Palo Alto	8,525	$1,384,000	$162.35
4220 El Camino Real	Palo Alto	55,609	$3,775,000	$67.88
370 Lowell Avenue	Palo Alto	12,474	$4,450,000	$356.74
3500 South Court	Palo Alto	6,250	$2,700,000	$432.00
3333 Bryant Street	Palo Alto	6,125	$2,700,000	$440.82
405 Curtner Avenue	Palo Alto	12,375	$1,800,000	$145.45
363 Garden Street	Palo Alto	5,000	$195,000	$39.00
897 Marshall Drive	Palo Alto	2,801	$49,000	$17.49
3265 El Camino Real	Palo Alto	7,490	$975,000	$130.17
1130 Middlefield Road	Palo Alto	5,600	$2,800,000	$500.00
El Camino Real	Palo Alto	55,609	$3,775,000	$67.88
N San Antonio Rd	Los Altos	11,960	$1,200,000	$100.33
N San Antonio Rd	Los Altos	11,600	$1,030,000	$88.79
Los Gatos Blvd	Los Gatos	20,038	$5,800,000	$47.38
Los Gatos Blvd	Los Gatos	102,366	$5,800,000	$47.38
Placer Oaks Rd	Los Gatos	2,351	$266,000	$113.14
Placer Oaks Rd	Los Gatos	2,262	$266,000	$117.60
S Main St	Milpitas	9,148	$775,000	$84.72
Dempsey Rd	Milpitas	52,392	$1,250,000	$23.86
	Milpitas	15,000	$530,000	$35.33
	Milpitas	44,431	$14,563,500	$327.78
Dixon Rd	Milpitas	14,810	$812,500	$54.86
Old Middlefield Way	Mountain View	11,175	$1,600,000	$143.18
Church St	Mountain View	11,250	$2,270,000	$201.78
Moffett Blvd	Mountain View	79,715	$10,100,000	$126.70
El Camino Real	Santa Clara	63,162	$6,100,000	$96.58
Saratoga Ave	Santa Clara	16,700	$1,075,000	$64.37
El Camino Real	Santa Clara	4,960	$275,000	$55.44
Big Basin Way	Saratoga	17,187	$1,398,000	$81.34
Average Palo Alto Sales		14,691	$2,272,923	$241
Average All Sales		21,983	$2,730,935	$160

Sources: CoreLogic, 2015; Loopnet, 2015; Vernazza Wolfe Associates, Inc. and Strategic Economics, 2015.

Figure VI-6. Feasibility Thresholds for Return on Cost

Prototype	Capitalization Rates	Selected Threshold for Return on Cost
Hotel (a)	6.75% - 7.25%	7.0% - 7.25%
Office/ R&D/ Medical Office(b)	5.88% - 6.71%	6.75% - 7.0%

Notes:

(a) HVS Consulting, January 2015. Cap rate data was only available at the national level. However, the Bay Area market generally outperforms the rest of the country, so this estimate is likely lower than cap rates Santa Clara County.

(b) PWC Real Estate Investor Survey, San Francisco Office Market, 4th Quarter 2014. Because capitalization rates for office may be peaking in the Bay Area market, and R&D and medical office uses have higher cap rates, the financial analysis set the threshold at a higher rate.

Sources: HVS Consulting, January 2015; PWC Real Estate Investor Survey, 4Q2014; Vernazza Wolfe Associates, Inc. and Strategic Economics, 2015.

RESULTS

Hotel

The pro forma analysis shows that under current economic conditions, without the addition of a commercial linkage fee, the hotel prototype generates a healthy return on cost of 7.5 percent, which is financially feasible (Figure VI-7). The annual net operating income is estimated at $3.3 million ($24,966 per room). The total development costs, including land, direct, and indirect costs total $44.3 million. The following describes the financial implications of adding new commercial linkage fees at various fee levels:

- The existing fee level of $19.85 per square foot increases development costs to $46.3 million. The current fee is approximately four percent of total development costs for a hotel prototype. A hotel prototype that is charged the existing fee can generate a strong return on cost of 7.2 percent.

- Fee scenario 1, the maximum fee level of $177 per square foot, increases total development costs to almost $62 million. The maximum fee accounts for 28.6 percent of total development costs. This fee scenario generates a calculated return on cost of 5.4 percent, which is not financially feasible.

- Fee scenario 2, a lower nexus fee of $35 per square foot is equivalent to 7.3 percent of total development costs and generates a potential return of 6.95 percent. This return is not financially feasible.

- Scenario 3, a fee of $30 per square foot, would account for 6.3 percent of total development costs. At this fee level, the return on cost is estimated at 7 percent, which is financially feasible.

- Fee scenario 4 is a nexus fee of $20 per square foot, which represents 4.3 percent of the project's total development costs. The return on cost is estimated at 7.2 percent, which is also financially feasible.

Office/R&D/Medical Office

Under a base scenario with no commercial linkage fees on office/R&D/medical office development, a prototypical project generates an estimated net operating income of $4.1 million, with total development costs estimated at $53.0 million. The net operating income divided by the total development costs results in an estimated return on cost of 7.7 percent, a higher percentage than the minimum threshold for financial feasibility for office/ R&D/ medical office development, which is 6.75 to 7.0 percent (see Figure VI-7). The high return on cost indicates that this prototype would offer attractive returns under current market conditions. The following describes the financial implications of adding new commercial linkage fees at various fee levels:

- The City's existing linkage fee of $19.85 per square foot is approximately 3.7 percent of total development costs. An office prototype charged the existing fee level can generate a healthy return on costs of 7.5 percent.

- Scenario 1, a fee set at the maximum level of $264 per square foot, would account for about half of total development costs for the office/R&D/medical office prototype. The return on cost with this fee is estimated at 5.2 percent, which would not be financially feasible.

- Scenario 2, a fee level of $60 per square foot, would make up 11.3 percent of total development costs. The calculated return on cost is 6.9 percent, which is financially feasible.

- Scenario 3, a fee level of $50 per square foot, is equivalent to 9.4 percent of total project development costs. Under this scenario, the office/R&D/medical office project generates a return on cost of 7.1 percent, which is feasible.

- The fee scenario 4 of $35 per square foot would be equivalent to 6.6 percent of total project costs. The estimated return on costs is 7.3 percent, which is financially feasible.

Figure VI-7. Pro Forma Analysis Results

	Hotel		Office/R&D/Medical Office	
Development Costs (a)	**per Room**	**Total**	**Per Gross SF**	**Total**
Land	$120,273	$15,996,364	$130	$13,040,000
Direct Costs				
Building & On-Site Improvements	$150,376	$20,000,000	$200	$20,000,000
Parking	$8,125	$1,080,625	$55	$5,475,000
Total Direct Costs	$158,501	$21,080,625	$255	$25,475,000
Indirect Costs				
A&E & Consulting	$12,680	$1,686,450	$20	$2,038,000
Tenant Improvements			$36	$3,600,000
FF&E (b)	$0	$0		
Permits & Fees (c)	$11,208	$1,490,679	$37	$3,745,450
Taxes, Insurance, Legal, Acctg	$4,755	$632,419	$8	$764,250
Financing Costs	$9,510	$1,264,838	$15	$1,528,500
Developer Overhead & fee	$13,473	$1,791,853	$22	$2,165,375
Contingency	$2,581	$343,312	$7	$692,079
Total Indirect Costs	$54,207	$7,209,551	$145	$14,533,654
Total Development Costs (TDC) without Nexus Fees		$44,286,539		$53,048,654
TDC with Nexus Fees by Fee Scenario	**Linkage Fee per SF**	**TDC incl. Nexus Fee**	**Linkage Fee per SF**	**TDC incl. Nexus Fee**
No Fee	$0.00	$44,286,539	$0.00	$53,048,654
Existing Fee	$19.85	$46,271,539	$19.85	$55,033,654
Fee Scenario 1: Maximum Fee	$177	$61,986,539	$264	$79,448,654
Fee Scenario 2	$35	$47,786,539	$60	$59,048,654
Fee Scenario 3	$30	$47,286,539	$50	$58,048,654
Fee Scenario 4	$20	$46,286,539	$35	$56,548,654
Revenues	**per SF**	**Total**	**per SF**	**Total**
Annual Net Operating Income (d)	$24,966	$3,320,478	$41	$4,100,400
Return on Cost by Fee Scenario:	**Nexus Fee per SF**	**Return on Costs**	**Nexus Fee per SF**	**Return on Costs**
No Fee	$0.00	7.50%	$0.00	7.73%
Existing Fee	$19.85	7.18%	$19.85	7.45%
Scenario 1: Maximum Fee	$177	5.36%	$264	5.16%
Fee Scenario 2	$35	6.95%	$60	6.94%
Fee Scenario 3	$30	7.02%	$50	7.06%
Fee Scenario 4	$20	7.17%	$35	7.25%
Fees as % of TDC	**Nexus Fee per SF**	**Nexus Fee as % of TDC**	**Nexus Fee per SF**	**Nexus Fee as % of TDC**
No Fee	$0.00	0.00%	$0.00	0.00%
Existing Fee	$19.85	4.29%	$19.85	3.74%
Scenario 1: Maximum Fee	$177	28.55%	$264	49.77%
Fee Scenario 2	$35	7.32%	$60	11.31%
Fee Scenario 3	$30	6.34%	$50	9.43%
Fee Scenario 4	$20	4.32%	$35	6.60%
Return on Cost - Threshold for Feasibility		7.0-7.25%		6.75-7.0%

Notes:
(a) See Figure VI-4.
(b) Furniture Fixtures & Equipment for hotel is included in the direct costs.
(c) Permit & fee calculations, excluding linkage fees, as provided by City of Palo Alto. These are estimates for the prototypes created in this analysis; specific development projects may have different results.
(d) See Figure VI-3.
Sources: Vernazza Wolfe Associates, Inc; Strategic Economics, 2015.

POLICY CONSIDERATIONS

While the nexus study provides the necessary economic analysis for the updated linkage fees, it is up to policymakers to decide which fee level is appropriate to charge to new development. Financial feasibility is one important factor to examine. In addition, there are a number of other policy issues to consider, such as:

- How much the City's development fees would increase with an updated commercial linkage fee;
- How an updated linkage fee in Palo Alto would compare with those recently adopted in neighboring jurisdictions;
- What options exist for establishing alternatives to the payment of fees; and
- How the updated commercial linkage fee fits into the City's overall affordable housing strategy.

Existing City Permits and Fees on Commercial Development

In addition to its existing commercial linkage fee of $19.85 per square foot, the City of Palo Alto has other permits and fees on new development. [18] The City may wish to consider the amount that total fees would increase with an updated commercial linkage fee. Based on the current schedule of fees in Palo Alto, existing fees (including the existing linkage fees) for the commercial prototypes are estimated to be $35 per square foot for the hotel prototype and $57 per square foot for the office/R&D/medical office prototype.[19] If the maximum linkage fees were adopted, the total development fees and permits would be $192 per square foot for hotel and $301 for office, as shown in Figure VI-8.

[18] New non-profit development, including churches, educational facilities, and hospitals, is exempt from the current fee. New retail space smaller than 1,500 square feet is also exempted.

[19] The hotel fees were estimated based on the fees paid by new hotel projects in the city; the retail/restaurant/services fees and office/R&D/medical office fees are estimates by City staff. These fee estimates are the best approximations available, and do not represent the actual cost of a proposed new development project.

Figure VI-8. Existing City Permits and Fees on Commercial Development by Prototype

	Hotel	Office/R&D/ Medical Office
Existing Fees/ Permits per SF (excl. linkage fee)	$15	$37
Current Linkage Fee	$20	$20
Total Existing Fees Per SF	$35	$57
Fee Scenario 1 (Maximum Fees)		
Nexus Fee Per SF	$177	$264
Combined Fees Per SF	$192	$301
Fee Scenario 2		
Nexus Fee Per SF	$35	$60
Combined Fees Per SF	$50	$97
Fee Scenario 3		
Nexus Fee Per SF	$30	$50
Combined Fees Per SF	$45	$87
Fee Scenario 4		
Nexus Fee Per SF	$20	$35
Combined Fees Per SF	$35	$72

Sources: Palo Alto, Department of Planning and Building, 2014; Vernazza Wolfe Associates, Inc; Strategic Economics, 2015.

Comparison with Fees Charged in Other Jurisdictions

Figure VI-9 compares Palo Alto's existing commercial linkage fee and proposed fee scenarios with the linkage fees adopted by nearby cities. At present, Palo Alto has fees of $19.85 per square foot for all commercial uses. Palo Alto's existing fees are similar to the linkage fees adopted San Francisco and Cupertino, which range from $16 to $24 per square foot, depending on the land use. In most cases, cities have adopted higher fee levels for office/ R&D/ medical office uses than for hotel uses. For example, in Cupertino, the commercial linkage fee for hotel is $10 per square foot, compared to $20 per square foot for office/ R&D/ medical office uses. The maximum linkage fees calculated for all the commercial prototypes, ranging from $177 to $295 per square foot in this study are much higher than existing linkage fees in Bay Area jurisdictions.

Other cities in the Bay Area also have commercial linkage fees that can be compared to the potential fee scenarios for Palo Alto. A summary of some of these existing fees is shown in Figure VI-10, based on the most current information available. The fee amounts vary significantly by jurisdiction.

Figure VI-9. Comparison to Linkage Fees in Neighboring Cities

	Hotel	Office/ R&D/ Medical Office	Date Fee Was Adopted
Palo Alto Fee Scenarios (per SF)			
Existing Linkage Fee	$19.85	$19.85	2002
Scenario 1 (Maximum)	$177	$264	
Scenario 2	$35	$60	
Scenario 3	$30	$50	
Scenario 4	$20	$35	
Fees in Nearby Cities (per SF)			
Cupertino	$10	$20	2015
Menlo Park (a)	$8	$15	2014
Mountain View (b)	$2.50	$25	2015
San Francisco (c)	$18	$16-$24	2015
Sunnyvale (d)	$7.50	$15 (e)	2015

Notes:
(a) Buildings 10,000 SF and under are exempt from fees. A new nexus study is currently underway that may result in an updated fee.
(b) New gross floor area under 25,000 SF pays 50 percent of full fee.
(c) The fee for R&D is $16.01 and the fee for office is $24.03. The fee for a small enterprise is $18.89.
(d) Approval of the proposed fees is pending a community process.
(e) The fee on the first 25,000 SF is discounted by 50 percent.
Sources: City staff and websites; Nonprofit Housing Association of Northern California, 2015; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2015.

Figure VI-10. Existing Linkage Fees in Bay Area Cities

City	Commercial Development Subject to Fees	Fee Amount
Walnut Creek	All development commercially classified i.e. R&D, for-profit medical offices/hospitals, etc.	$5.00 per SF
Oakland	Office and Warehouse/Distribution	$5.24 per SF used for office of warehouse /distribution needs beyond 25,000 SF
Dublin	Industrial, Office, R&D, Retail, Services & Accommodations	Industrial: $.048 per SF Office: $1.24 per SF R&D: $0.81 per SF Retail: $1.00 per SF Services & Acc.: $0.42 per SF * Buildings less than 20,000 SF are exempt.
Pleasanton	All commercial office or industrial development projects	$2.87 per SF Adjusted annually based on CPI
Alameda	Retail, Office, Warehousing, Manufacturing, Hotel//Motel	Retail: $2.24 per SF Office: $4.42 per SF Warehouse & Manufacturing: $0.77 per SF Hotel/Motel: $1,108 per room/suite May be adjusted annually based on CPI
Napa	Office, Hotel, Retail, Industrial (Industrial, Warehouse, Wine Production)	Office: $1.00 per SF Hotel: $3.00 per SF Retail: $0.80 per SF Industrial: $0.50 per SF
San Rafael	Office or R&D, Retail, Restaurant, Personal Service, Manufacturing, Light Industrial, Warehouse, Hotel/Motel	5,000 SF or more to provide affordable housing units or pay a fee * $254,599 per unit Office & R&D: 0.03 units Retail, Restaurant or Personal Service: 0.0225 units Manufacturing or Light Industrial: 0.01625 units Warehouse: 0.00875 units Hotel/Motel: 0.0075 units

Figure VI-10. Summary of Existing Linkage Fees in Other Bay Area Cities (Continued)

City	Commercial Development Subject to Fees	Fee Amount
Petaluma	Commercial, Retail, Industrial	Commercial: $2.14 per SF Retail: $3.69 per SF Industrial: $2.21 per SF
Emeryville	Any development of non residential uses for which a discretionary permit or building permit is required	$4.00 per SF
Berkeley	Developments in non-residential and R-4 Zones, except in South Berkeley IX Target Area, over 7,500 SF	Office/Retail/Restaurant/Hotel/Lodging/R&D: $4.50 per SF Industrial/Manufacturing/Warehouse/Storage: $2.25 per sq. ft

Sources: The Non-Profit Housing Association of Northern California, Strategic Economics, and Vernazza Wolfe Associates, Inc, 2015.

Benefit to Palo Alto's Overall Affordable Housing Strategy

The City currently charges a commercial linkage fee of $19.85 per square foot on all new non-residential development. These fees are payable at the time that the building permit is issued. The city also has an inclusionary housing program that requires that 15 percent of the units in market-rate developments consisting of five or more housing units must be sold at below-market rate (BMR) prices. The inclusionary requirement increases to 20 percent for larger projects on five-acre and larger parcels. Two-thirds of the BMR units are to be affordable at the 90 percent AMI level households and the remaining one-third is to be affordable at the 110 percent AMI level. City policy generally requires that the BMR units be provided in the project. In some cases, developers have the option of paying an in-lieu fee of 7.5 to 10 percent of the sales price or fair market value, whichever is greater. The developer must also pay a fee for fractional units.

Revenues from the BMR in-lieu fee and commercial linkage fee programs are deposited into the City's Affordable Housing Fund. The Affordable Housing Fund is a local housing trust fund established by the City Council of Palo Alto to provide financial assistance for the development of housing affordable to very low-, low- and moderate-income households that live or work within the City. It is largely made up of two sub-funds: the Commercial Housing Fund and the Residential Housing Fund. While both rental and ownership units are eligible for assistance, in practice all units assisted thus far have been rental units and almost all have been affordable to very low- or low-income households.

The revenues to be collected from the commercial linkage fee provide an important source of local funding; however, local fee revenues do not generally cover the entire funding gap encountered by sponsors of new affordable housing. Additional funding from a variety of sources will remain critical. These funding sources typically include public subsidies from Santa Clara County, equity from the Low Income Housing Tax Credits, and financing from conventional lenders.

Potential for Overlap between Residential and Commercial Fees

The City is also undertaking a housing impact nexus study simultaneously, and may soon adopt a housing impact fee in a parallel process to the commercial linkage fee considered in this report. One issue that may arise if a City considers the adoption of both fees is whether there is any overlap between the two impact fees, resulting in potential "double-counting" of impacts.

The commercial linkage fee study examined jobs located in new commercial buildings including office/ R&D/ medical office buildings and hotels. The nexus analysis then calculated the average wages of the workers associated with each commercial building to derive the annual income of the new worker households. The analysis determines the area median income (AMI) level of the new worker-households to identify the number of worker-households that would require affordable housing.

The housing impact fee nexus analysis examined households buying or renting new market rate units in the jurisdiction. The household expenditures by these new residents have an economic impact in the county, which can be linked to new jobs. The nexus analysis quantified the jobs linked to new household spending, and then calculated the wages of new workers and the household income of new worker households. Each worker household was then categorized by area median income (AMI) to determine the number of households that require affordable housing.

There may be a share of jobs counted in the commercial linkage fee analysis that are also included in the residential nexus analysis, particularly those in the service sector. Other types of jobs counted in the residential nexus analysis are unique to that analysis, and are not included in the commercial linkage fee analysis (for example, public sector employees). The commercial linkage fee analysis is limited to new development in private sector office/ R&D/ medical office buildings and hotels space.

There is potential that some jobs could be counted in both analyses, and that the two programs may overlap in mitigating the affordable housing demand from the same worker households. Each of the proposed fees is required to mitigate no more than 100 percent of the demand for affordable units by new worker households. In order to reduce the potential for overlap between the two programs, it is advisable to set both the commercial linkage fees and housing impact fees at below 100 percent of the nexus-based maximum. In this way, when combined, the programs would mitigate less than 100 percent of the impact even if there were overlap in the jobs counted in the two nexus analyses.

Administrative Issues

Similar to any impact fee, the fee should be adjusted annually for inflation and increases in construction costs. Adjustments are also needed due to possible changes in the housing affordability gap. However, the connection between new commercial construction and growth in employment derived from employment densities is unlikely to change in the short run.

It is advisable that the City adjusts its commercial linkage fee annually by using an annual adjustment mechanism. An adjustment mechanism updates the fees to compensate for inflation in development costs. To simplify annual adjustments, it is recommended that the City selects a cost index that is routinely published. While there is no index that tracks changes in Palo Alto's development costs, including land, there are a few other options to consider.

- The first option is the Consumer Price Index (Shelter Only). The shelter component of the index covers costs for rent of primary residence, lodging away from home, owner's equivalent rent of primary residence, and household insurance. Of the total shelter index, costs associated with the owner's equivalent rent of primary residence constitute 70% of total costs entered into the index.

- A second option to adjust the fee for annual inflation is the construction cost index published in the Engineering News Record (ENR). This index is routinely used to update other types of impact fees. Cost index information for the San Francisco area, the closest geographical area to Palo Alto, is available on an annual basis. While this index measures inflation in construction costs, it does not incorporate changes in land costs and public fees charged on new development.

While both indices measure changes in housing costs, both understate the magnitude of inflation for the reasons presented above. However, since these indices are readily available and relatively simple to use, it is recommended, that City uses these indices for annual adjustments. It is further recommended that the City base its annual adjustment mechanism on the higher of the two indices (CPI or ENR), using a five-year moving average as the inflation factor.

In addition to revising the fee annually for inflation, the City is encouraged to update the commercial linkage fee study every five years, or at the very least, update the housing affordability gap used in the basic model. The purpose of these updates is to insure that the fee is still based on a cost/revenue structure that remains applicable in the Palo Alto housing market. In this way, the fee will more accurately reflect any structural changes between affordable prices/rents and market rate sales prices/development costs.

VII. GLOSSARY OF TERMS AND ACRONYMS

GLOSSARY OF TERMS

Affordable Housing: Under state and federal statutes, housing is defined as affordable if housing costs do not exceed 30 to 35 percent of gross household income.

Annual Adjustment Mechanism: Due to inflation in housing construction costs, it is frequently necessary to adjust impact fees. An index, such as the Consumer Price Index (CPI) or a published construction cost index (for example, from the Engineering News Record) is used to revise housing fees to reflect inflation in housing construction costs.

Assisted Housing: Housing that has received public subsidies (such as low interest loans, density bonuses, direct financial assistance, etc.) from federal, state, or local housing programs in exchange for restrictions requiring a certain number of housing units to be affordable to very low, low, and moderate-income households.

Boomerang Funds: Monies returned to the City by the State of California, after dissolution of redevelopment agencies in the State.

Consumer price index (CPI): Index that measures changes in the price level of a market basket of consumer goods and services purchased by households.

Employment Densities: The amount of square feet per employee is calculated for each property use that is subject to a commercial development housing linkage fee. Employment densities are used to estimate the number of employees that will work in a new commercial development.

Household: The US Census Bureau defines a household as all persons living in a housing unit whether or not they are related. A single person living in an apartment as well as a family living in a house is considered a household. Households do not include individuals living in dormitories, prisons, convalescent homes, or other group quarters.

Household Income: The total income of all the persons living in a household. Household income is commonly grouped into income categories based upon household size and income, relative to the regional median family income.

Housing Affordability Gap: The affordability gap is defined as the difference between what a household can afford to spend on housing and the market rate cost of housing. Affordable rents and sales prices are defined as a percentage of gross household income, generally between 30 percent and 35 percent of income.

> For renters, rental costs are assumed to include the contract rent as well as the cost of utilities, excluding cable and telephone service. The difference between these gross rents and affordable rents is the housing affordability gap for renters. This calculation assumes that 30% of income is paid for gross rent.
>
> For owners, costs include mortgage payments, mortgage insurance, property taxes, property insurance, and homeowner association dues.[20] The difference between these housing expenses and affordable ownership costs is the housing affordability gap for owners. This calculation assumes that 35% of income is paid for housing costs.

Housing Subsidy: Housing subsidies refer to government assistance aimed at reducing housing sales prices or rents to more affordable levels.

Housing Unit: A housing unit can be a room or group of rooms used by one or more individuals living separately from others in the structure, with direct access to the outside or to a public hall and containing separate toilet and kitchen facilities.

Inclusionary Zoning: Inclusionary zoning, also known as inclusionary housing, refers to a planning ordinance that requires that a given percentage of new construction be affordable to households with very low, low, moderate, or workforce incomes.

In-Lieu Fee: A literal definition for an in-lieu fee for inclusionary units would be a fee adopted "in place of" providing affordable units. For the purposes of operating an inclusionary housing program, a public jurisdiction may adopt a fee option for developers that prefer paying fees over providing housing units on- or off-site. A fee study is frequently undertaken to establish the maximum fee that can be charged as an in-lieu fee. This fee study must show that there is a reasonable relationship between the fee and the cost of providing affordable housing.

Market-Rate Housing: Housing which is available on the open market without any public subsidy. The price for housing is determined by the market forces of supply and demand and varies by location.

Nexus Study: In order to adopt a residential housing impact fee or a commercial linkage fee, a nexus study is required. A nexus requires local agencies proposing a fee on a development project to identify the purpose of the fee, the use of the fee, and to determine that there is "a reasonable relationship between the fee's use and the type of development project on which the fee is imposed." A Nexus Study establishes

[20] Mortgage terms for first-time homebuyers typically allow down payment of five percent; these terms require private mortgage insurance.

and quantifies a causal link or "nexus" between new residential and commercial development and the need for additional housing affordable to new employees.

Non-Residential Development Housing Impact Fee (or Linkage Fee): A fee or charge imposed on commercial developers to pay for a development's impact on the need for affordable housing. The fee is based on projected household incomes of new employees that will work in newly created space. The fee varies according to the type of property use.

Palmer Case: This civil suit affects rental housing only. It affirmed that the Costa Hawkins Rental Act, passed in 1995 by the California State Legislature, applies to inclusionary rental units. The implication of this finding is that cities or counties cannot require rental property owners to rent inclusionary units that become vacant at below market rents, unless the developer accepted financial assistance (including fee waivers) or received other incentives that lowered development costs.

Property Prototypes: Property prototypes are used for residential and commercial developments in order to define housing impact fees. The prototypes generally represent new development projects built in a community and are used to estimate affordable housing impacts associated with new market rate commercial and residential developments. While the prototypes should be "typical" of what is built, for ease of mathematical computation, they are often expressed as larger developments in order to avoid awkward fractions.

Residential Housing Impact Fee: A fee imposed on residential development to pay for a development's impact on the need for affordable housing. The fee is based on projected incomes of new employees associated with the expansion of market rate developments. Two steps are needed to define the fees. The first step is the completion of a nexus study, and the second step entails selection of the actual fee amount, which can be below the amount justified by the fee study, but not above that amount.

RS Means: Data source of information for construction cost data.

DEFINITION OF ACRONYMS

AMI: Area Median Income

CBIA: California Building Industry Association

EDD: State of California Employment Development Department

FAR: Floor-area-ratio

FF&E: Furniture, Fixtures, and Equipment

GBA: Gross Building Area

HCD: Department of Housing and Community Development (State of California)

NAICS: North American Industry Classification System

NSF: Net Square Feet

QCEW: Quarterly Census of Employment and Wages

R&D: Research and development

SF: Square Feet

Attachment D

Residential Impact Fee Nexus Study

October 2015

prepared for:

City of Palo Alto

STRATEGIC ECONOMICS

VWA

Vernazza Wolfe Associates, Inc.

Table of Contents

I. EXECUTIVE SUMMARY 5

Introduction 5
Background 5
Report Organization 5
Fee Implementation Options 5
Nexus Analysis Methodology and Results 6
Policy Considerations 12

II. INTRODUCTION AND METHODOLOGY 14

Background 14
The Nexus Concept 15
Methodology 15

III. RESIDENTIAL PROTOTYPES 17

Recent Housing Development Trends 17
Residential Prototypes 18
Household Incomes of Buyers and Renters 23

IV. ECONOMIC IMPACT ANALYSIS (IMPLAN3) 29

The IMPLAN3 Model 29
Household Income Impacts 30
Employment and Wage Impacts 30
Estimating Worker-Households 30
Estimating Demand for Affordable Housing 31

V. AFFORDABILITY GAP ANALYSIS 36

Methodology 36
Estimating Affordable Rents and Sales Prices 36
Estimating Housing Development Costs 43
Calculating the Housing Affordability Gap 47

VI. MAXIMUM FEE AND REQUIREMENTS 51

Maximum Fee Calculation 51
Inclusionary Housing Requirements 55

VII. FEASIBILITY AND POLICY CONSIDERATIONS 56

Financial Feasibility Analysis 56
Additional Policy Considerations 68

VIII. GLOSSARY OF TERMS AND ACRONYMS 76

Glossary of terms 76
Definition of Acronyms 79

List of Figures

Figure I-2. Sales Prices and Rental Rates of Residential Prototypes 7
Figure I-3. Estimated Annual Household Incomes of Buyers of Single-Family Detached Units 7
Figure I-4. Estimated Annual Household Incomes of Buyers of Single-Family Attached Units 8
Figure I-5. Estimated Annual Household Incomes of Buyers of Condominium Units 8
Figure I-6. Estimated Annual Household Incomes of Renters of Apartment Units 8
Figure I-7. New Worker Households by Income Group for Prototypes 9
Figure I-8. Number of Worker Households Associated with 100-Unit Prototypes, by Income Level 9
Figure I-9. Total Affordability Gap for Single-Family Detached Units (30 Units) 10
Figure I-10. Total Affordability Gap for Single-Family Attached Units (10 Units) 10
Figure I-11. Total Affordability Gap for Condominiums (35 Units) 10
Figure I-12. Total Affordability Gap for Apartments (70 Units) 10
Figure I-13. Maximum Housing Impact Fee by Prototype 11
Figure III-1. Single-Family Detached Home Sales in Palo Alto, Units Built 2012-2013 19
Figure III-2. New Market-Rate Single-Family Attached Development in Palo Alto 19
Figure III-3. New Market-Rate Apartment Projects in Mountain View and Redwood City 20
Figure III-4. New Condominium Unit Sales in Palo Alto, Sold 2009 - 2011 21
Figure III-5. Recent Condominium Sales in Palo Alto and Surrounding Communities: Sold July 2014-July 2015 22
Figure III-6. Average Net Residential SF per Unit 23
Figure III-7. Estimated Annual Household Incomes of Buyers of Single-Family Detached Units 25
Figure III-8. Estimated Annual Household Incomes of Buyers of Single-Family Attached Units 26
Figure III-9. Estimated Annual Household Incomes of Buyers of Condominium Units 27
Figure III-10. Estimated Annual Household Incomes of Renters of Apartment Units 28
Figure IV-1. Estimated Incomes by Income Categories for Buyers and Renters of New Units 32
Figure IV-2. Estimated Job and Wage Impacts of Prototypes by Industry 33
Figure IV-3. Estimated Job and Wage Impacts of Prototypes by Occupation 34
Figure IV-4. Induced Employment Impacts, Palo Alto 35
Figure IV-5. New Worker Households by Income Group for Prototypes 35
Figure V-1. Calculation of Affordable Rents in Santa Clara County by Household Size, 2014 39
Figure V-2. Calculation of Affordable Rents in Santa Clara County by Unit Type, 2014 40
Figure V-3. Calculation of Affordable Sales Prices in Santa Clara County by Household Size, 2014 41
Figure V-4. Calculation of Affordable Sales Prices in Santa Clara County by Unit Type, 2014 42
Figure V-5. Affordable Housing Project Pro Forma Data 44
Figure V-6. Sales of Vacant Lands in San Mateo County and Northern Santa Clara County, 2014 45
Figure V-7. Estimate of Development Costs of Hypothetical Condominium Project 46
Figure V-8. Rental Housing Unit Sizes and Development Costs 47
Figure V-9. For-Sale Housing Unit Sizes and Development Costs 47
Figure V-10. Housing Affordability Gap Calculation for Rental Housing 49
Figure V-11. Housing Affordability Gap Calculation for For-Sale Condominium Housing 50
Figure V-12. Average Housing Affordability Gap by Income Group 50
Figure VI-1. Maximum Per-Unit Fee for Single-Family Detached Prototype 52
Figure VI-2. Maximum Per-Unit Fee for Single-Family Attached Prototype 52
Figure VI-3. Maximum Per-Unit Fee for Condominium Prototype 52
Figure VI-4. Maximum Per-Unit Fee for Apartment Prototype 53
Figure VI-5. Maximum Fee per SF for Single-Family Detached Prototype 53
Figure VI-6. Maximum Fee per SF for Single-Family Attached Prototype 53
Figure VI-7. Maximum Fee per SF for Condominium Prototype 54
Figure VI-8. Maximum Fee per SF for Apartment Prototype 54

Figure VII-1. Residential Prototypes 56
Figure VII-2. Fee Levels per Unit for Prototypes 57
Figure VII-3. Fee Levels per Square Foot for Prototypes 58
Figure VII-4. Sales Prices and Rents for Prototypes 59
Figure VII-5. Apartment Revenue Calculations 59
Figure VII-6. Development Cost Factors 60
Figure VII-7. Recent Single-Family Land Sales Transactions in Palo Alto and Neighboring Cities 62
Figure VII-8. Recent Multi-Family Land Sales Transactions in Palo Alto and Neighboring Cities 63
Figure VII-9. Pro Forma Model Results for Single-Family Detached and Attached Prototypes 66
Figure VII-10. Pro Forma Model Results for Condominium and Apartment Prototypes 66
Figure VII-11. Palo Alto Total Residential Fees under Selected Fee Scenarios 69
Figure VII-12. Comparison with Impact Fees and In-Lieu Fees in Neighboring Jurisdictions 70
Figure VII-13. Existing Housing Impact Fees in Bay Area Cities 72

I. EXECUTIVE SUMMARY

INTRODUCTION

In April 2014, the City of Palo Alto hired Strategic Economics and Vernazza Wolfe Associates, Inc. to develop nexus studies for commercial linkage fees and residential impact fees to mitigate the impacts of new development on the demand for affordable housing. This draft report presents the findings of the residential impact fee study. In addition, the report describes the methodology, data sources, and analytical steps required for the nexus analysis.

BACKGROUND

Palo Alto is interested in adopting an affordable housing impact fee on new residential development. The purpose of this fee would be to mitigate the impact of an increase in affordable housing demand from new worker households associated with new market-rate residential units. When a city or county adopts a development impact fee, it must establish a reasonable relationship or connection between the development project and the fee that is charged. Studies undertaken to demonstrate this connection are called nexus studies. This nexus study quantifies the connection between the development of market rate housing and the need for affordable housing units.

This residential impact fee nexus study measures the income and spending generated by the households renting or buying new market rate units in Palo Alto. The increase in consumption is then translated into new "induced" job growth. These induced jobs will be at various wage rates; many will be at lower wages, for example in the retail and personal services sectors. Since low-wage households cannot reasonably afford to pay for market rate rental and for-sale housing in Palo Alto, a housing impact fee can be justified to bridge the difference between what these new households can afford to pay and the cost of developing modest housing units to accommodate them.

REPORT ORGANIZATION

This executive summary provides an overview of the housing nexus analysis methodology and results. The subsequent chapters of the report contain more detailed information regarding the methodology, data sources, and the steps of the analysis. The report is organized into seven sections and provides a glossary of terms at its conclusion. Following this executive summary, Section II provides an introduction to the purpose of the study, and an overview of the methodology. Section III presents the residential prototypes used in the analysis. Section IV describes the methodology and results of the IMPLAN economic impact analysis. Section V covers the housing affordability gap analysis. Section VI presents the maximum fee calculation based on the nexus analysis and affordability gap results. The final section, Section VII, discusses financial feasibility and other policy considerations that jurisdictions typically assess before implementing a nexus fee.

FEE IMPLEMENTATION OPTIONS

The maximum single-family detached impact fee per unit is $333,501, the maximum townhouse fee per unit is $189,037, the maximum condominium impact fee per unit is $158,519, and the maximum apartment fee per unit is $101,906. The fees are also calculated on a per-square-foot basis by dividing the unit fee by the average size of the unit. On a per-square-foot basis, the maximum impact fee is $111 for single-family detached, $90 for townhouses, $75 for condominiums and $105 for apartments.

If the City of Palo Alto decides to adopt a housing impact fee, the recommended fee levels are: $95 per square foot for single-family detached housing ($285,000 per unit), $50 per square foot for single-family attached housing ($105,000 per unit), $50 per square foot for condominiums ($105,000 per unit), and $50 per square foot for apartments ($48,571 per unit). These recommendations are based on the results of the financial feasibility analysis, a comparison with fees adopted in other Bay Area communities, and other policy issues. The maximum and recommended fee levels are shown in Figure I-1.

Figure I-1. Recommended Housing Impact Fees by Residential Prototype

Prototype	Maximum Justified Fee per Unit	Maximum Justified Fee per SF	Recommended Fee per Unit	Recommended Fee per SF	Recommended Fee as % of Sales Price
Single-Family Detached	$333,501	$111	$285,000	$95	9%
Single-Family Attached	$189,037	$90	$105,000	$50	6%
Condominium	$158,519	$75	$105,000	$50	8%
Apartments	$101,906	$105	$48,571	$50	n/a

Sources: Vernazza Wolfe Associates, Inc. & Strategic Economics, 2015

NEXUS ANALYSIS METHODOLOGY AND RESULTS

Prototypes

The first step in the nexus analysis is developing residential housing prototypes. The prototypes establish the types of market rate housing development that are occurring or are expected to occur in the city that could potentially be subject to the affordable housing impact fee. The fees calculated in this nexus study are only applicable to the housing prototypes defined in this analysis.

Based on historical development trends, market data, broker interviews, and input from city staff, the Consultant Team constructed four housing prototypes that represent the type of development that is likely to occur in Palo Alto: single-family detached housing (for-sale), single-family attached units (for-sale), condominiums (for-sale) and rental apartments. These development prototypes are not intended to represent specific development projects; rather, they are designed to illustrate the type of projects that are likely to be built in Palo Alto in the near future. Figure I-2 provides information on the unit type and size, as well as estimated sales prices and average monthly rents for each prototype.

Figure I-2. Sales Prices and Rental Rates of Residential Prototypes

Prototype	Unit Type	Number of Units	Net Area (SF)	Unit Sales Price/ Monthly Rent	Price or Rent per SF
Single-Family Detached (For-Sale)					
Type V wood frame	5 BD/4 BA	30	3,000	$3,043,000	$1,015
6 units per acre					
Attached garage					
Net Residential Area (Net SF)			90,000		
Single-Family Attached (For-Sale)					
Type V wood frame	3 BD/ 4 BA	10	2,100	$1,666,000	$793
11 units per acre					
Tuck-under garage					
Net Residential Area			21,000		
Condominiums (For-Sale)					
Type V wood frame	4 BD/3 BA	35	2,100	$1,390,000	$662
30 units per acre					
Underground parking					
Net Residential Area (Net SF)			73,500		
Apartments (Rental)					
Type V wood frame	1 BD/ 1 BA	20	795	$3,247	$4.09
41 units per acre	2 BD/2 BA	50	1,114	$4,191	$3.76
Podium parking					
Net Residential Area			68,000		
Average Net SF per Unit			1,063		

Sources: Sources: DataQuick, 2014; Carmel the Village, 2014; CoStar, 2014; Individual Project Websites, 2014; City of Palo Alto, 2014; Strategic Economics & Vernazza Wolfe Associates, Inc., 2014.

Household Income

The next step is to calculate the annual household incomes of the buyers of new for-sale units and the renters occupying new apartment units by using the sales prices and rents shown in Figure I-1. Threshold incomes needed to purchase or rent units are based on standards used in the housing industry[1]. Figures I-3 through I-6 summarize the estimated household incomes of for-sale home buyers, by housing type, and Figure I-5 presents the calculated household incomes of apartment renters. Household incomes are a key input to the IMPLAN3 economic impact analysis described in Section IV of this report.

Figure I-3. Estimated Annual Household Incomes of Buyers of Single-Family Detached Units

	Single-Family Detached Unit Type 5 BR/ 4 BA
Number of Households	30
Sales Price	$3,043,000
Household Income	$546,783

Sources: California Health & Safety Code; Freddie Mac, 2014; Strategic Economics & Vernazza Wolfe Associates, Inc., 2015.

[1] These standards are presented in greater detail in Section III of this report.

Figure I-4. Estimated Annual Household Incomes of Buyers of Single-Family Attached Units

	Single-Family Attached Unit Type
	3 BR/ 4 BA
Number of Households	10
Sales Price	$1,666,000
Household Income	$309,642

Sources: California Health & Safety Code; Freddie Mac, 2014; Strategic Economics & Vernazza Wolfe Associates, Inc., 2015

Figure I-5. Estimated Annual Household Incomes of Buyers of Condominium Units

	Condominium Unit Type
	4 BR/ 3 BA
Number of Households	35
Sales Price	$1,390,000
Household Income	$260,049

Sources: California Health & Safety Code; Freddie Mac, 2014; Strategic Economics & Vernazza Wolfe Associates, Inc., 2015

Figure I-6. Estimated Annual Household Incomes of Renters of Apartment Units

	Apartment Unit Type	
	1 BR/ 1 BA	**2 BR/ 2 BA**
Number of Households	20	50
Monthly Rent	$3,247	$4,191
Household Income	$129,894	$167,654

Sources: California Health & Safety Code; Freddie Mac, 2014; Strategic Economics & Vernazza Wolfe Associates, Inc., 2015

Economic Impact Analysis (IMPLAN)

The next step is to determine employment and wage impacts of each prototype based on the incomes of the occupants of new housing units. The buyers and renters of the new market-rate units create new spending in the local economy. These new expenditures can be linked to new jobs, many of which pay low wages. The job and wage impacts related to new market-rate housing units are measured using IMPLAN3, an economic impact analysis tool. An economics consulting firm, Applied Development Economics (ADE) undertook the IMPLAN3 analysis for this study.

The results of the IMPLAN analysis indicate that many of the induced jobs generated within Santa Clara County are in low-wage sectors like retail and food services (restaurants). However, a significant proportion of induced jobs are also in higher-paying resident-serving categories such as health care and government.

Demand for Affordable Housing

Since the focus of this study is on households, the next step is to calculate the number of new worker households by dividing the total number of new workers by the average number of wage-earners per household in Palo Alto. However, not all of the worker households require affordable housing. To estimate the affordable housing demand, the average annual household income of worker households is sorted into income categories that are consistent with area median income (AMI) levels defined for Santa Clara County. Figure I-7 indicates that of the 48.54 new worker households associated with single-family detached development, there are 38.32 households that need affordable housing. The comparable figures for single-family attached, condominium and apartment development are 7.23, 21.26, and 27.31 households, respectively. In order to directly compare the impact of market rate residential development by prototype, Figure I-8 displays the number of worker households, at various income levels, associated with a 100-unit development project. As shown, a 100-unit single-family detached subdivision, which has the highest sales values of all the prototypes, is linked to 161.8 worker households. Townhouse, condominium, and apartment developments of the same size are linked to 91.63 worker households, 76.95 worker households, and 49.39 worker households, respectively.

Figure I-7. New Worker Households by Income Group for Prototypes

Worker Households by Income Category	Single-Family Detached (30 Units)	Single-Family Attached (10 Units)	Condominium (35 Units)	Apartment (70 Units)
Households Requiring Affordable Housing				
Very Low Income (<=50% AMI)	6.98	1.32	3.87	5.07
Low Income (51-80% AMI)	17.15	3.24	9.51	12.26
Moderate Income (81-120% AMI)	14.19	2.68	7.87	9.98
Subtotal Very Low, Low, Moderate Income	38.32	7.23	21.26	27.31
Above Moderate Income Households	10.22	1.93	5.67	7.26
Total All Worker Households	48.54	9.16	26.93	34.57

Note: For each prototype and income category, the number of households requiring affordable housing has been rounded to nearest one-hundredth.
Sources: IMPLAN 3 via Applied Development Economics, 2015; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2015

Figure I-8. Number of Worker Households Associated with 100-Unit Prototypes, by Income Level

Worker Households by Income Category	Single-Family Detached	Single-Family Attached	Condominium	Apartment
Households Requiring Affordable Housing				
Very Low Income (<=50% AMI)	23.25	13.17	11.06	7.25
Low Income (51-80% AMI)	57.16	32.37	27.19	17.51
Moderate Income (81-120% AMI)	47.31	26.79	22.50	14.25
Subtotal Very Low, Low, Moderate Income	127.73	72.30	60.74	39.01
Above Moderate Income Households	34.07	19.33	16.21	10.37
Total All Worker Households	161.80	91.63	76.95	49.39

Note: For each prototype and income category, the number of households requiring affordable housing has been rounded to nearest one-hundredth.
Source: Applied Development Economics, Inc., 2015; Strategic Economics & Vernazza Wolfe Associates, Inc 2015.

Affordability Gap

The next step is to quantify the total gap between what very low, low, and moderate income households can afford to pay for housing expenses and the cost of building new, modest rental and for-sale housing units. This housing "affordability gap" number per household is then multiplied by the number of income-qualified households in each income category for each housing type separately in order to estimate the total housing affordability gap for each prototype. Figure I-9 through I-12 present these totals by housing type.

Figure I-9. Total Affordability Gap for Single-Family Detached Units (30 Units)

Income Level	Households Requiring Affordable Housing	Average Affordability Gap per Household	Affordability Gap for All Households
Very Low-Income (<50% AMI)	6.98	$306,164	$2,137,025
Low-Income (50-80% AMI)	17.15	$252,258	$4,326,225
Moderate-Income (80-120% AMI)	14.19	$249,596	$3,541,767
Total	38.32		$10,005,017

Sources: California Housing and Community Development; Individual lenders; Affordable and market-rate project pro formas; DataQuick, 2014; RS Means, 2014; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

Figure I-10. Total Affordability Gap for Single-Family Attached Units (10 Units)

Income Level	Households Requiring Affordable Housing	Average Affordability Gap per Household	Affordability Gap for All Households
Very Low-Income (<50% AMI)	1.32	$306,164	$404,136
Low-Income (50-80% AMI)	3.24	$252,258	$817,316
Moderate-Income (80-120% AMI)	2.68	$249,596	$668,917
Total	7.23		$1,890,370

Sources: California Housing and Community Development; Individual lenders; Affordable and market-rate project pro formas; DataQuick, 2014; RS Means, 2014; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

Figure I-11. Total Affordability Gap for Condominiums (35 Units)

Income Level	Households Requiring Affordable Housing	Average Affordability Gap per Household	Affordability Gap for All Households
Very Low-Income (<50% AMI)	3.87	$306,164	$1,184,855
Low-Income (50-80% AMI)	9.51	$252,258	$2,398,974
Moderate-Income (80-120% AMI)	7.87	$249,596	$1,964,321
Total	21.26		$5,548,149

Sources: California Housing and Community Development; Individual lenders; Affordable and market-rate project pro formas; DataQuick, 2014; RS Means, 2014; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

Figure I-12. Total Affordability Gap for Apartments (70 Units)

Income Level	Households Requiring Subsidy	Average Affordability Gap per Household	Affordability Gap for All Households
Very Low-Income (<50% AMI)	5.07	$306,164	$1,552,251
Low-Income (50-80% AMI)	12.26	$252,258	$3,092,683
Moderate-Income (80-120% AMI)	9.97	$249,596	$2,488,472
Total	27.30		$7,133,407

Sources: California Housing and Community Development; Individual lenders; Affordable and market-rate project pro formas; DataQuick, 2014; RS Means, 2014; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

Maximum Nexus-Based Fee

The final step in calculating the maximum housing impact fee by prototype is to divide the total gap at each income level by the number of units in each prototype (Figure I-13). This maximum fee amount represents the ceiling on the fee that could be charged to mitigate affordable housing impacts from new residential development.

The maximum single-family detached impact fee per unit is $333,501, the maximum townhouse fee per unit is $189,037, the maximum condominium impact fee per unit is $158,519, and the maximum apartment fee per unit is $101,906. The fees are also calculated on a per-square-foot basis by dividing the unit fee by the average size of the unit. **On a per-square-foot basis, the maximum impact fee is $111 for single-family detached, $90 for townhouses, $75 for condominiums and $105 for apartments.**

Figure I-13. Maximum Housing Impact Fee by Prototype

Prototype	Single-Family Detached	Single-Family Attached	Condominiums	Apartments
Total Number of Units	30	10	35	70
Average Unit Size	3,000	2,100	2,100	971
Total Affordability Gap	$10,005,017	$1,890,370	$5,548,149	$7,133,407
Maximum Fee per Unit	$333,501	$189,037	$158,519	$101,906
Maximum Fee per SF	$111.17	$90.02	$75.49	$104.90

Note: The affordability gap by prototype and maximum fee per unit numbers have been rounded to the nearest whole number. The maximum fee per SF has been rounded to the nearest one hundredth.
Sources: California Housing and Community Development; Individual lenders; Affordable and market-rate project pro formas; DataQuick, 2014; RS Means, 2014; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

POLICY CONSIDERATIONS

There are a number of policy considerations that can be taken into account when jurisdictions consider adopting an affordable housing impact fee on new market-rate development. These may include factors such as: the likely financial impact of the proposed housing impact fees on development; the additional cost of the new fees on the existing city fee structure; a comparison of the fee scenarios to existing housing impact fees in nearby cities; the role of the fee in the City's overall strategy for affordable housing implementation; and the potential overlap with a commercial linkage fee. This section provides a discussion of each of these policy questions for Palo Alto.

Financial Feasibility – Financial feasibility is just one of several factors to consider in making a decision regarding a potential nexus fee. In order to provide Palo Alto with guidance on how proposed fees could impact development decisions, the Consultant Team conducted a pro forma analysis that tested the impact of potential fee scenarios on developer profit for each prototype. The impact fees were tested at various levels, including the maximum fee level and lower fee levels.

- Single-Family Detached - According to the results of the pro forma analysis, the maximum and reduced fee levels for single-family detached prototype are financially feasible.

- Single-Family Attached – The maximum fee and reduced fee levels for the single-family attached prototype are financially feasible to implement.

- Condominiums – All of the fee levels tested, including the maximum nexus fee, are financially feasible for condominium development.

- Apartment **-** While the maximum nexus fee is not supportable for the apartment prototype, reduced fee levels of $50 per square foot and lower are financially feasible.

Comparison to Existing City Fees – Palo Alto has existing city permits and fees on new development that would increase with the adoption of a new housing impact fee. The City may wish to consider the amount that total city fees would increase with the additional housing impact fee. Based on the current schedule of fees in Palo Alto, existing permits and fees (excluding the nexus fee) for the residential prototypes are estimated at $53 per square foot ($158,808 per unit) for single-family detached units, $66 per square foot ($138,777 per unit) for single-family attached units, $30 per square foot ($63,247 per unit) for condominiums, and $32 per square foot ($30,617 per unit) for apartments.[2] Once the nexus-based residential impact fees at various levels are added to existing fees, the total fees increase significantly. The maximum fee scenario increases total per-square-foot fees to $164 for detached single-family homes, $156 for attached single-family homes, $106 for condominiums, and $136 for apartments.

Comparison to Nearby Jurisdictions – Palo Alto's maximum fee level, if adopted, would be considerably higher than what has been adopted in other San Mateo County and Santa Clara County cities to date. However, San Francisco has adopted fees ranging from $199,000 to $522,000 per unit, amounts that are similar to the maximum fee levels calculated for Palo Alto's single-family detached and single-family attached prototypes. The recommended fee levels for single-family detached and single-family attached prototypes are lower than the adopted fees in San Francisco. The recommended fee level for condominiums of $40 per square foot is higher than the adopted fees in many other Peninsula cities, but similar to the fees established in East Palo Alto and San Carlos. The

[2] The fee estimates presented above represent the best approximations available from the City of Palo Alto for these prototypes. Actual fees will vary depending on the specifics of the project.

recommended apartment fee level of $50 per square foot is higher than fees adopted in Cupertino, Daly City, San Jose, Mountain View, and Sunnyvale, but significantly lower than the fees adopted in San Francisco.

Role of Fee in Palo Alto's Overall Housing Strategy – Palo Alto currently charges a commercial linkage fee of $19.31 per square foot on all new non-residential development, but does not have a housing impact fee. The City also has an inclusionary housing program that requires that 15 percent of the units in market-rate developments consisting of five or more housing units must be sold at affordable sales prices. This percentage increases to 20 percent on parcels larger than five acres. In some cases, developers have the option of paying an in-lieu fee of between 7.5 and 10 percent of the sales price or fair market value, whichever is greater. The developer must also pay a fee for fractional units. Revenues from the residential impact fees, if they are adopted, would continue to support the City's existing affordable housing programs. It should be noted that revenues from a housing nexus fee need to be spent on housing that benefits the workforce since the funds stem from affordable housing impacts related to new employment.

Overlap with Commercial Linkage Fee – In addition to the residential impact fee described in this report, Palo Alto has existing commercial linkage fees on non-residential development. There may be a small share of jobs counted in the commercial nexus analysis that supports its commercial linkage fee program that are also included in this residential impact fee analysis. Thus, the two programs may have some overlap in mitigating the affordable housing demand from the same worker households. In order to reduce the potential for overlap between the two programs, it is advisable to set both the commercial linkage fees and housing impact fees at below 100 percent of the nexus-based maximum. In this way, when combined, the programs would mitigate less than 100 percent of the impact even if there were overlap in the jobs counted in the two nexus analyses.

II. INTRODUCTION AND METHODOLOGY

According to the City of Palo Alto's Housing Element, home values in the City have been increasing steadily since 2010. The median home price in 2013 was $1.7 million, more than twice the median price in Santa Clara County. Rental rates have also escalated rapidly, with median rents ranging from $1,900 for studios to more than $8,500 for four-bedroom homes. Given the high prices and rents in the City, most of the new market-rate housing units built in Palo Alto are only affordable to high-income households. Consequently, very low, low, and moderate income households have limited affordable housing options in the City.

As one of its strategies to address the demand for affordable housing in the City, Palo Alto is considering a housing impact fee on new residential development. The purpose of this fee would be to mitigate the impact of an increase in demand for affordable housing due to employment growth associated with potential new residential development. When a city or county adopts a development impact fee, it must establish a reasonable relationship or connection between the development project and the impacts for which the fee is charged. Studies undertaken to demonstrate this connection are called nexus studies. Nexus studies for school impact fees, traffic mitigation fees, and park fees are common. For housing impact fees, a methodology exists that establishes a connection between the development of market rate housing and the need to expand the supply of affordable housing. This study is based on this methodology.

The approach for this nexus study is to estimate the number of new workers that will be required to provide goods and services to the market rate households that are occupying new units in Palo Alto. Although growth in employment will provide jobs at various wage rates, many of the new jobs will be at low-wage rates in retail trade and services, consistent with job patterns in the County. Since low-wage households cannot reasonably afford to pay for market rate rental and for-sale housing in Palo Alto, a housing impact fee can bridge the difference between what these new households can afford to pay and the costs of developing new housing units for them.

New market rate housing units in Palo Alto create a need for low-wage employees to provide goods and services to residents of the new units. If new market rate housing were not built, there would not be an increase in employment nor the accompanying demand for affordable housing from these new workers. Because housing impact fees are directed related to employment growth, the revenues collected from these fees needs to be spent on workforce housing and not on housing for households that do not participate in the labor force, such as retired seniors, unemployed homeless, and full-time student populations.

BACKGROUND

Cities and counties in California have operated inclusionary zoning programs to increase the supply of affordable housing since the 1970s. An inclusionary program requires that builders of new residential projects provide a specified percentage of units, either on-site or off-site, at affordable prices. Some programs have also allowed developers the option of paying fees "in lieu" of providing inclusionary units.

Inclusionary zoning policies were usually established based on the police power of cities and counties to enact legislation benefitting public health, safety, and welfare. However, in 2009, the Court of Appeal held in *Palmer/Sixth Street Properties, L.P. v. City of Los Angeles* that inclusionary rental requirements based on the police power violates the Costa Hawkins Rental Housing Act, which allows landlords to determine the rents of all new units. Affordable rental housing may still be required if a developer agrees by contract to do so, in exchange for financial assistance or regulatory incentives. However, in the absence of these incentives, restricted rents cannot be *required* of a developer. Consequently, communities have completed nexus studies and imposed rental housing impact fees to mitigate the impact of market-rate rental housing on the need for affordable housing.

Recently, the California Supreme Court's decision on *the California Building Industry Association (CBIA) Versus the City of San Jose* upheld the use of local inclusionary housing programs for ownership units.

The nexus analyses presented in this study are designed to define an upper limit for a housing impact fee to be charged on new rental and for-sale housing to mitigate impacts on affordable housing needs. The maximum fee is not necessarily the recommended fee. Subsequent sections of this report address additional policy considerations to consider when adopting housing impact fees.

THE NEXUS CONCEPT

In a balanced housing market, the development of new market rate housing results in population growth. Residents purchasing and renting these new units now spend money in the city. For example, they go out to eat in local restaurants, shop for food and clothing in local stores, and patronize other local businesses, such as hair salons, dry cleaners, and dental offices. This local spending results in the need to hire new workers to respond to the increased demand for goods and services. A nexus study establishes the connection between the households that purchase new housing units (or rent newly constructed rental units) and the number of new workers that will be hired by local businesses to serve the needs of new residents.

Growth in employment will provide jobs at various wage rates. While some jobs will pay salaries that will allow new workers to rent or purchase market rate housing, many new jobs will also be at lower wages. Since low-wage households cannot reasonably afford to pay for market rate rental and for-sale housing in Palo Alto, a housing impact fee addresses the demand for affordable housing.

METHODOLOGY

The first step of the nexus analysis is to estimate the market prices or rents of new housing units. Based on these prices or rents, gross household incomes of buyers and renters are calculated. The gross household incomes of buyers and renters are then translated into direct economic impacts (new spending on retail goods and personal services), and induced impacts (new jobs and wage income) using the IMPLAN3 model. The IMPLAN3 analysis provides information on likely incomes of new workers. These incomes can then be used to estimate the demand for affordable housing from new worker households, and the costs of providing these affordable units.

Each step of the nexus analysis is described in greater detail below.

Step 1. Define the residential prototypes that represent new market rate housing development.
Based on a review of recent development trends, pipeline projects, and market data for the city and county, the residential prototypes are defined. The prototypes represent typical new market-rate development projects likely to occur in the city. The prototype definitions include information on the building characteristics, net residential area, unit mix and sizes, and sales prices or rents.

Step 2. Estimate household income of buyers and renters of new market rate units.
The average gross household income required to purchase or rent new market rate units is estimated based on the market value or rents of new units. For ownership units, the calculation assumes typical mortgage terms and assumes that buyers spend 35 percent of their gross incomes on housing costs.

For rental units, is assumed that renter households spend 30 percent of their gross incomes on housing.

Step 3. Estimate economic impacts of new buyers and renters using IMPLAN3.
The IMPLAN3 model uses Bureau of Labor Statistics Consumer Expenditure Survey data to model the spending patterns of different income groups. The model estimates the increase in expenditures from new households, the number of new (induced) workers related to new households, and the occupations and wages of these new workers.

Step 4. Estimate the number of new worker households and annual household incomes.
The number of new induced workers from the IMPLAN3 analysis is divided by the average number of workers per household in the city (defined by the U.S. Census Bureau) to calculate the total number of worker households associated with each housing prototype. The average worker's wage calculated in the IMPLAN3 analysis is multiplied by the number of workers per household in the city to derive gross household income. This step assumes that the all wage-earners in a household have the same income.

Step 5. Estimate the demand for affordable housing from new worker households.
Based on the calculation of new worker household income, the worker households are categorized by target income group (very low income, low income, moderate income, and above moderate income). Worker households with above-moderate incomes are removed from the nexus analysis, because they would not require affordable housing.

Step 6. Estimate the affordability gap of new households requiring affordable housing.
The affordability gap represents the difference between what households can afford to pay for housing and the development cost of a modest housing unit. For very low and low income households, a rental housing gap is used. For moderate income households, the housing affordability gap is calculated separately for renter and owner households, and then the two gaps are combined to derive an average affordability gap for moderate income households.

Step 7. Estimate nexus-based fees for each prototype.
The number of new households requiring affordable housing is multiplied by the average affordability gap per household to estimate the total affordability gap for each prototype. The maximum per-unit and per-square foot fees are then calculated by dividing the aggregate affordability gap by the number of units or net residential area in each prototype.

III. RESIDENTIAL PROTOTYPES

The first step in the nexus analysis is developing residential housing prototypes. The residential prototypes establish the types of residential development that are occurring or are expected to occur in the city and could potentially be subject to the affordable housing impact fee. The housing prototypes are not intended to represent specific development projects; rather, they are designed to illustrate the type of projects that are likely to be built in Palo Alto in the near future. The fees calculated in this nexus study are only applicable to the housing prototypes defined in this analysis.

Based on estimated sales prices and rents of new market-rate units, the household incomes of buyers and renters of new units are estimated. This section of the report describes the methodology for establishing the prototypes and calculating the household incomes of buyers and renters of new market-rate units in Palo Alto. The estimated household incomes are then used as inputs to the IMPLAN3 analysis to estimate the employment impacts of the market-rate households, which is described in more detail in Section IV of this report.

RECENT HOUSING DEVELOPMENT TRENDS

In order to ensure that the prototypes accurately reflect current market conditions, the Consultant Team analyzed recently built market rate housing development projects, as well as planned and proposed projects in Palo Alto. In the last years, Palo Alto has seen the development of new for-sale market rate housing including single-family detached, single-family attached and condominium units. As the City is anticipating new apartment development in the near future, this report examined proposed projects in Palo Alto and recently built apartments in nearby cities to establish an apartment prototype.

Figure III-1 summarized recent sales of single-family detached units in Palo Alto built between 2012 and 2013. The weighted average sale price (accounting for the size of the unit) is $1,015 per square foot. Similarly, Figure III-2 presents a recent single-family attached development built in Palo Alto in 2013. According to recent sales data, the single-family attached units sold at an average price of $803 per square foot.

Because Palo Alto has not experienced new apartment development, market data from recently built apartment projects in nearby cities was analyzed for this prototype. Figure III-3 contains the market data for recently built market-rate apartment projects in Mountain View and Redwood City. As shown, the average asking monthly rents are approximately $3,200 for one bedroom units, $4,200 for two bedroom units, and $4,000 for three bedroom units.

Palo Alto has seen the development of several condominium projects between 2008 and 2011 , with no new completions since then. According to the data shown in Figure III-4, the average price for newer units sold between 2009 and 2013 is $1.3 million per unit ($660 per square foot), and the average size is 2,121 square feet. An updated list showing 2014 and 2015 condominium sales in Palo Alto and in other nearby communities in Santa Clara County is shown in Figure III-5. As shown, Palo Alto commands a price premium over other cities, with average condominium units selling for $1.3 million square feet per unit ($874 per square foot), compared to $1.1 million per unit in other nearby communities ($739 per square foot). Based on this information, the condominium prototype is a $1.39 million unit with an average size of 2,100 square feet.

RESIDENTIAL PROTOTYPES

Based on historical development trends, market data, broker interviews, and input from city staff, the Consultant Team constructed four housing prototypes that represent the type of development that is likely to occur in Palo Alto. These development prototypes are not intended to represent specific development projects; rather, they are designed to illustrate the type of projects that are likely to be built in Palo Alto in the near future. The prototypes, as shown in Figure III-5, provide information on the building type, number of units, average size by unit type, and average monthly rents or sales prices by unit type.

Single-Family Detached

The single-family prototype is a 30-unit subdivision of detached homes with an average net density of six units per acre. This development type is representative of recently built and proposed single-family projects in Palo Alto and the immediate area. The single-family homes are five-bedroom units with a total net area of 3,000 square feet. The average estimated price of newly built single-family detached units is $3,043,000.

Single-Family Attached

The single-family attached prototype is a 10-unit single-family attached development with tuck-under garage. The estimated average net density is 11 units per acre. The units are three-bedroom units with an average size of 2,100 square feet. The estimated price of a new single-family attached unit s $1,666,000.The single-family attached prototype represents typical new market-rate single-family attached homes proposed or recently built in Palo Alto and nearby cities.

For-Sale Condominiums

The for-sale condominium prototype is a 35-unit Type V wood-frame building with an underground parking garage. The estimated average density is 30 units per acre. This building type is representative of recently built condominium projects in Palo Alto. The condominium prototype is a four-bedroom unit with a size of 2,100 square feet. The average estimated price of newly built condominiums is $1,390,000.

Rental Apartments

The rental apartment prototype is a Type V wood-frame building with podium parking and net residential area of 214,900 square feet. The estimated density is 41 units per acre. Because new market-rate apartment development has not occurred in Palo Alto, the prototype is based on trends in rental apartment development in nearby cities including Mountain View and Redwood City. Consistent with market trends, the apartment unit mix consists of one- and two-bedroom units. Estimated monthly rents range from $3,200 to $4,200 per unit, depending on unit size and number of bedrooms.

Figure III-1. Single-Family Detached Home Sales in Palo Alto, Units Built 2012-2013

Address	Year Built	Number of Bedrooms	Number of Bathrooms	Unit Size (SF)	Sale Price	Price/SF
3466 RAMBOW DR	2012	4	3.5	2,318	$2,690,000	$1,160
928 ADDISON AVE	2012	6	5.5	4,084	$4,650,000	$1,139
4008 EL CERRITO RD	2012	5	4.5	3,746	$3,780,000	$1,009
130 IRIS WAY	2013	4	3	2,502	$3,060,000	$1,223
3500 EMMA CT	2012	4	3.5	2,523	$2,250,000	$892
740 SEALE AVE	2012	7	6	5,598	$6,000,000	$1,072
849 NORTHAMPTON DR	2012	5	4.5	3,533	$4,700,000	$1,330
3872 CORINA WAY	2012	5	3.5	2,675	$2,150,000	$804
387 ELY PL	2012	3	3.5	2,588	$2,452,000	$947
747 ROSEWOOD DR	2012	5	4.5	2,954	$3,300,000	$1,117
3501 EMMA CT	2012	4	3	2,431	$2,350,000	$967
3503 EMMA CT	2012	5	3	2,653	$2,650,000	$999
886 CHIMALUS DR	2012	4	3.5	2,504	$2,751,000	$1,099
3342 SOUTH CT	2012	4	3.5	2,384	$2,300,000	$965
1091 EMERSON ST	2013	5	5	5,043	$3,800,000	$754
1112 HIGH ST	2012	4	3	2,208	$2,250,000	$1,019
434 FULTON ST	2012	3	2	1,558	$2,157,000	$1,384
525 GUINDA ST	2012	4	3	2,251	$2,445,000	$1,086
1135 WEBSTER ST	2013	4	3.5	3,300	$3,450,000	$1,046
Weighted Average						$1,015

Sources: DataQuick, 2014; Strategic Economics & Vernazza Wolfe Associates, Inc., 2014.

Figure III-2. New Market-Rate Single-Family Attached Development in Palo Alto

Project	Year Built	Building Type	Unit Types	Number Units	Unit Size (SF)	Average Sale Price	Average Price/SF
Classics at Monroe Place	2013	3-story single-family attached Attached garage	3 BR/ 3.5 BA	10	2,075	$1,665,888	$803

Sources: Classic Communities, 2014; City of Palo Alto, 2014; Strategic Economics & Vernazza Wolfe Associates, Inc., 2014.

Figure III-3. New Market-Rate Apartment Projects in Mountain View and Redwood City

Project	Building Type	Year Built	Unit Type	Number Units	Unit Size	Avg. Monthly Rent	Avg. Rent/ SF
Carmel the Village	5 stories	2013	Studio	41	537	$2,795	$5.20
555 San Antonio Rd	Underground parking		1 BR/ 1 BA	192	693	$3,350	$4.83
Mountain View			2 BR/ 2 BA	97	1054	$4,820	$4.57
201 Marshall Apartments	7 stories	2014	Studio	10	634	$2,495	$3.94
201 Marshall	Underground parking		1 BR/ 1 BA	64	1,030	$3,378	$3.28
Redwood City			2 BR/ 2 BA	39	1,129	$4,260	$3.77
Radius	5-6 stories	2014	1 BR/ 1 BA	150	840	$3,100	$3.69
640 Veteran's Dr	Underground parking		2 BR/ 2 BA	100	1,132	$3,845	$3.40
Redwood City			3 BR/ 2 BA	14	1,289	$4,093	$3.18
Township Apartments	4 stories	2013	1 BR/ 1 BA	41	725	$3,063	$4.22
333 Main St	Podium garage		2 BR/ 2 BA	88	1,080	$3,600	$3.33
Redwood City			3 BR/ 2 BA	3	1,224	$3,300	$2.70
Woodside	4-5 stories	2011	1 BR/ 1 BA	14	840	$3,365	$4.01
885 Woodside Rd	Podium and underground		2 BR/ 2 BA	21	1,424	$5,290	$3.72
Redwood City							
Average All Projects			Studio	6%	556	$2,736	
			1 BR/ 1 BA	53%	795	$3,247	$4.09
			2 BR/ 2 BA	39%	1,114	$4,191	$3.76
			3 BR/ 2 BA	2%	1,277	$3,953	$3.10

Sources: Carmel the Village, 2014; CoStar, 2014; 201marshall.com, 2014; Apartments.com, 2014.
Calculations by Vernazza Wolfe Associates, Inc. and Strategic Economics, 2014.

Figure III-4. New Condominium Unit Sales in Palo Alto, Sold 2009 - 2011

Year Built	Unit Size (SF)	Number of Bedrooms	Number of Bathrooms	Sale Price	Price/SF
2009	2,122	4	3.5	$1,240,000	$584
2009	2,423	4	3.5	$1,440,000	$594
2009	2,122	4	3.5	$1,259,500	$594
2009	2,407	4	3.5	$1,412,500	$587
2009	1,769	3	2.5	$1,060,000	$599
2009	2,330	4	3.5	$1,415,000	$607
2009	2,368	4	3.5	$1,419,500	$599
2009	2,363	4	3.5	$1,396,000	$591
2009	2,368	4	3.5	$1,889,000	$798
2009	2,330	4	3.5	$1,430,000	$614
2009	1,811	3	2.5	$1,450,000	$801
2010	1,846	4	2.5	$1,330,000	$720
2010	1,769	3	2.5	$1,139,500	$644
2010	2,423	4	3.5	$1,400,000	$578
2010	2,122	4	3.5	$1,336,500	$630
2010	2,122	4	3.5	$1,341,500	$632
2010	2,407	4	3.5	$1,399,000	$581
2010	2,407	4	3.5	$1,520,000	$631
2010	2,330	4	3.5	$1,425,000	$612
2010	2,122	4	3.5	$1,387,500	$654
2010	2,368	4	3.5	$1,446,500	$611
2010	1,838	4	2.5	$1,259,000	$685
2010	1,948	4	2.5	$1,434,000	$736
2010	1,948	4	2.5	$1,480,000	$760
2011	1,846	4	2.5	$1,400,000	$758
2011	1,838	4	2.5	$1,330,000	$724
2011	1,838	4	2.5	$1,380,000	$751
2011	1,948	4	2.5	$1,710,000	$878
2011	1,935	4	2.5	$1,350,000	$698
2011	1,838	4	2.5	$1,330,000	$724
2011	1,935	4	2.5	$1,300,000	$672
2011	2,330	4	3.5	$1,382,500	$593
2011	2,122	4	3.5	$1,345,000	$634
2011	2,423	4	3.5	$1,408,500	$581
Average	2,121			$1,389,588	$660

Source: DataQuick, 2014, Vernazza Wolfe Associates, Inc. and Strategic Economics, 2015.

Figure III-5. Recent Condominium Sales in Palo Alto and Surrounding Communities: Sold July 2014-July 2015

City	Project	Address	Building Type	Year Built	Number Units	Unit Type	Unit Size	Sold Price	Sold PSF
Palo Alto	Arbor Real	El Camino Real and W. Charleston Rd	3 stories	2007	129	2 BR	1,636	$1,237,000	$756
						3 BR	1,913	$1,580,000	$826
Palo Alto	Sterling Park	Loma Verde Ave & Fallen Leaf St	3 stories	2011	120	3 BR	1,715	$1,460,000	$851
Palo Alto	Echolon	1101 E. Meadow Dr	3 stories	2009	70	3 BR	1,300	$1,320,000	$1,015
Palo Alto	Vantage	E. Meadow Dr & Quail Dr	2 stories	2008	76	2 BR	1,197	$1,102,000	$921
Average Palo Alto								**$1,339,800**	**$874**
Mountain View	Mondrian	E. Evelyn Ave & Moorpark Wy	3 stories	2007	151	2 BR	1,410	$1,310,000	$929
						3 BR	1,602	$1,192,333	$744
Mountain View	Gables End	Plymouth St & Amherst Wy	2-3 stories	2008	108	2 BR	1,490	$1,100,000	$738
Mountain View	Bedford Square	Bedford Dr & Ferguson Dr	3 stories	2007	106	2 BR	1,374	$977,500	$711
						3 BR	1,843	$1,480,000	$803
Los Altos	100 First	100 First St	3 stories	2015	46	1 BR	1,156	$910,000	$787
						2 BR	1,621	$1,450,000	$895
						3 BR	2,281	$2,383,500	$1,045
Los Altos	396 First	396 First St	3 stories	2013	20	1 BR	891	$861,000	$966
						2 BR	1,557	$1,172,688	$753
Sunnyvale	Evelyn Glen	E. Evelyn Ave & Peppermint Tree Ter	3 stories	2008	130	2 BR	1,251	$816,888	$653
						3 BR	1,426	$865,643	$607
						4 BR	1,586	$1,100,000	$694
Sunnyvale	Verona at Sunnyvale	Tasman Dr & Morse Ave	3 stories	2009	72	2 BR	1,392	$821,000	$590
						3 BR	1,555	$895,000	$576
Sunnyvale	Fusion	Deguine Dr & Glen Valley Ter	3 stories	2012	228	4 BR	1,882	$1,060,000	$563
Average Other Cities								**$1,149,722**	**$739**

Source: Polaris Pacific, 2015; Strategic Economics, 2015.

Figure III-6. Average Net Residential SF per Unit

Prototype	Unit Type	Number of Units	Net Area (SF)	Unit Sales Price/ Monthly Rent	Price or Rent per SF
Single-Family Detached (For-Sale)					
Type V wood frame	5 BD/4 BA	30	3,000	$3,043,000	$1,015
6 units per acre					
Attached garage					
Net Residential Area (Net SF)			90,000		
Single-Family Attached (For-Sale)					
Type V wood frame	3 BD/ 4 BA	10	2,100	$1,666,000	$793
11 units per acre					
Tuck-under parking					
Net Residential Area			21,000		
Condominiums (For-Sale)					
Type V wood frame	4 BD/3 BA	35	2,100	$1,390,000	$662
30 units per acre					
Underground parking					
Net Residential Area (Net SF)			73,500		
Apartments (Rental)					
Type V wood frame	1 BD/ 1 BA	20	795	$3,247	$4.09
41 units per acre	2 BD/2 BA	50	1,114	$4,191	$3.76
Podium parking					
Net Residential Area			68,000		
Average Net SF per Unit			1,063		

Sources: DataQuick, 2014; Carmel the Village, 2014; CoStar, 2014; 201marshall.com, 2014; Apartments.com, 2014; Classic Communities, 2014; City of Palo Alto, 2014; Strategic Economics & Vernazza Wolfe Associates, Inc., 2014.

HOUSEHOLD INCOMES OF BUYERS AND RENTERS

Using the sales prices and rents shown in Figure III-5, the next step is to calculate the annual household incomes of the buyers of new for-sale condominium units and the renters occupying new apartment units. The household income is a key input to the IMPLAN3 economic impact analysis described in Section IV of this report. The calculations demonstrate that the estimated annual household income of buyers of new market-rate units in Palo Alto is between $260,000 and $550,000, depending on the unit prototype. For renters of new market-rate apartment units, the annual household income is estimated between approximately $130,000 and $170,000. This shows that new housing units developed in the City are priced for high-income households, and cannot be accessed by very low, low, and moderate income households.

Income of Single-Family Detached Buyers

To calculate the household income of single-family detached buyers, the analysis applied typical mortgage terms for Santa Clara County: 20 percent down payment, 30 year fixed rate mortgage, and 4.35 percent interest rate. Palo Alto property tax rates were estimated from recent budget documents. Total housing costs, including monthly payments for mortgage payments, property taxes and insurance, are assumed to be 35 percent of available monthly income. The result of the income estimates for households buying new single-family detached units is shown in Figure III-6. As shown in the calculations, for single-family detached units, household incomes are estimated to be almost $550,000.

Income of Single-Family Attached Buyers

For buyers of single-family attached units, the analysis applied the same typical mortgage terms as those used for single-family detached units, and Palo Alto's property tax rates. Homeowner association (HOA) fees were based on a review of HOA fees at similar new single-family attached developments in Santa Clara County. As in the previous case, households are expected to spend 35 percent of available monthly income on total housing costs, including monthly payments for mortgage payments, property taxes, insurance and HOA fees. Figure III-7 shows the result of the income estimates for households buying new single-family detached units. As shown in the calculations, for single-family attached units, household incomes are estimated to be approximately $310,000.

Incomes of Condominium Buyers

To calculate the household income of buyers of new condominium units, the analysis applied mortgage terms typical for Santa Clara County: 20 percent down payment, 30 year fixed rate mortgage, and 4.35 percent interest rate. Property tax rates were estimated from recent budget documents, and homeowner association (HOA) fees were based on a review of HOA fees at similar new condominium developments in Santa Clara County. Total housing costs, including monthly payments for mortgage payments, property taxes, insurance, and HOA fees, are assumed to be 35 percent of available monthly income. The result of the income estimates for households buying new condominium units is shown in Figure III-8. As shown in the calculations, for condominium units, household incomes are estimated at over $260,000.

Incomes of Apartment Renters

For renter households, maximum annual housing costs are assumed to be 30 percent of gross household income, a standard established in California's Health and Safety Code Sections 50052.5 and 50053. The estimated household income of renters varies by unit type, as indicated in Figure III-9. One-bedroom renter households have an estimated annual income of nearly $130,000, while renters of two-bedroom units have estimated household incomes of about $170,000.

Figure III-7. Estimated Annual Household Incomes of Buyers of Single-Family Detached Units

	Single-Family Detached Unit Type
	5 BR/ 4 BA
Number of Households	30
Sales Price	$3,043,000
Down Payment (a)	$608,600
Loan Amount	$2,434,400
Monthly Debt Service (b)	$12,119
Annual Debt Service	$145,425
Annual Property Taxes (c)	$35,299
Fire and Hazard Insurance (d)	$10,651
Annual Housing Costs (e)	$191,374
Household Income	$546,783

Notes:

(a) Down payment is estimated at 20% of sales price, based on Freddie Mac data for Santa Clara County.

(b) Interest rate is estimated at 4.35% for a 30-year term, based on Freddie Mac data.
http://www.freddiemac.com/pmms/pmms30.htm.

(c) Property tax rate is 1.16% based Palo Alto CAFR, 2013.

(d) Industry standard

(e) Homeownership housing burden is estimated at 35%, based on California Health & Safety Code Sections 50052.5 and 50053.

Sources: Strategic Economics & Vernazza Wolfe Associates, Inc., 2014.

Figure III-8. Estimated Annual Household Incomes of Buyers of Single-Family Attached Units

	Single-Family Attached Unit Type 3 BR/ 4 BA
Number of Households	10
Sales Price	$1,666,000
Down Payment (a)	$333,200
Loan Amount	$1,332,800
Monthly Debt Service (b)	$6,635
Annual Debt Service	$79,618
Annual Property Taxes (c)	$19,326
Annual HOA Fees (d)	$3,600
Fire and Hazard Insurance (e)	$5,831
Annual Housing Costs (f)	$108,375
Household Income	$309,642

Notes:

(a) Down payment is estimated at 20% of sales price, based on Freddie Mac data for Santa Clara County.
(b) Interest rate is estimated at 4.35% for a 30-year term, based on Freddie Mac data. http://www.freddiemac.com/pmms/pmms30.htm.
(c) Property tax rate is 1.16% based Palo Alto CAFR, 2013.
(d) Homeownership association (HOA) fees are estimated at $300 per month, based on review of recently built projects.
(e) Industry standard
(f) Homeownership housing burden is estimated at 35%, based on California Health & Safety Code Sections 50052.5 and 50053.

Sources: Strategic Economics & Vernazza Wolfe Associates, Inc., 2014.

Figure III-9. Estimated Annual Household Incomes of Buyers of Condominium Units

	Condominium Unit Type 4 BR/ 3 BA
Number of Households	35
Sales Price	$1,390,000
Down Payment (a)	$278,000
Loan Amount	$1,112,000
Monthly Debt Service (b)	$5,536
Annual Debt Service	$66,428
Annual Property Taxes (c)	$16,124
Annual HOA Fees (d)	$3,600
Fire and Hazard Insurance (e)	$4,865
Annual Housing Costs (f)	$91,017
Household Income	$260,049

Notes:
(a) Down payment is estimated at 20% of sales price, based on Freddie Mac data for Santa Clara County.
(b) Interest rate is estimated at 4.35% for a 30-year term, based on Freddie Mac data. http://www.freddiemac.com/pmms/pmms30.htm.
(c) Property tax rate is 1.16% based Palo Alto CAFR, 2013.
(d) Homeownership association (HOA) fees are estimated at $300 per month, based on review of recently built projects.
(e) Industry standard
(f) Homeownership housing burden is estimated at 35%, based on California Health & Safety Code Sections 50052.5 and 50053.

Sources: Strategic Economics & Vernazza Wolfe Associates, Inc., 2014.

Figure III-10. Estimated Annual Household Incomes of Renters of Apartment Units

	Apartment Unit Type	
	1 BR/ 1 BA	2 BR/ 2 BA
Number of Households	20	50
Monthly Rent	$3,247	$4,191
Annual Housing Costs	$38,968.31	$50,296.35
Housing Costs as % of Income (a)	30%	30%
Household Income	$129,894	$167,655

Notes:
(a) Renter housing burden is estimated at 30%, based on California Health & Safety Code Sections 50052.5 and 50053.
Sources: Strategic Economics & Vernazza Wolfe Associates, Inc., 2014.

IV. ECONOMIC IMPACT ANALYSIS (IMPLAN3)

The buyers and renters of the new market-rate condominiums and apartments create new spending in the local economy. These new expenditures can be linked to new jobs, many of which pay low wages. The job and wage impacts related to new market-rate housing units are measured using IMPLAN3, an economic impact analysis tool. An economics consulting firm, Applied Development Economics (ADE) undertook the IMPLAN3 analysis with the information on residential prototypes and associated buyers' and renters incomes provided by Strategic Economics and Vernazza Wolfe Associates Inc. In this section of the report, the methodology and results of the IMPLAN3 analysis are described in detail.

THE IMPLAN3 MODEL

The IMPLAN model is an economic dataset that has been used for over 35 years to measure the economic impacts of new investments and spending using the industrial relationships defined through an Input-Output Model. The IMPLAN model can estimate economic impacts resulting from changes in industry output, employment, income, and other measures. The latest version of this model is referred to as IMPLAN3.

For this analysis, the input-output model used data specific to Santa Clara County in order to estimate the multiplier effects resulting from the households that could potentially rent or buy new housing units in Palo Alto. In this case, all of the multiplier effects derive from new demand for goods and local services (including government) that new households would generate within Santa Clara County. It does not account for economic impacts generated during the construction period, or any economic impacts that would occur outside of the county.

The economic impacts estimated by the model generally fall into one of three categories - direct, indirect, or induced. For this analysis, the direct impacts represent the household income brought into the community by new residents. Indirect impacts would normally result from demand for commodities and services provided by suppliers for business operations. (Because the direct impacts come only from household spending, and not from business activity, the indirect effects were not calculated.) Induced impacts represent the potential effects resulting from household spending at local establishments by the new workers hired as a result of increased household expenditures. These impacts affect all sectors of the economy, but primarily affect retail businesses, health services, personal services providers, and government services. The employment estimates provided by the IMPLAN3 model cover all types of jobs, including full and part time jobs.

The first analysis undertaken by the IMPLAN3 model estimated the household demand for retail goods and personal services. It is assumed that buyers and renters of new housing units in Palo Alto increase demand for goods and services within Santa Clara County. This demand is based on the projected incomes of renters and owners for each prototype. The IMPLAN3 model's calculations are based on changes in household income, which adjusts the gross income to account for the payment of income taxes and savings.[3]

The second analysis estimated the induced impacts, or multiplier effects of new household spending in terms of jobs and wage income. The jobs and income calculations are focused on the induced jobs that would be created through local spending by the new households. The input-output model estimates the job impacts by detailed industry sector. The analysis took the detailed industry impact

[3] According to IMPLAN Group LLC, when the economic impact is modeled based on household income change, IMPLAN3 will adjust the input for income taxes and savings.

estimates and distributed them by occupational category. The occupational employment data used in the analysis came from the California Employment Development Department (EDD) Labor Market Information Division, and aggregates together data for all of California. After converting the industry level data into occupational employment, the income distribution was calculated using the occupational wage data for the San Jose-Santa Clara-Sunnyvale Metropolitan Statistical Area (MSA).. The average wage by occupation was used to make this calculation. The 2014 (first quarter) occupational wage data used in the analysis comes from California's EDD.

It should be noted that the figures used in the IMPLAN3 analysis reflect the demand for retail goods and services by net, new Santa Clara County households. The multiplier impacts assume that all of this spending will remain in Santa Clara County.[4]

HOUSEHOLD INCOME IMPACTS

Since the IMPLAN3 Model bases its household income impacts on Consumer Expenditure Survey data, income categories are used in the model instead of continuous income information. Because of this feature, the analysis sorted the renters and buyers of new market rate units into income groups, and then calculated the economic impacts based on the total income calculated for each income group.

Figure IV-1 below summarizes the household income data for single-family detached, single-family attached, condominium and apartment households. As shown, all 30 single-family detached households are in the income category of $150,000 or higher, with a total combined household income of $16.40 million. The ten single-family attached households are also all in the over $150,000 income category, reaching a combined household income of $3.1 million. Likewise, all 35 condominium households belong to the income category of $150,000 or higher, with an aggregate income of $9.1 million. Figure IV-1 also demonstrates the same calculation for renter households. The rental prototype has 20 households in the $100,000-$150,000 income category, and 50 households in the over $150,000 income category. The combined total household income for renter households is $10.98 million. These total income figures, adjusted to account for taxes and savings, were used as inputs for the IMPLAN3 analysis.

EMPLOYMENT AND WAGE IMPACTS

Based on the incomes of the new buyers and renters, the next step is to determine employment and wage impacts from each prototype. Estimated employment and wages are shown in Figure IV-2 for each IMPLAN3 industry sector, indicating the number of induced jobs, the industry's share of total employment growth by prototype, and the average wage by industry. Figure IV-3 provides the same IMPLAN3 output data, organized by occupation rather than industry, for each prototype. As shown in both figures, many of the induced jobs generated within Santa Clara County are in low-wage sectors and occupations related to retail and food services (restaurants). For example, workers in the food preparation and services earn annual wages of approximately $24,000. In addition to the very low paying occupations, a smaller share of induced jobs are in higher-paying resident-serving categories such as health care and government.

ESTIMATING WORKER-HOUSEHOLDS

Recognizing that many households have more than one wage-earner, the next step is to calculate the number of worker–households by dividing the total number of new workers by the average number of

[4] Estimating the retail leakage would require a detailed analysis of retail sales totals for existing businesses in Santa Clara County and is beyond the scope of this study.

wage-earners per household in Palo Alto. According to the U. S. Census Bureau 2008-2012 American Community Survey 3-Year Estimate, Palo Alto has an average of 1.51 workers per household. The number of induced jobs is divided by 1.51 to calculate the total number of worker households. Figure IV-4 illustrates this calculation.

ESTIMATING DEMAND FOR AFFORDABLE HOUSING

To estimate the demand for affordable housing, it is first necessary to determine the incomes of the new households. Once the average annual household income of worker households is calculated, the next step is to categorize households into area median income (AMI) levels based on the thresholds set by California Department of Housing and Community Development for Santa Clara County. The average household size in Palo Alto is 2.41 (rounded to 2.0), according to the US Census American Community Survey 5-Year Estimates 2008-2012. The income threshold for a two-person household in Santa Clara County was therefore used to determine the AMI categories of each new worker household. Figure IV-5 indicates that of the 48.5 new worker households associated with single-family detached development, there will be 38.3 households that need affordable housing. The comparable figures for single-family attached, condominium and apartment development are, respectively, 7.2, 21.3 and 27.3 households.

Figure IV-1. Estimated Incomes by Income Categories for Buyers and Renters of New Units

	Single-Family Detached Prototype			Single-Family Attached Prototype			Condominium Prototype			Apartment Prototype		
Income Category	**New Households**	**Aggregate Household Incomes**	**Average Household Income**	**New Households**	**Aggregate Household Incomes**	**Average Household Income**	**New Households**	**Aggregate Household Incomes**	**Average Household Income**	**New Households**	**Aggregate Household Incomes**	**Average Household Income**
Less than $10,000	0	$0	n/a	0	$0	n/a	0	$0	n/a	0	$0	n/a
$10,000-$15,000	0	$0	n/a	0	$0	n/a	0	$0	n/a	0	$0	n/a
$15,000-$25,000	0	$0	n/a	0	$0	n/a	0	$0	n/a	0	$0	n/a
$25,000-$35,000	0	$0	n/a	0	$0	n/a	0	$0	n/a	0	$0	n/a
$35,000-$50,000	0	$0	n/a	0	$0	n/a	0	$0	n/a	0	$0	n/a
$50,000-$75,000	0	$0	n/a	0	$0	n/a	0	$0	n/a	0	$0	n/a
$75,000-$100,000	0	$0	n/a	0	$0	n/a	0	$0	n/a	0	$0	n/a
$100,000-$150,000	0	$0	n/a	0	$0	n/a	0	$0	n/a	20	$2,597,887	$129,894
Over $150,000	30	$16,403,491	$546,783	10	$3,096,418	$309,642	35	$9,101,701	$260,049	50	$8,382,725	$167,655
Total	30	$16,403,491	$546,783	10	$3,096,418	$309,642	35	$9,101,701	$260,049	70	$10,980,612	$156,866

Sources: Applied Development Economics, Inc., 2015; Vernazza Wolfe Associates, Inc. and Strategic Economics, 2015.

Figure IV-2. Estimated Job and Wage Impacts of Prototypes by Industry

Industry (NAICS code)		Average Wage	Single-Family Detached Prototype		Single-Family Attached Prototype		Condominium Prototype		Apartment Prototype	
			Jobs	% Of Jobs	Jobs	% Of Jobs	Jobs	% Of Jobs	Jobs	% Of Jobs
11	Forestry, fishing, hunting, and agriculture	$30,270	0.02	0%	0.005	0%	0.01	0%	0.02	0%
21	Mining	$68,709	0.005	0%	0.001	0%	0.003	0%	0.004	0%
22	Utilities	$73,885	0.09	0%	0.02	0%	0.05	0%	0.06	0%
23	Construction	$65,942	1.52	2%	0.29	2%	0.84	2%	1.04	2%
31	Manufacturing	$68,114	0.18	0%	0.03	0%	0.10	0%	0.13	0%
42	Wholesale trade	$61,865	1.27	2%	0.24	2%	0.71	2%	0.91	2%
44	Retail trade	$53,534	10.24	14%	1.93	14%	5.68	14%	7.36	14%
48	Transportation & warehousing	$44,980	0.94	1%	0.18	1%	0.52	1%	0.66	1%
51	Information	$77,807	0.99	1%	0.19	1%	0.55	1%	0.72	1%
52	Finance & insurance	$71,401	3.97	5%	0.75	5%	2.20	5%	2.84	5%
53	Real estate & rental & leasing	$65,766	3.30	5%	0.62	5%	1.83	5%	2.40	5%
54	Professional, scientific & technical services	$93,985	2.50	3%	0.47	3%	1.39	3%	1.75	3%
55	Management of companies & enterprises	$90,580	0.22	0%	0.04	0%	0.12	0%	0.16	0%
56	Admin, support, waste mgt, remediation services	$51,482	2.73	4%	0.52	4%	1.51	4%	1.95	4%
61	Educational services	$61,806	4.97	7%	0.94	7%	2.76	7%	3.30	6%
62	Health care and social assistance	$66,334	13.91	19%	2.63	19%	7.72	19%	10.25	20%
71	Arts, entertainment & recreation	$46,623	2.27	3%	0.43	3%	1.26	3%	1.60	3%
72	Accommodation & food services	$28,709	9.90	14%	1.87	14%	5.49	14%	7.23	14%
81	Other services (except public administration)	$50,865	6.34	9%	1.20	9%	3.52	9%	4.59	9%
91	Government	$69,032	7.92	11%	1.49	11%	4.39	11%	5.23	10%
	Total		73.30	100%	13.84	100%	40.67	100%	52.20	100%

Note: Average wage is calculated based on the mean occupational wages, and the average statewide distribution of occupations for each industry.
Sources: Applied Development Economics, Inc, 2015; Vernazza Wolfe Associates, Inc. and Strategic Economics, 2015.

Figure IV-3. Estimated Job and Wage Impacts of Prototypes by Occupation

SOC Code	Occupational Title	Average Annual Wage	Single-Family Detached Jobs	Single-Family Attached Jobs	Condominium Jobs	Apartment Jobs
11-0000	Management Occupations	$157,147	3.48	0.66	1.93	2.48
13-0000	Business and Financial Operations Occupations	$91,243	3.74	0.71	2.07	2.62
15-0000	Computer and Mathematical Occupations	$117,227	1.36	0.26	0.75	0.95
17-0000	Architecture and Engineering Occupations	$109,326	0.71	0.13	0.39	0.48
19-0000	Life, Physical, and Social Science Occupations	$93,341	0.69	0.13	0.38	0.47
21-0000	Community and Social Services Occupations	$58,932	1.71	0.32	0.95	1.22
23-0000	Legal Occupations	$138,848	0.50	0.09	0.28	0.34
25-0000	Education, Training, and Library Occupations	$58,305	3.79	0.72	2.10	2.56
27-0000	Arts, Design, Entertainment, Sports, Media Occupations	$67,471	1.11	0.21	0.62	0.79
29-0000	Healthcare Practitioners and Technical Occupations	$108,395	4.97	0.94	2.76	3.62
31-0000	Healthcare Support Occupations	$37,001	2.34	0.44	1.30	1.71
33-0000	Protective Service Occupations	$53,668	1.96	0.37	1.09	1.32
35-0000	Food Preparation and Serving-Related Occupations	$23,861	10.53	1.99	5.84	7.66
37-0000	Building and Grounds Cleaning and Maintenance	$29,998	2.22	0.42	1.23	1.58
39-0000	Personal Care and Service Occupations	$28,970	5.19	0.98	2.88	3.75
41-0000	Sales and Related Occupations	$54,182	9.06	1.71	5.03	6.51
43-0000	Office and Administrative Support Occupations	$45,414	11.49	2.17	6.38	8.15
45-0000	Farming, Fishing, and Forestry Occupations	$25,561	0.06	0.01	0.03	0.04
47-0000	Construction and Extraction Occupations	$59,340	1.35	0.25	0.75	0.92
49-0000	Installation, Maintenance, and Repair Occupations	$54,737	2.45	0.46	1.36	1.75
51-0000	Production Occupations	$40,099	1.29	0.24	0.71	0.92
53-0000	Transportation and Material Moving Occupations	$35,640	3.31	0.63	1.84	2.35
	Total all occupations		73.30	13.84	40.67	52.20

Figure IV-4. Induced Employment Impacts, Palo Alto

Project Prototype	Single-Family Detached	Single-Family Attached	Condominium	Apartment
Number of Units	30	10	35	70
Induced Employment (Workers)	73.30	13.84	40.67	52.20
Average Number of Workers per Household	1.51	1.51	1.51	1.51
New Worker Households	48.54	9.16	26.93	34.57

Source: ADE, 2015; Strategic Economics & Vernazza Wolfe Associates, Inc. 2015.

Figure IV-5. New Worker Households by Income Group for Prototypes

Worker Households by Income Category	Income Thresholds (2-Person Household)	Single-Family Detached	Single Family Attached	Condominium	Apartment
Households Requiring Affordable Housing					
Very Low Income (<=50% AMI)	$42,450	6.98	1.32	3.87	5.074
Low Income (51-80% AMI)	$67,900	17.15	3.24	9.51	12.259
Moderate Income (81-120% AMI)	$101,300	14.19	2.68	7.87	9.975
Subtotal		38.32	7.23	21.26	27.310
Above Moderate Income Households	>$101,300	10.22	1.93	5.67	7.26
Total All Worker Households		48.54	9.16	26.93	34.57

Note: For each prototype and income category, the number of households requiring affordable housing has been rounded to nearest one-hundredth.
Sources: Applied Development Economics, 2015; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2015

V. AFFORDABILITY GAP ANALYSIS

Estimating the housing affordability gap is necessary to calculate the maximum housing impact fee. This section summarizes the approach to calculating the housing affordability gap and the results of the analysis.

METHODOLOGY

The housing affordability gap is defined as the difference between what very low, low, and moderate income households can afford to pay for housing and the development cost of new, modest housing units. Calculating the housing affordability gap involves the following three steps:

1. Estimating affordable rents and housing prices for households in target income groups.

2. Estimating development costs of building new, modest housing units, based on current cost and market data.

3. Calculating the different between what renters and owners can afford to pay for housing and the cost of development of rental and ownership units.

The housing affordability gap is estimated at a countywide level because the California Department of Housing and Community Development Department (HCD) and U.S. Housing and Urban Development Department (HUD) define the ability to pay for housing at the county (rather than the city) level. This analysis uses 2014 income limits published by California Department of Housing and Community Development (HCD).

ESTIMATING AFFORDABLE RENTS AND SALES PRICES

The first step in calculating the housing affordability gap is to determine the maximum amount that households at the targeted income levels can afford to pay for housing. For eligibility purposes, most affordable housing programs define very low income households as those earning approximately 50 percent or less of area median income (AMI), low income households as those earning between 51 and 80 percent of AMI, and moderate income households as those earning between 81 and 120 percent of AMI. In order to ensure that the affordability of housing does not use the top incomes in each category, the analysis uses a point within the income ranges for the low and moderate income groups.[5]

Figure V-1 and Figure V-2 show the calculations for rental housing. The maximum affordable monthly rent is calculated as 30 percent of gross monthly household income, minus a deduction for utilities. For example, a very low income, three-person household could afford to spend $1,194 on total monthly housing costs. After deducting for utilities, $1,145 a month is available to pay for rent (Figure V-1).

Figure V-3 and Figure V-4 demonstrate housing affordability for homeowners. Homeowners are assumed to pay a maximum of 35 percent of gross monthly income on total housing costs, depending on income level. The maximum affordable price for for-sale housing is then calculated based on the total monthly mortgage payment that a homeowner could afford, using standard loan terms used by CalHFA programs and many private lenders for first-time homebuyers, including a five percent down payment (Figure V-3).

[5] For rental housing, 70 percent of AMI is used to represent low income households and 90 percent of AMI is used to represent moderate income households. For ownership housing, it is assumed that moderate income homebuyers may earn slightly less than the maximum for that income category (110 percent of AMI). Higher income limits are used for ownership than for rental housing because ownership housing is more expensive to purchase and maintain.

For example, a moderate income, three-person household could afford to spend $3,046 a month on total housing costs, allowing for the purchase of a $359,897 home.

Key assumptions used to calculate the maximum affordable rents and housing prices are discussed below.

- **Unit types:** For rental housing, the analysis included studios, one-, two-, and three-bedroom units. For for-sale housing, one-, two-, and three-bedroom units were included. These unit types represent the affordable and modest market-rate apartment and condominium units available in Palo Alto. Condominiums were used to represent modest for-sale housing because single-family homes in Palo Alto tend to be significantly more expensive than condominiums.
- **Occupancy and household size assumptions.** Because income levels for affordable housing programs vary by household size, calculating affordable unit prices requires defining household sizes for each unit type. Consistent with California Health and Safety Code Section 50052.5(h), unit occupancy was generally estimated as the number of bedrooms plus one. For example, a studio unit is assumed to be occupied by one person, a one bedroom unit is assumed to be occupied by two people, and so on. Several adjustments to this general assumption were made in order to capture the full range of household sizes. In particular, it is assumed that one-bedroom condominiums could be occupied by one- or two-person households, and three-bedroom apartments and condominiums could be occupied by four- or five-person households.[6]
- **Targeted income levels for rental housing:** For rental housing, affordable rents were calculated for very low income, low income, and moderate income households (see Figure V-1 and Figure V-2). For eligibility purposes, most affordable housing programs define very low income households as those earning 50 percent or less of area median income (AMI), low income households as those earning between 51 and 80 percent of AMI, and moderate income households as those earning between 81 and 120 percent of AMI. However, defining affordable housing expenses based at the top of each income range would result in prices that are not affordable to most of the households in each category. Thus, this analysis does not use the maximum income level for all of the income categories. Instead, for rental housing, 70 percent of AMI is used to represent moderate income households and 90 percent of AMI is used to represent moderate income households.
- **Targeted income levels for ownership housing** For ownership housing, affordable home prices were calculated only for moderate income households, because very low and low income households are unlikely to be homebuyers. Higher income limits are used for ownership than for rental housing because ownership housing is more expensive to purchase and maintain. It is assumed that moderate income homebuyers may earn slightly less than the maximum for that income category (110 percent of AMI).
- **Maximum monthly housing costs.**[7] For all renters, maximum monthly housing costs are assumed to be 30 percent of gross household income. For homebuyers, 35 percent of gross income is assumed to be available for monthly housing costs, reflecting the higher incomes of this group.[8] These standards are based on California's Health & Safety Code Sections 50052.5 and 50053.

[6] For these unit types, the maximum affordable home price (or rent) is calculated as the average price (or rent) that the relevant household sizes can afford to pay. For example, the maximum affordable home price for a one-bedroom condominium is calculated as the average of the maximum affordable home price for one- and two-person households.

[7] The calculation of homeowner affordability is conservative in that the model accounts for additional costs for buyers (such as utility costs) that might not be considered by all lenders.

[8] The assumption that homebuyers spend 35 percent of gross household income on housing results in a reduced affordability gap than if 30 percent of gross household income were used instead.

- **Utilities.** The monthly utility cost assumptions are based on Santa Clara County's "2013 Utility Allowance Schedule."[9] Both renters and owners are assumed to pay for heating, cooking, other electric, and water heating. In addition, owners are assumed to pay for water and trash collection.[10]
- **Mortgage terms & costs included for ownership housing.** For ownership housing, the mortgage calculations are based on the terms typically offered to first-time homebuyers (such as the terms offered by the California Housing Finance Authority), which is a 30-year mortgage with a five percent down payment. A five percent down payment standard is also used by many private lenders for first-time homebuyers. Based on recent interest rates to first-time buyers, the analysis assumes a 5.375 percent annual interest rate.[11] In addition to mortgage payments and utilities, monthly ownership housing costs include homeowner association (HOA) dues,[12] property taxes,[13] private mortgage insurance,[14] and hazard and casualty insurance.[15]

[9] Santa Clara County, "Utility Allowance Schedule", 2013.

[10] Based on the most common types of fuel for owner and rental units in Palo Alto, all units are assumed to have natural gas heating and water heating systems; for-sale units are also assumed to have natural gas stoves, while rental units are assumed to use electric stoves. Sources: U.S. Census Bureau, 2008-2012 American Community Survey, "Table B25117: Tenure by House Heating Fuel," City of Palo Alto; U.S. Census Bureau, 2011 American Housing Survey, "Table C-03-AH-M, San Jose-Sunnyvale-Santa Clara: Heating, Air Conditioning, and Appliances – All Housing Units."

[11] Sources: CalHFA Mortgage Calculator, accessed March 2014; Zillow.com, "Current Mortgage Rates and Home Loans," accessed March 2014; interviews with California Housing Finance Agency (CalHFA) Preferred Loan Officers, March 2014.

[12] HOA fees are estimated at $300 per unit per month, based on common HOA fees in Santa Clara County as reported in: Polaris Pacific, "Silicon Valley Condominium Market," February 2014.

[13] The annual property tax rate is estimated at 1.16, based on the total direct and overlapping property tax rate for Palo Alto reported in the City's 2012-13 Comprehensive Annual Financial Report (page 144).

[14] The annual private mortgage insurance premium rate is estimated at 0.89 percent of the total mortgage amount, consistent with standard requirements for conventional loans with a five percent down payment. Sources: Genworth, February 2014; MGIC, December 2013; Radian, April 2014.

[15] The annual hazard and casualty insurance rate is assumed to be 0.35 percent of the sales price, consistent with standard industry practice.

Figure V-1. Calculation of Affordable Rents in Santa Clara County by Household Size, 2014

Persons per Household (HH)	1	2	3	4	5
Very Low Income (50% AMI)					
Maximum Household Income at 50% AMI	$37,150	$42,450	$47,750	$53,050	$57,300
Maximum Monthly Housing Cost (a)	$929	$1,061	$1,194	$1,326	$1,433
Utility Deduction	$29	$40	$49	$60	$60
Maximum Available for Rent (HH Size) (b)	$900	$1,021	$1,145	$1,266	$1,373
Low Income (70% AMI)					
Maximum Household Income at 70% AMI	$51,695	$59,080	$66,465	$73,850	$79,765
Maximum Monthly Housing Cost (a)	$1,292	$1,477	$1,662	$1,846	$1,994
Utility Deduction	$29	$40	$49	$60	$60
Maximum Available for Rent (HH Size) (b)	$1,263	$1,437	$1,613	$1,786	$1,934
Moderate Income (90% AMI)					
Maximum Household Income at 90% AMI	$66,465	$75,960	$85,455	$94,950	$102,555
Maximum Monthly Housing Cost (a)	$1,662	$1,899	$2,136	$2,374	$2,564
Utility Deduction	$29	$40	$49	$60	$60
Maximum Available for Rent (HH Size) (b)	$1,633	$1,859	$2,087	$2,314	$2,504

Notes:

(a) 30 percent of maximum monthly household income.

(b) Maximum monthly housing cost minus utility deduction.

Acronyms:

AMI: Area median income

HH: Household

Sources: California Department of Housing and Community Development, "State Income Limits for 2014," February 28, 2014 and “Overpayment and Overcrowding,” 2010; Housing Authority of Santa Clara County, "2013 Utility Allowances Schedule," Santa Clara County, October 2013; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

Figure V-2. Calculation of Affordable Rents in Santa Clara County by Unit Type, 2014

Affordable Rents by Unit Type (a)	Studio	1 Bedroom	2 Bedroom	3 Bedroom
Very Low Income (50% AMI)	$900	$1,021	$1,145	$1,319
Low Income (70% AMI)	$1,263	$1,437	$1,613	$1,860
Moderate Income (90% AMI)	$1,633	$1,859	$2,087	$2,409

(a) Affordable rents are calculated as follows: Studios are calculated as one-person households; One-bedroom units are calculated as two-person households; Two-bedroom units are calculated as three-person households; Three-bedroom units are calculated as an average of four and five person households.

Sources: California Department of Housing and Community Development, "State Income Limits for 2014," February 28, 2014 and “Overpayment and Overcrowding,” 2010; Housing Authority of Santa Clara County, "2013 Utility Allowances Schedule," Santa Clara County, October 2013; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

Figure V-3. Calculation of Affordable Sales Prices in Santa Clara County by Household Size, 2014

Household Size (Persons per HH)	**1**	**2**	**3**	**4**	**5**
Moderate Income (110% AMI) (g)					
Maximum Household Income at 110% AMI	$81,235	$92,840	$104,445	$116,050	$125,345
Maximum Monthly Housing Cost (a)	$2,369	$2,708	$3,046	$3,385	$3,656
Monthly Deductions					
Utilities	$113	$113	$125	$174	$174
HOA Dues	$300	$300	$300	$300	$300
Property Taxes and Insurance (b)	$527	$619	$706	$785	$858
Monthly Income Available for Mortgage Payment (c)	$1,429	$1,676	$1,915	$2,126	$2,324
Maximum Mortgage Amount (d)	$255,155	$299,376	$341,902	$379,732	$415,083
Maximum Affordable Sales Price - HH Size (e)	$268,584	$315,133	$359,897	$399,717	$436,929

Notes:

(a) 30 percent of monthly household income for very low and low income households; 35 percent of monthly household income for moderate-income households
(b) Assumes annual property tax rate of 1.16 percent of sales price; annual private mortgage insurance premium rate of 0.89 percent of mortgage amount; annual hazard and casualty insurance rate of 0.35 percent of sales price
(c) Maximum monthly housing cost minus deductions
(d) Assumes 5.375 percent interest rate and 30 year loan term. Assumes CalHFA first-time homebuyer program.
(e) Assumes 5 percent down payment (95 percent loan-to-value ratio). Assumes CalHFA first-time homebuyer program.
(f) Calculated as an average of household sizes occupying unit type. 1-bedroom units are assumed to accommodate 1- and 2-person households; 3-bedroom units are assumed to accommodate 4- and 5-person households.
(g) Calculated as 110 percent of the median household income reported by HCD for each household size.

Acronyms:
AMI: Area median income
HH: Household
HOA: Homeowners association

Sources: California Department of Housing and Community Development, "State Income Limits for 2014," February 28, 2014 and "Overpayment and Overcrowding," 2010; Housing Authority of Santa Clara County, "2013 Utility Allowances Schedule," Santa Clara County, October 2013; Mortgage insurance provider websites; Interviews with California Housing Finance Agency (CalHFA) Preferred Loan Officers, March 2014; CalHFA Mortgage Calculator, March 2014; Zillow.com, March 2014; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

Figure V-4. Calculation of Affordable Sales Prices in Santa Clara County by Unit Type, 2014

Affordable Sales Price by Unit Type (a)	1 Bedroom	2 Bedroom	3 Bedroom
Moderate Income (110% AMI)	$291,858	$359,897	$418,323

(a) One-bedroom units are calculated as an average of one- and two-person households; Two-bedroom units are calculated as three-person households; and three-bedroom units are calculated as an average of four and five person households.

Sources: California Department of Housing and Community Development, "State Income Limits for 2014," February 28, 2014 and “Overpayment and Overcrowding,” 2010; Housing Authority of Santa Clara County, "2013 Utility Allowances Schedule," Santa Clara County, October 2013; Mortgage insurance provider websites; Interviews with California Housing Finance Agency (CalHFA) Preferred Loan Officers, March 2014; CalHFA Mortgage Calculator, March 2014; Zillow.com, March 2014; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

ESTIMATING HOUSING DEVELOPMENT COSTS

The second step in calculating the housing affordability gap is to estimate the cost of developing new, modest housing units. Modest housing is defined slightly differently for rental and ownership housing. For rental housing, the costs and characteristics of modest housing are similar to recent projects developed in Palo Alto by the affordable rental housing sector. However, there are no examples of new modest ownership housing units built in Palo Alto by the private or nonprofit sectors. The new for-sale homes in Palo Alto are typically luxury custom-built single family homes and large upscale condominium units, which are too costly to meet the standard for modest housing. For the purposes of this affordability gap analysis, modest for-sale housing units are defined as a compact, non-luxury multifamily condominium units.

The calculation of housing development costs used in the housing affordability gap requires several steps. Because the gap covers both rental housing and for-sale housing, it is necessary to estimate costs for each. The following describes the data sources used to calculate rental and for-sale housing development costs.

Rental Housing

Rental housing development costs were based on pro forma data obtained from recent affordable housing projects in Palo Alto. Figure V-5 shows the description of these projects and summarizes the information that was used to generate a per-square-foot cost of $446 used in the cost analysis. These costs include site acquisition costs, hard costs (on- and off-site improvements), soft costs (such as design, city permits and fees, construction interest, and contingencies), and developer fees. The costs from the rental housing pro formas were also cross-referenced against proprietary pro formas available to the consultant team from other private development projects in order to ensure accuracy.

Since these projects assumed state and federal funding, the labor costs included in the original pro formas reflect the prevailing wage requirement imposed by state and local governments. The costs shown in Figure V-5 have been adjusted to subtract out the prevailing wage requirement because the development cost model used in the housing affordability gap analysis does not assume receipt of government subsidies. A rule of thumb used by local economists who assist affordable housing developers in obtaining public financing, is to estimate that, under the prevailing wage requirement, labor costs are 25 percent higher than would otherwise be the case. Therefore, on-site and off-site improvement costs obtained from the original pro formas are reduced by 25 percent to reflect actual labor costs that would apply to construction projects that do not have these requirements.[16] Finally, on average, land acquisition costs accounted for 20 percent or less of these total adjusted costs.

[16] These prevailing wage requirements refer only to labor cost requirements on construction projects that receive funding from the state or federal government. These are not the same as minimum wage requirements that individual cities may adopt.

Figure V-5. Affordable Housing Project Pro Forma Data

Project Description	**Maybelle**	**Alma Garden Apts**
Location	Palo Alto	Palo Alto
Date of Pro Forma	2013	2013
Land Area (acres)	1.03	0.6
Gross Building Area (SF)	56,192	63,885
Number of Units	60	50
Parking Type	Uncovered	Underground
Parking Spaces/ Unit	0.8	1.0
Land Acquisition Costs	$7,498,524 ($167 per SF of land)	$7,480,000 ($286 per SF of land)
Project Costs per SF of Gross Building Area		
Land Cost (a)	$133	$117
Hard Costs (b)	$160	$153
Soft Costs (c)	$91	$192
Developer Fees	$25	$22
Total Project Costs (d)	$409	$484

Notes:

(a) Calculated per square foot of gross building area.
(b) Excludes prevailing wage requirements for on-site and off-site hard costs.

(c) Includes design, engineering, city permits and fees, construction interest, contingencies, legal, etc.

(d) Total costs include developer fees.

Acronyms:

SF: Square feet
Source: Pro Forma Data provided by City of Palo Alto; Vernazza Wolfe Associates, Inc; Strategic Economics, 2014.

To ensure that the land value assumptions used in the rental development cost estimates (ranging from $167 to $286 per square foot of land) were reasonable, the consultant team analyzed recent sales of vacant properties in Santa Clara County using DataQuick, a commercial vendor that tracks real estate transactions. As shown below in Figure IV-6, land values in Southern San Mateo County and Northern Santa Clara County are highly variable from city to city, ranging from $96 to $228 per square foot. The analysis demonstrates that the land costs for the affordable rental housing projects shown in Figure V-5 are generally consistent with the land values in the market area.

Figure V-6. Sales of Vacant Lands in San Mateo County and Northern Santa Clara County, 2014

Property	Location	Sales Date	Sales Price	Site Size (SF)	Average Sales Price/ SF
Page Mill	Palo Alto	2012	$3,959,000	26,926	$147
389 El Camino Real	Menlo Park	2012	$12,200,000	53,579	$228
1300 El Camino Real	Menlo Park	2012	$24,500,000	148,165	$165
E. side of Tilton Avenue, N. of El Camino Real	San Mateo	2012	$4,505,000	33,572	$134
1275 El Camino Real	Menlo Park	2014	$3,600,000	17,960	$200
3877 El Camino Real	Palo Alto	2013	$4,450,000	32,825	$136
536 N Wishman Rd	Mountain View	2014	$1,050,000	7,000	$150
1958 Latham St	Mountain View	2014	$1,600,000	16,600	$96
Value Range per SF of Land					$96 - $228

Source: City of Palo Alto; Independent appraisals; Loopnet, 2015; Strategic Economics, 2015.

For-Sale Housing

Market-rate for-sale housing units in Palo Alto are priced at over $1 million; these units are too upscale to be considered “modest” units. Because of the lack of examples of built modest units in the City,the cost of developing new, modest for-sale housing was estimated using using published industry data sources, recent financial feasibility studies, and data from other projects in Santa Clara County. The Consultant Team estimated the development costs of a hypothetical condominium project, as described in Figure V-7.[17] Land costs were estimated based on recent DataQuick sales of multi-family zoned properties in Southern San Mateo County and Northern Santa Clara County. As shown in Figure V-6, land values vary depending on location and lot size, ranging from $96 to $228 per square foot. Because most transactions occurred in 2012 and 2013 in other lower cost jurisdictions, the current land value for multi-family land for condominium development in Palo Alto was estimated at $200 per square foot.

RS Means cost data, adjusted for the Bay Area’s construction costs, was used to calculate hard costs. Based on a review of recent financial feasibility analyses in the Bay Area, soft costs were estimated at 30 percent of hard costs, and developer fees and profits were estimated at 12 percent of hard and soft costs. Using this method, the development costs are estimated at approximately $500 per net square foot of building area.

[17] The hypothetical condominium building type is a Type V building with underground parking and floor-area ratio of 1.7.

Figure V-7. Estimate of Development Costs of Hypothetical Condominium Project

Building Characteristics	
Land Area (SF)	110,727
Gross Building Area (SF)	188,235
Net Building Area (SF)	160,000
Number of Units	100
Parking Type	Underground
Parking Spaces/ Unit	2
Floor-area ratio (FAR)	1.7
Density (units per acre)	39
Average Unit Size	1,600
Land Acquisition Costs per Square Foot (a)	$200
Development Cost	**Cost per Net SF**
Land Cost (b)	$138
Hard Costs	$250
Soft Costs (c)	$75
Developer Fees (d)	$39
Total Development Costs	$502

Notes:

(a) Land value is estimated at $200 per square foot based on recent transactions in market area.
(b) Calculated based on RS Means cost estimates per square foot of net building area.
(c) Estimated at 30 percent of hard costs. Includes design, engineering, city permits and fees, construction interest, contingencies, legal, etc.
(d) Estimated at 12 percent of hard costs and soft costs.

Sources: RS Means, 2014; DataQuick 2014; Recent financial feasibility studies; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

Cost Estimates by Unit Size

The data sources described above also provided information on estimated unit sizes**.** Unit size information is needed to translate costs/sales prices per square foot to unit costs. Unit sizes are estimated separately for rental and for-sale units. For the rental units, the recent inventory of projects developed by MidPen Housing was analyzed. For ownership units, the average sizes of recently built condominium units (Figure V-7) were analyzed.

Figure V-8 provides the unit sizes and development cost estimates for rental units. Per-unit development costs were calculated by multiplying average unit sizes by the per-square foot development costs of $446. Rental unit costs range from $223,000 for studio units to $499,520 for three-bedroom units.

Figure V-9 summarizes the costs of condominium units. The per-unit costs were derived by multiplying the average unit size by the development cost, estimated at $500 per square foot. On a per unit basis, condominium development costs are $450,000 for one-bedroom units, $650,000 for two-bedroom units, and $875,000 for three-bedroom units.

Figure V-8. Rental Housing Unit Sizes and Development Costs

Unit Type	Estimated Cost per Net SF	Unit Size (net SF)	Development Costs
Studio	$446	500	$223,000
One bedroom	$446	700	$312,200
Two bedroom	$446	900	$401,400
Three bedroom	$446	1,120	$499,520

Acronyms:
SF: Square feet
Sources: Confidential Pro Forma Data; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

Figure V-9. For-Sale Housing Unit Sizes and Development Costs

Unit Type	Estimated Cost per Net SF	Unit Size (net SF)	Development Costs
One bedroom	$500	900	$450,000
Two bedroom	$500	1,300	$650,000
Three bedroom	$500	1,750	$875,000

Acronyms:
SF: Square feet
Sources: DataQuick, 2014; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

CALCULATING THE HOUSING AFFORDABILITY GAP

The final step in the analysis is to calculate the housing affordability gap, or the difference between what renters and owners can afford to pay and the total cost of developing new units. The purpose of the housing affordability gap calculation is to help determine the fee amount that would be necessary to cover the cost of developing housing for very low, low, and moderate income households. The calculation does not assume the availability of any other source of housing subsidy because not all "modest" housing is built with public subsidies, and tax credits and tax-exempt bond financing are highly competitive programs that will not always be available to developers of modest housing units.

Figure V-10 shows the housing affordability gap calculation for rental units. For each rental housing unit type and income level, the gap is defined as the difference between the per-unit cost of development and the supportable debt per unit. The supportable debt is calculated based on the net operating income generated by an affordable monthly rent, incorporating assumptions about operating expenses (including property taxes, insurance, etc.), reserves, vacancy and collection loss, and mortgage terms based on discussions with local affordable housing developers. Because household sizes are not uniform and the types of units each household may occupy is variable, the average housing affordability gap is calculated by averaging the housing affordability gaps for the various unit sizes.

Figure V-11 shows the housing affordability gap calculation for ownership units. For each unit type, the gap is calculated as the difference between the per-unit cost of development and the affordable sales price for each income level. As with rental housing, the average housing affordability gap is calculated by averaging the housing affordability gaps across unit sizes in order to reflect that households in each income group vary in size, and may occupy any of these unit types.

Finally, the tenure-neutral estimates of the housing affordability gap were estimated for very low, low, and moderate income households (Figure V-12). Because very low and low income households that are looking for housing in today’s market are much more likely to be renters, an ownership gap was not calculated for these income groups. The rental gap represents the overall affordability gap for these two income groups. On the other hand, moderate income households could be either renters or owners.

Therefore, the rental and ownership gaps are averaged for this income group to calculate the overall affordability gap for moderate income households. The calculated average affordability gap per unit is $306,164 for very low income households; $252,258 for low income households, and $249,596 for moderate income households. The housing affordability gap is highest for very low income households because they can afford to pay the least amount for housing.

Figure V-10. Housing Affordability Gap Calculation for Rental Housing

Income Level and Unit Type	Unit Size (SF)	Maximum Monthly Rent (a)	Annual Rental Revenue	Net Operating Income (b)	Available for Debt Service (c)	Supportable Debt (d)	Development Costs (e)	Affordability Gap (f)
Very-Low Income (50% AMI)								
Studio	500	$900	$10,797	$2,757	$2,206	$29,166	$223,000	$193,834
1 Bedroom	700	$1,021	$12,255	$4,142	$3,314	$43,818	$312,200	$268,382
2 Bedroom	900	$1,145	$13,737	$5,550	$4,440	$58,711	$401,400	$342,689
3 Bedroom	1,120	$1,319	$15,833	$7,541	$6,033	$79,769	$499,520	$419,751
Average Affordability Gap								**$306,164**
Low Income (70% AMI)								
Studio	500	$1,263	$15,161	$6,902	$5,522	$73,016	$223,000	$149,984
1 Bedroom	700	$1,437	$17,244	$8,882	$7,105	$93,954	$312,200	$218,246
2 Bedroom	900	$1,613	$19,352	$10,884	$8,707	$115,133	$401,400	$286,267
3 Bedroom	1,120	$1,860	$22,322	$13,706	$10,965	$144,987	$499,520	$354,533
Average Affordability Gap								**$252,258**
Moderate Income (90% AMI)								
Studio	500	$1,633	$19,592	$11,112	$8,890	$117,544	$223,000	$105,456
1 Bedroom	700	$1,859	$22,308	$13,693	$10,954	$144,843	$312,200	$167,357
2 Bedroom	900	$2,087	$25,049	$16,296	$13,037	$172,383	$401,400	$229,017
3 Bedroom	1,120	$2,409	$28,906	$19,960	$15,968	$211,146	$499,520	$288,374
Average Affordability Gap								**$197,551**

Notes:

(a) Affordable Rents are based on HCD FY 2014 Income Limits for Santa Clara County. See Figure 2, above.

(b) Amount available for debt. Assumes 5% vacancy and collection loss and $7,500 per unit for operating expenses and reserves, based on pro formas for affordable housing projects recently proposed in Palo Alto.

(c) Assumes 1.25 Debt Coverage Ratio.

(d) Assumes 6.38%, 30 year loan. Calculations based on annual payments.

(e) Assumes development cost of $446 per net square foot on rental units.

(f) Calculated as the difference between development costs and supportable debt. Rounded to nearest whole number.

Acronyms:
SF: Square feet
AMI: Area median income

Sources: Selected Palo Alto Rental Housing Pro Formas; Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

Figure V-11. Housing Affordability Gap Calculation for For-Sale Condominium Housing

Income Level and Unit Type	Unit Size (SF)	Affordable Sales Price (a)	Development Costs (b)	Affordability Gap (c)
Moderate Income (110% of AMI)				
1 Bedroom	900	$291,858	$450,000	$158,142
2 Bedroom	1,300	$359,897	$650,000	$290,103
3 Bedroom	1,750	$418,323	$875,000	$456,677
Average Affordability Gap				**$301,641**

(a) See calculation in Figure V-9, above.
(b) Assumes $500/SF for development costs, based on recent condominium sales.
(c) Calculated as the difference between affordable sales price and development cost; rounded to nearest whole number.

Acronyms:

SF: Square feet

AMI: Area median income
Sources: DataQuick Sales Data, 2008-2012; Vernazza Wolfe Associates, Inc. and Strategic Economics, 2015.

Figure V-12. Average Housing Affordability Gap by Income Group

Income Level	Rental Gap	Ownership Gap	Average Affordability Gap
Very Low-Income (50% AMI) (a)	$306,164	N/A	$306,164
Low-Income (70% - 80% AMI) (b)	$252,258	N/A	$252,258
Moderate-Income (90% - 110% AMI) (c)	$197,551	$301,641	$249,596

Notes:

(a) Based on rental housing only; very-low-income gap was not calculated for ownership housing.
(b) Low-income households are assumed to earn 70 percent of AMI for rental housing and 80 percent of AMI for ownership housing.
(c) Moderate-income households are assumed to earn 90 percent of AMI for rental housing and 110 percent of AMI for ownership housing.

Acronyms:

AMI: Area median income

Source: Vernazza Wolfe Associates, Inc. & Strategic Economics, 2014.

VI. MAXIMUM FEE AND REQUIREMENTS

This section builds on the findings of the previous analytical steps to calculate maximum justified housing impact fees for each prototype.

MAXIMUM FEE CALCULATION

To derive the maximum nexus-based fee, the housing affordability gap is applied to the number of lower-income worker households linked to the prototypes. This is the basis for developing an estimate of the total affordability gap for each prototype. The total gap for each prototype is then divided by the number of units in the development prototype to calculate a single maximum fee per unit.

Figure VI-1 presents the results of the nexus fee calculation for the single-family detached prototype. The per unit housing affordability gap number is multiplied by the number of income-qualified worker households linked to the prototype to estimate the total gap. The total affordability gap is then divided by the number of units in the prototype to derive the maximum fee per unit, estimated at $333,501 per unit. The same steps are taken for the single-family attached, condominium and rental apartment prototypes to estimate the maximum fee per unit, as shown in Figures VI-2, VI-3 and VI-4. The calculated maximum fees are $189,037 per single-family attached unit, $158,519 per condominium unit and $101,906 per apartment unit.

The fees can also be calculated on per-square-foot basis by dividing the total gap by the net residential area for each prototype. The maximum fee per square foot is $111 for the 90,000-square-feet single-family detached prototype (Figure V-5), $90 for the 21,000-square-foot single-family attached prototype (Figure V-6), $75 for the 73,500-square-foot condominium prototype (Figure VI-7) and $105 for the 67,970-square-foot apartment prototype (Figure VI-8).

The per-unit and per-square-foot fees shown in the tables below express the total nexus-based fees for the four housing prototypes in Palo Alto. They represent the maximum justified fees based on the nexus analysis that could be imposed on new development. The City may adopt fees or require mitigations at a lower level than these justified fees, depending on financial feasibility and other policy considerations.

Figure VI-1. Maximum Per-Unit Fee for Single-Family Detached Prototype

Income Category	Average Affordability Gap (per Household)	Number Worker Households	Total Affordability Gap	Number Units in Prototype	Total Fee Per Unit
Very Low Income (<=50% AMI)	$306,164	6.98	$2,137,025		
Low Income (51-80% AMI)	$252,258	17.15	$4,326,225		
Moderate Income (81-120% AMI)	$249,596	14.19	$3,541,767		
Total			$10,005,017	30	$333,501

Sources: Vernazza Wolfe Associates, Inc. & Strategic Economics, 2015.

Figure VI-2. Maximum Per-Unit Fee for Single-Family Attached Prototype

Income Category	Average Affordability Gap (per Household)	Number Worker Households	Total Affordability Gap	Number Units in Prototype	Total Fee Per Unit
Very Low Income (<=50% AMI)	$306,164	1.32	$404,136		
Low Income (51-80% AMI)	$252,258	3.24	$817,316		
Moderate Income (81-120% AMI)	$249,596	2.68	$668,917		
Total			$1,890,370	10	$189,037

Sources: Vernazza Wolfe Associates, Inc. & Strategic Economics, 2015.

Figure VI-3. Maximum Per-Unit Fee for Condominium Prototype

Income Category	Average Affordability Gap (per Household)	Number Worker Households	Total Affordability Gap	Number Units in Prototype	Total Fee Per Unit
Very Low Income (<=50% AMI)	$306,164	3.87	$1,184,855		
Low Income (51-80% AMI)	$252,258	9.51	$2,398,974		
Moderate Income (81-120% AMI)	$249,596	7.87	$1,964,321		
Total			$5,548,149	35	$158,519

Sources: Vernazza Wolfe Associates, Inc. & Strategic Economics, 2015.

Figure VI-4. Maximum Per-Unit Fee for Apartment Prototype

Income Category	Average Affordability Gap (per Household)	Number Worker Households	Total Affordability Gap	Number Units in Prototype	Total Fee Per Unit
Very Low Income (<=50% AMI)	$306,164	3.87	$1,552,251		
Low Income (51-80% AMI)	$252,258	9.51	$3,092,683		
Moderate Income (81-120% AMI)	$249,596	7.87	$2,488,472		
Total			$7,133,407	70	$101,906

Sources: Vernazza Wolfe Associates, Inc. & Strategic Economics, 2015.

Figure VI-5. Maximum Fee per SF for Single-Family Detached Prototype

Income Category	Average Affordability Gap (per Household)	Number Worker Households	Total Affordability Gap	Net Residential Area (SF)	Total Fee Per SF
Very Low Income (<=50% AMI)	$306,164	6.98	$2,137,025		
Low Income (51-80% AMI)	$252,258	17.15	$4,326,225		
Moderate Income (81-120% AMI)	$249,596	14.19	$3,541,767		
Total			$10,005,017	90,000	$111.17

Sources: Vernazza Wolfe Associates, Inc. & Strategic Economics, 2015.

Figure VI-6. Maximum Fee per SF for Single-Family Attached Prototype

Income Category	Average Affordability Gap (per Household)	Number Worker Households	Total Affordability Gap	Net Residential Area (SF)	Total Fee Per SF
Very Low Income (<=50% AMI)	$306,164	1.32	$404,136		
Low Income (51-80% AMI)	$252,258	3.24	$817,316		
Moderate Income (81-120% AMI)	$249,596	2.68	$668,917		
Total			$1,890,370	21,000	$90.02

Sources: Vernazza Wolfe Associates, Inc. & Strategic Economics, 2015.

Figure VI-7. Maximum Fee per SF for Condominium Prototype

Income Category	Average Affordability Gap (per Household)	Number Worker Households	Total Affordability Gap	Net Residential Area (SF)	Total Fee Per SF
Very Low Income (<=50% AMI)	$306,164	3.87	$1,184,855		
Low Income (51-80% AMI)	$252,258	9.51	$2,398,974		
Moderate Income (81-120% AMI)	$249,596	7.87	$1,964,321		
Total			$5,548,149	73,500	$75.49

Sources: Vernazza Wolfe Associates, Inc. & Strategic Economics, 2015.

Figure VI-8. Maximum Fee per SF for Apartment Prototype

Income Category	Average Affordability Gap (per Household)	Number Worker Households	Total Affordability Gap	Net Residential Area (SF)	Total Fee Per SF
Very Low Income (<=50% AMI)	$306,164	5.07	$1,552,251		
Low Income (51-80% AMI)	$252,258	12.26	$3,092,683		
Moderate Income (81-120% AMI)	$249,596	9.97	$2,488,472		
Total			$7,133,407	67,970	$104.95

Sources: Vernazza Wolfe Associates, Inc. & Strategic Economics, 2015.

INCLUSIONARY HOUSING REQUIREMENTS

In addition to establishing the maximum potential justified fee for new development projects, the nexus results described above can also be used to establish the percentage of inclusionary units under the City's current program. At present, inclusionary housing is one of the primary tools for providing affordable housing units in Palo Alto. Palo Alto currently has an inclusionary policy in the General Plan that requires that 15 to 20 percent of units in new developments be affordable housing units. The affordability levels for the inclusionary units are typically determined on a case by case basis, and developers have historically built the units within their projects. If the City adopts a housing impact fee, it could replace its inclusionary zoning program with an impact fee program that still allows developers the option of providing affordable units; or it could continue to require on-site units in for-sale projects.

The principal way in which the equivalent inclusionary percentage can be estimated from the nexus analysis is by taking the total number of households requiring affordable housing (for each prototype) and dividing this number by the number of total units in each prototype. The analysis indicates that the nexus-based inclusionary percentage rate is much higher than the City's existing inclusionary policy. Therefore the results of the nexus analysis support the current inclusionary requirements. In fact, the results of the nexus analysis indicate that inclusionary rates of 39 percent and higher (depending on the prototype) are supported by the nexus analysis.

VII. FEASIBILITY AND POLICY CONSIDERATIONS

There are a number of policy considerations that can be taken into account when jurisdictions consider adopting an affordable housing impact fee on new market-rate development. These may include factors such as the likely impact of the proposed fee levels on local housing development, the competitiveness of the city in attracting development relative to neighboring jurisdictions, the impact of the proposed fee on existing city fee level, and the role of the proposed fee in meeting the city's overall affordable housing objectives. This section provides a discussion of some of the key financial and policy questions for Palo Alto.

FINANCIAL FEASIBILITY ANALYSIS

Summary of Residential Prototypes

As discussed in more detail in Section III of this report, this nexus analysis is based on four residential prototypes: for-sale single-family detached, single-family attached and condominiums, and rental apartments. Figure VII-1 summarizes the characteristics of the four development prototypes that were tested for financial feasibility. These prototypes are representative of the types of market rate housing development projects that can reasonably be expected in Palo Alto. All residential prototypes are Type V wood frame construction. The single-family detached units have an attached garage and a density of 6 units per acre. On average, the net residential area is 3,000 square feet per unit. The single-family attached prototype building has podium parking and a density of 11 units per acre, with an average net area per unit of 2,100 square feet. The condominium prototypes have underground parking, a density of 30 units per acre, and an average net size of 2,100 square feet. The apartment prototype building has podium parking and a density of 41 units per acre. The average net area per unit is 971 square feet. Most of the apartment units are two bedrooms, with a small number of one bedroom units.

Figure VII-1. Residential Prototypes

Building Characteristics	Single-Family Detached	Single-Family Attached	Condominiums	Apartments
Building Type	Type V	Type V	Type V	Type V
Total Residential Units (a)	30	10	35	70
Avg. Size Unit in Square Feet (SF)	3,000	2,100	2,100	971
Net Square Footage (NSF)	90,000	21,000	73,500	68,000
Parking Type	Attached garage	Podium	Underground	Podium
Efficiency Factor (b)	85%	85%	85%	65%
Gross Square Footage (GSF)	105,882	24,706	86,471	104,698
Floor Area Ratio (FAR) (c)	0.5	0.6	1.7	1.4
Land Area (SF)	211,765	41,176	50,865	74,785
Land Area (Acres)	4.86	0.95	1.17	1.72
Units per Acre	6	11	30	41

Notes:

(a) Unit characteristics are described in more detail in Section III.

(b) Ratio of leasable square footage to gross square footage.

(c) Floor area ratio (FAR) measures density by dividing gross building area by total site area.

Source: Vernazza Wolfe Associates, Inc. and Strategic Economics, 2015.

Fee Levels

In order to provide Palo Alto with some guidance on how proposed fees could impact development decisions, the Consultant Team conducted a financial feasibility analysis that tested the impact of different fee scenarios on developer profit. Given that it is unusual for local jurisdictions to enact an impact fee at its maximum nexus-based level, three additional fee scenarios were evaluated for each prototype. These calculations provide Palo Alto with an understanding of the impact of different fee scenarios on the financial feasibility of residential development projects.

Figure VII-2 demonstrates the calculated fees per unit at different levels for each prototype. The fee scenarios can also be calculated on per square foot basis, which are shown in Figure VII-3.

Figure VII-2. Fee Levels per Unit for Prototypes

Prototype	Net Residential SF per Unit	Per Unit Fee Levels Tested			
Single-Family Detached	3,000	$150,000	$225,000	$285,000	$333,501
Single-Family Attached	2,100	$63,000	$105,000	$147,000	$189,037
Condominium	2,100	$52,500	$84,000	$105,000	$158,519
Apartments	971	$29,143	$48,571	$82,571	$101,906

Sources: Vernazza Wolfe Associates, Inc.; Strategic Economics, 2015.

Figure VII-3. Fee Levels per Square Foot for Prototypes

Prototype	Net Residential SF per Unit	Per SF Fee Levels Tested			
Single-Family Detached	3,000	$50	$75	$95	$111
Single-Family Attached	2,100	$30	$50	$70	$90
Condominium	2,100	$25	$40	$55	$75
Apartments	971	$30	$50	$85	$105

Sources: Vernazza Wolfe Associates, Inc.; Strategic Economics, 2015.

Methodology

Financial feasibility of the fee options was tested using a pro forma model that measures the residual land value of a given development project. Many pro forma models are structured to solve for the financial return for the developer or investors (internal rate of return). In contrast, the residual land value method of analysis solves for the value of the land. This method recognizes that the value of land is inextricably linked to what can be built on it, and that development potential is heavily influenced by zoning, lot size/configuration, neighborhood context, and other factors. The pro forma model tallies all development costs (minus land) including direct construction costs, indirect costs (including financing), and developer fees. Revenues from unit sales or rental leases are then summed. The total project costs are then subtracted from the total project revenues. The balance is the residual value, representing the price a developer would pay for the land if pursuing that project. The fee levels were then added as an additional development cost to measure the effect on the residual land value.

Revenues

To estimate income from residential development, the analysis uses the sales prices and monthly rents presented in Section III of this report and summarized in Figure VII-4. These revenue assumptions were based on a review of local and regional market data, including information on the type of development that has been recently constructed or is planned or proposed in Palo Alto; and current sales prices and rental rates of recently built residential development in Palo Alto and neighboring cities. For ownership projects (single-family detached, single-family attached, and condominiums), the revenues are calculated by multiplying the unit count by the sales price. For rental projects, the revenues were estimated using an income capitalization approach. This valuation approach first estimates the annual net operating income (NOI) of the apartment prototype, which is the difference between total project income (annual rents) and project expenses, including operating costs[18] and vacancies. The NOI is then divided by the capitalization rate (cap rate) to derive total project value. Figure VII-5 summarizes the calculations and data source used for estimating the value of the apartment prototype.

[18] Operating costs were calculated based on the Institute of Real Estate Management Survey of Apartment Buildings in the San Francisco Metropolitan Statistical Area (MSA).

Figure VII-4. Sales Prices and Rents for Prototypes

Prototype	Unit Type	Number of Units	Net Area (SF)	Unit Sales Price/ Monthly Rent	Price or Rent per SF
Single-Family Detached (For-Sale)					
Type V wood frame	5 BD/4 BA	30	3,000	$3,043,000	$1,015
6 units per acre					
Attached garage					
Net Residential Area (Net SF)			90,000		
Single-Family Attached (For-Sale)					
Type V wood frame	3 BD/ 4 BA	10	2,100	$1,666,000	$793
11 units per acre					
Podium parking					
Net Residential Area			21,000		
Condominiums (For-Sale)					
Type V wood frame	4 BD/3 BA	35	2,100	$1,390,000	$662
30 units per acre					
Underground parking					
Net Residential Area (Net SF)			73,500		
Apartments (Rental)					
Type V wood frame	1 BD/ 1 BA	20	795	$3,247	$4.09
41 units per acre	2 BD/2 BA	50	1,114	$4,191	$3.76
Podium parking					
Net Residential Area			68,000		
Average Net SF per Unit			1,063		

Sources: Strategic Economics & Vernazza Wolfe Associates, Inc., 2014.

Figure VII-5. Apartment Revenue Calculations

Apartment Revenues	Calculation	Total
Gross Annual Rental Income (a)	Gross annual rents	$3,294,184
Operating Expenses (b)	30 percent of income	($988,255)
Vacancy (c)	5 percent of income	($164,709)
Annual Net Operating Income (c)	Income less expenses and vacancy	$2,141,219
Capitalization Rate (d)	5 percent	5.00%
Capitalized Value	Project value	$42,824,386

Notes:

(a) Average monthly rents multiplied by 12 months multiplied by unit count for each unit type.

(b) Institute of Real Estate Management, San Francisco MSA Apartment Properties, 2011.

(c) Assumes a vacancy rate of 5 percent in a stabilized rental market.

(d) According to DTZ's San Francisco Real Estate Forecast 2015, the cap rate for apartments is approximately 5 percent.

Sources: IREM, DTZ, Strategic Economics, 2015.

Development Costs

Cost estimates for the residential prototypes include direct construction costs (site work, building costs, and parking), indirect costs, financing costs, and developer overhead and profit. Development cost estimates for the pro forma analysis are based on RS Means and project pro formas for recent projects in the region. Soft costs and developer overhead/profit were calculated based on a review of similar project pro formas in the Bay Area. City fee calculations were provided by City staff. Each of the cost factors used in the analysis is summarized in Figure VII-6.

Figure VII-6. Development Cost Factors

Development Costs	Metric	
Direct Costs (a)		
Single-Family Detached	$155	Per NSF
Single-Family Attached	$150	Per NSF
Condominiums	$225	Per NSF
Apartments	$210	Per NSF
Indirect Costs (b)		
A&E & Consulting	6.00%	of direct costs
Permits & Fees (Excl. Housing) (c)		estimated by City
Taxes, Insurance, Legal & Accounting	3.00%	of direct costs
Other (d)	3.00%	of direct costs
Contingency	5.00%	of indirect costs
Total Indirect Costs		
Financing Costs (b)		
Loan to Cost Ratio (LTC)	80%	of total costs
Loan Interest Rate	6%	annual rate
Compounding Period	12	months
Construction/Absorption Period (e)	12 to 24	months
Utilization Rate	55%	of loan
Loan Fees	2%	of loan
Developer Overhead & Profit	12%	of total costs (excl. land)

Notes:

(a) Direct costs include site work, building construction, and parking costs of $30,000 per space for underground parking and $25,000 per space for podium parking. Costs estimates are based on review of Bay Area pro formas for similar projects and data from RS Means.

(b) Based on review of similar project pro formas in the Bay Area and interviews with developers.

(c) Permits & fees are a generalized estimate of costs based on prototypes, calculated by City staff. Permits and fees for actual projects vary depending on many factors.

(d) Other soft costs include marketing, personal property, environmental studies, etc.

(e) Absorption periods are estimated at 12 months for condominiums and single-family attached units; 18 months for single-family detached subdivisions; and 24 months for apartments.

Sources: RS Means, 2014; Similar pro formas; City of Palo Alto, 2015; Strategic Economics, 2015.

Land Value

In order to understand what the different fee levels indicate regarding financial feasibility, the residual land values for each fee scenario can be compared with the market value of residential land in Palo Alto. If the residual value is higher than the market value, the project is feasible. If the residual value is lower than the market price, then the project is infeasible.

To determine the land value of sites zoned for lower density uses (single-family detached and single-family attached) and higher density multi-family residential uses (condominiums and rental apartments), the Consultant Team analyzed recent sales transactions in Southern San Mateo County and Northern San Mateo County, and reviewed third-party property appraisals. Figure VII-7 illustrates the results of the land value analysis for lower density single-family detached and single-family attached residential uses, while Figure VII-8 shows the value of properties zoned for higher density multi-family residential uses. For lower density residential uses, values range considerably depending on location and size, from $50 per square foot for the lower quartile, to $172 per square foot for the upper quartile. For higher-density multi-family housing, the range is between $96 and $228 per square foot, with a weighted average (accounting for lot size) of $167. The majority of the sales shown in Figures VII-7 and VII-8 were transactions that occurred earlier than 2014; today's land values are likely to be higher. Therefore, for this analysis, the estimated land value is estimated at between $150 and $250 per square foot for higher density multi-family development, including condominiums and apartments. For all prototypes, the market value of land is presented as a range because the land value of properties is likely to vary depending on location, size, and other conditions.

Figure VII-7. Recent Single-Family Land Sales Transactions in Palo Alto and Neighboring Cities

Site Address	Location	Sale Price	Lot Area	Price/ SF of Land
10655 CORDOVA RD	CUPERTINO CA 95014-3911	$880,000	14,000	$62.86
	CUPERTINO CA	$1,605,000	8,373	$191.69
21730 RAINBOW DR	CUPERTINO CA 95014-4827	$1,312,500	79,432	$16.52
STEVENS CANYON RD	CUPERTINO CA 95014	$1,700,000	36,155	$47.02
10231 HILLCREST RD	CUPERTINO CA 95014-1081	$1,121,500	11,985	$93.58
	CUPERTINO CA	$1,960,000	46,043	$42.57
	CUPERTINO CA	$1,200,000	22,390	$53.60
22711 SAN JUAN RD	CUPERTINO CA 95014-3932	$1,668,000	16,000	$104.25
12810 DEER CREEK LN	LOS ALTOS HILLS CA 94022	$1,650,000	59,242	$27.85
12060 ELSIE WAY	LOS ALTOS HILLS CA 94022-3388	$2,800,000	49,223	$56.88
WESTWIND WAY	LOS ALTOS HILLS CA 94022	$6,000,000	37,462	$160.16
MILLER AVE	LOS ALTOS CA 94024	$1,975,000	7,623	$259.08
W SUNSET DR	LOS ALTOS HILLS CA 94022	$8,645,000	52,349	$146.82
W SUNSET DR	LOS ALTOS HILLS CA 94022	$8,645,000	6,534	$146.82
WILDCREST DR	LOS ALTOS HILLS CA 94022	$2,765,000	89,300	$30.96
24560 RUTH LEE CT	LOS ALTOS CA 94024	$2,700,000	20,168	$133.88
26310 ESPERANZA DR	LOS ALTOS HILLS CA 94022-2653	$2,530,000	43,560	$58.08
12501 ZAPPETTINI CT	LOS ALTOS HILLS CA 94022-6316	$2,140,000	51,401	$41.63
181 ALVARADO AVE	LOS ALTOS CA 94022-1220	$500,000	21,746	$22.99
969 SHERWOOD AVE	LOS ALTOS CA 94022-1327	$480,000	4,960	$96.77
NIBLICK AVE	LOS ALTOS CA 94022	$2,050,000	13,504	$151.81
25755 CARADO CT	LOS ALTOS HILLS CA 94022	$1,730,000	44,350	$39.01
10 PASA ROBLES AVE	LOS ALTOS CA 94022-1235	$1,850,000	6,200	$298.39
26400 ESHNER CT	LOS ALTOS HILLS CA 94022	$3,400,000	55,321	$61.46
ALTA VIS	LOS ALTOS CA 94022	$4,000,000	18,900	$211.64
ALTA VIS	LOS ALTOS CA 94022	$4,000,000	31,147	$128.42
FREMONT RD	LOS ALTOS HILLS CA 94022	$2,040,000	54,886	$37.17
12030 ELSIE WAY	LOS ALTOS HILLS CA 94022-3388	$2,150,000	49,223	$43.68
LANTIS LN	LOS ALTOS CA 94024	$1,950,000	11,326	$172.17
24600 RUTH LEE CT	LOS ALTOS CA 94024-4750	$3,053,000	55,050	$55.46
HAPPY ACRES RD	LOS GATOS CA 95032	$1,343,000	7,405	$181.36
OAK RIDGE WAY	LOS GATOS CA 95032	$2,150,000	8,800	$244.32
BELLA VISTA AVE	LOS GATOS CA 95032	$60,500	1,300	$46.54
101 COSTANCES CT	LOS GATOS CA 95032-4845	$785,000	7,883	$99.58
17059 PINE AVE	LOS GATOS CA 95032	$1,275,000	32,234	$39.55
403 MONTCLAIR RD	LOS GATOS CA 95032	$785,000	15,304	$51.29
COLORADO CT	LOS GATOS CA 95030	$900,000	40,075	$22.46
SUN RAY DR	LOS GATOS CA 95030	$1,049,000	7,650	$137.12
16227 MAYA WAY	LOS GATOS CA 95030	$2,638,500	43,680	$60.41
217 ALEXANDER AVE	LOS GATOS CA 95030-5202	$1,450,000	7,500	$193.33
26 ALPINE AVE	LOS GATOS CA 95030-7131	$675,000	20,038	$33.69
BUSKIRK ST	MILPITAS CA 95035	$390,000	910	$428.57
826 CALAVERAS RIDGE DR	MILPITAS CA 95035-3445	$600,000	46,426	$12.92
2212 LELAND AVE	MOUNTAIN VIEW CA 94040	$577,000	5,152	$68.25
2206 LELAND AVE	MOUNTAIN VIEW CA 94040	$577,000	3,302	$68.25
1755 PEACOCK AVE	MOUNTAIN VIEW CA 94043-4436	$475,000	6,460	$73.53
2240 COLUMBIA ST	PALO ALTO CA 94306-1234	$2,115,000	6,175	$170.22
2250 COLUMBIA ST	PALO ALTO CA 94306-1234	$2,115,000	6,250	$170.22
	PALO ALTO CA	$1,658,000	6,000	$276.33
370 LOWELL AVE	PALO ALTO CA 94301-3811	$4,450,000	12,474	$356.74

Figure VII-7. Recent Single-Family Land Sales Transactions in Palo Alto and Neighboring Cities (continued)

Site Address	Location	Sale Price	Lot Area	Price/ SF of Land
4075 ORME ST	PALO ALTO CA 94306-3137	$2,175,000	16,830	$129.23
ASH ST	PALO ALTO CA 94306	$1,275,000	3,049	$418.17
1620 WEBSTER ST	PALO ALTO CA 94301-3851	$6,000,000	20,000	$300.00
569 SAN ANTONIO RD	PALO ALTO CA 94306	$6,250,000	30,943	$201.98
297 BEL AYRE DR	SANTA CLARA CA 95050-2004	$855,000	17,424	$49.07
1476 MONROE ST	SANTA CLARA CA 95050	$1,299,000	2,704	$480.40
VILLA OAKS LN	SARATOGA CA 95070	$4,280,000	14,846	$288.29
SARATOGA-SUNNYVALE RD	SARATOGA CA 95070	$1,300,000	18,800	$69.15
15651 ROBLES DEL ORO	SARATOGA CA 95070-6430	$1,550,000	43,320	$35.78
HOWEN DR	SARATOGA CA 95070	$1,670,000	10,169	$164.22
BROOKWOOD LN	SARATOGA CA 95070	$1,650,000	18,050	$91.41
LAND ONLY	SARATOGA CA 95070	$1,553,500	14,810	$104.90
14100 ALTA VISTA AVE	SARATOGA CA 95070	$1,030,000	10,149	$101.49
SARATOGA VISTA AVE	SARATOGA CA 95070	$1,300,000	12,760	$101.88
MERRIBROOK DR	SARATOGA CA 95070	$1,822,000	4,136	$440.52
Summary Statistics				
Lower Quartile (25%)				$49.07
Median Value				$99.58
Upper Quartile (75%)				$172.17

Source: CoreLogic, 2015; Strategic Economics, 2015.

Figure VII-8. Recent Multi-Family Land Sales Transactions in Palo Alto and Neighboring Cities

Property	Location	Sales Date	Sales Price	Site Size (SF)	Average Sales Price/ SF
Page Mill	Palo Alto	2012	3,959,000	26,926	$147
389 El Camino Real	Menlo Park	2012	$12,200,000	53,579	$228
1300 El Camino Real	Menlo Park	2012	$24,500,000	148,165	$165
E. side of Tilton Avenue, N. of El Camino Real	San Mateo	2012	4,505,000	33,572	$134
1275 El Camino Real	Menlo Park	2014	$3,600,000	17,960	$200
3877 El Camino Real	Palo Alto	2013	4,450,000	32,825	$136
536 N Wishman Rd	Mountain View	2014	1,050,000	7,000	$150
1958 Latham St, Mountain View, CA 94040	Mountain View	2014	$1,600,000	16,600	$96
Value Range					$96 - $228
Weighted Average Value per SF					$167

Source: City of Palo Alto; Independent appraisals; Loopnet, 2015; Strategic Economics, 2015.

Financial Feasibility Results

Figures VII-9 and VII-10 provide the pro forma for the single-family detached, single-family attached, condominium and apartment prototypes. Below is a discussion of the findings.

Single-Family Detached

The feasibility analysis indicates that at current market prices, without the addition of new impact fees, the single-family detached prototype would have revenues of $91.3 million, with a total development cost of $24.5 million. The difference between the revenues and costs is the residual land value, which is estimated at $315 per square foot. This prototype, with no additional impact fees, yields a residual land value that is higher than what is required to be financially feasible.

All of the impact fee scenarios were found to be financially feasible due to the very high value of single-family detached homes in Palo Alto.

- The maximum impact fee of $111 per square foot raises development costs from $24.5 million to $34.5 million. This cost increase results in a residual land value of $268 per square foot.
- An impact fee set at $95 per square foot increases development costs to $33 million. The residual land value under this scenario is $275 per square foot
- An impact fee of $75 per square foot increases development costs to $31.2 million. The residual land value under this fee scenario is $284 per square foot.

- A fee level set at $50 per square foot results in total development costs of $29 million, and a residual land value of $294 per square foot.

Single-Family Attached

According to the feasibility analysis, with no added nexus fees, the single-family attached prototype would have total development costs of $5.8 million and a sale value of $16.7 million. The residual land value, without nexus fees, is then estimated at $263 per square foot, and exceeds the threshold on financial feasibility, defined as between $50 and $175.

All of the potential impact fee levels are financially feasible due to the high value of single-family detached units in Palo Alto.

- The maximum impact fee of $75 per square foot brings development costs to $7.4 million. This cost increase results in a residual land value of $224 per square foot.

  A $50 per square foot nexus fee increases development costs to $6.9 million. Under this fee scenario, the residual land value is $237 per square foot.
- With an impact fee of $40 per square foot, development costs reach $6.7 million. In this case, the residual land value is $242 per square foot.

- A fee level set at $25 per square foot brings total development costs to $6.4 million, and the residual land value to $250 per square foot.

Condominiums

The feasibility analysis shows that, following current market prices and without new impact fees, the condominium prototype would have revenues of $48.7 million, with a total development cost of $26.5 million. The difference between the revenues and costs is the residual land value, which is estimated at $435 per square foot. The residual land value associated with this prototype is higher than what is required to be financially feasible.

Given the high price of condominium units in Palo Alto, all of the housing impact fee levels were found to be financially feasible, as described below:

- The full justified impact fee of $90 per square foot raises development costs from $26.5 million to $33.1 million. This cost increase results in a residual land value of $305 per square foot.
- A reduced impact fee set at $70 per square foot raises development costs to $31.7 million. The residual land value under this fee scenario is $334 per square foot.

- Setting the nexus fee at $50 per square foot results in development costs of $30.2 million, and a residual land value of $363 per square foot.
- A fee level set at $30 per square foot results in a total development cost of $28.7 million, and a residual land value of $392 per square foot.

Apartments
For apartments, the financial analysis shows that under current market conditions, without a nexus fee on affordable housing, a prototypical apartment development costs approximately $25.5 million, with a total project value of $42.7 million. The residual land value on this prototype, excluding a nexus fee, is estimated at $231 per square feet, which is a higher value than what would be required to be financially feasible.

The analysis shows that the maximum justified fee for apartments is not financially feasible to implement. However, reduced fee levels are financially feasible. The following describes the feasibility of potential housing impact fees at different levels for apartments:

The maximum nexus fee of $105 per square foot brings total development costs up to nearly $32.6 million. This cost increase results in a residual land value of $136 per square foot, which is not financially feasible under current market conditions.

- A nexus fee of $85 per square foot increases development costs to $31.2 million. The residual land value under this fee scenario is $154 per square foot, which is financially feasible.

- With a housing impact fee level of $50 per square foot, development costs reach $28.9 million. The residual land value in this case is of $186 per square foot, which is financially feasible.

- A fee level of $30 per square foot increases development costs to $27.5 million, creating a residual land value of $204 per square foot. This fee level would also be financially feasible.

Figure VII-9. Pro Forma Model Results for Single-Family Detached and Attached Prototypes

	Single Family Detached		Single-Family Attached	
Development Costs (Excl. Land & Nexus Fee)	**per Unit**	**Total**	**per Unit**	**Total**
Direct Costs (a)				
Building & On-Site Improvements	$465,000	$13,950,000	$315,000	$3,150,000
Building & Onsite per NSF		$155		$150
Parking	Incl. above	Incl. above	Incl. above	Incl. above
Total Direct Costs	$465,000	$13,950,000	$315,000	$3,150,000
Total Direct Costs per NSF		$155		$150
Indirect Costs (a)				
A&E & Consulting	$27,900	$837,000	$18,900	$189,000
Permits & Fees (Excl. Nexus fee) (b)	$158,808	$4,764,246	$138,777	$1,387,773
Taxes, Insurance, Legal & Accounting	$13,950	$418,500	$9,450	$94,500
Other Indirect Costs	$13,950	$418,500	$9,450	$94,500
Contingency	$10,730	$321,912	$8,829	$88,289
Total Indirect Costs	$225,339	$6,760,158	$185,406	$1,854,062
Financing Costs (a)	$38,383	$1,151,485	$21,217	$212,172
Developer Overhead & Profit (a)	$87,447	$2,623,397	$62,595	$625,948
Total Development Costs	$816,168	$24,485,040	$584,218	$5,842,182
Total Development Costs (per NSF)		$272		$278
Income				
Gross Income/Sales Proceeds	$3,043,000	$91,290,000	$1,666,000	$16,660,000
Less: Operating/Sales Expenses & Vacancy				
Net (Operating or Sales) Income	$3,043,000	$91,290,000	$1,666,000	$16,660,000
Capitalized Value/Sales Value (c)	$3,043,000	$91,290,000	$1,666,000	$16,660,000
Residual Land Value Analysis				
Total Development Costs (TDC) Except Land With Various Levels of Nexus Fee	**Nexus Fee per NSF**	**TDC incl. Nexus Fee**	**Nexus Fee per NSF**	**TDC incl. Nexus Fee**
	$0	$24,485,040	$0	$5,842,182
	$50	$28,985,040	$25	$6,367,182
	$75	$31,235,040	$40	$6,682,182
	$95	$33,035,040	$50	$6,892,182
	$111	$34,475,040	$75	$7,417,182
Residual Land Value per Sq. Ft. at Various Nexus Fee Levels	**Nexus Fee per NSF**	**Residual Land Value per SF**	**Nexus Fee per NSF**	**Residual Land Value per SF**
	$0	$315	$0	$263
	$50	$294	$25	$250
	$75	$284	$40	$242
	$95	$275	$50	$237
	$111	$268	$75	$224
Current Land Values/ Threshold for Feasibility		$50-$175		$50-$175

Notes:
(a) See Figure VII-5.
(b) This represents a generalized estimate of the fee and permit costs for each prototype, calculated by city staff. Actual fee and permit costs for development projects will vary depending on many factors.
(c) See Figure VII-4.
(d) Feasibility threshold varies by density of prototype. For single-family detached and single-family attached, the threshold is $50-$175 per square foot. For multi-family rental apartments and condominiums, the threshold is $150 to $250 per square foot
Acronyms:
SF: square feet
NSF: net square feet
TDC: total development costs
Source: Strategic Economics, 2015.

Figure VII-10. Pro Forma Model Results for Condominium and Apartment Prototypes

	Condominiums	Apartments

Development Costs (Excl. Land & Nexus Fee)	per Unit	Total	per Unit	Total
Direct Costs (a)				
Building & On-Site Improvements	$472,500	$16,537,500	$203,910	$14,273,700
Building & Onsite per NSF		$225		$210
Parking	$45,000	$1,575,000	$37,500	$2,625,000
Total Direct Costs	$517,500	$18,112,500	$241,410	$16,898,700
Total Direct Costs per NSF		$246		$249
Indirect Costs (a)				
A&E & Consulting	$31,050	$1,086,750	$14,485	$1,013,922
Permits & Fees (Excl. Nexus fee) (b)	$63,247	$2,213,657	$30,617	$2,143,169
Taxes, Insurance, Legal & Accounting	$15,525	$543,375	$7,242	$506,961
Other Indirect Costs	$15,525	$543,375	$7,242	$506,961
Contingency	$6,267	$219,358	$2,979	$208,551
Total Indirect Costs	$131,615	$4,606,515	$62,565	$4,379,564
Financing Costs (a)	$27,522	$963,286	$20,913	$1,463,945
Developer Overhead & Profit (a)	$81,196	$2,841,876	$38,987	$2,729,065
Total Development Costs	$757,834	$26,524,177	$363,875	$25,471,273
Total Development Costs (per NSF)		$361		$375
Income				
Gross Income/Sales Proceeds	$1,390,000	$48,650,000	$46,971	$3,288,000
Less: Operating/Sales Expenses & Vacancy			$16,440	$1,150,800
Net (Operating or Sales) Income	$1,390,000	$48,650,000	$30,531	$2,137,200
Capitalized Value/Sales Value (c)	$1,390,000	$48,650,000	$610,629	$42,744,000
Residual Land Value Analysis				
Total Development Costs (TDC) Except Land With Various Levels of Nexus Fee	**Nexus Fee per NSF**	**TDC incl. Nexus Fee**	**Nexus Fee per NSF**	**TDC incl. Nexus Fee**
	$0	$26,524,177	$0	$25,471,273
	$30	$28,729,177	$30	$27,510,373
	$50	$30,199,177	$50	$28,869,773
	$70	$31,669,177	$85	$31,248,723
	$90	$33,139,177	$105	$32,608,123
Residual Land Value per Sq. Ft. at Various Nexus Fee Levels	**Nexus Fee per NSF**	**Residual Land Value per SF**	**Nexus Fee per NSF**	**Residual Land Value per SF**
	$0	$435	$0	$231
	$30	$392	$30	$204
	$50	$363	$50	$186
	$70	$334	$85	$154
	$90	$305	$105	$136
Current Land Values/ Threshold for Feasibility		$150-$250		$150-$250

Notes:
(a) See Figure VII-5.
(b) This represents a generalized estimate of the fee and permit costs for each prototype, calculated by city staff. Actual fee and permit costs for development projects will vary depending on many factors.
(c) See Figure VII-4.
(d) Feasibility threshold varies by density of prototype. For single-family detached and single-family attached, the threshold is $50-$175 per square foot. For multi-family rental apartments and condominiums, the threshold is $150 to $250 per square foot

Acronyms:
SF: square feet
NSF: net square feet

Source: Strategic Economics, 2015.

ADDITIONAL POLICY CONSIDERATIONS

While the nexus study provides the necessary economic analysis for the housing impact fees, it is up to policymakers to decide what percentage of the maximum fee to charge on new development. Financial feasibility is one important factor to examine. In addition, there are a number of other policy issues to consider, such as:

- How much will residential development fees increase?
- What are the residential impact fee levels in neighboring jurisdictions?
- How does a housing impact fee fit into Palo Alto's overall housing strategy?
- How can the city decide other administrative issues?

A discussion of each of these topics is presented below.

Comparison to Existing Fees on Residential Development

Figure VII-11 presents information on current city fees charged on the four residential prototypes included in this nexus analysis. It also demonstrates how total residential fee levels would change under the maximum fee and three additional residential impact fee scenarios.

Currently, Palo Alto's existing city permits and fees for the residential prototypes are estimated at $158,808 for a single-family detached unit, $138,777 for a single-family attached unit, $63,247 for a condominium unit and $30,617 for an apartment unit.[19] Once the nexus-based residential impact fees at various levels are added to existing fees, the total fees increase as presented in Figure VII-11. The maximum fee scenario increases total fees between 200 and 400 percent, depending on the prototype, while the lowest fee scenario (Scenario 4) approximately doubles total city fees.

Figure VII-11 is intended to be a resource for the policy discussion that Palo Alto will have when considering what fee level to select. A fee that is set too high could have a dampening effect on private development. On the other hand, a low fee does not fully mitigate all the affordable housing impacts from new residential development.

[19] The fee estimates presented above represent the best approximations available from Palo Alto.

Figure VII-11. Palo Alto Total Residential Fees under Selected Fee Scenarios

	Single-Family Detached	Single-Family Attached	Condominiums	Apartments
Existing Fees and Permits per Unit	$158,808	$138,777	$63,247	$30,617
Existing Fees and Permits per SF	$53	$66	$30	$32
Scenario 1: Maximum Fee per SF	$111	$90	$75	$105
Nexus Fee Per Unit	$333,501	$189,037	$158,519	$101,906
Combined Fees Per Unit	$492,309	$327,814	$221,766	$132,523
Combined Fees per SF	$164	$156	$106	$136
Scenario 2 Fee per SF	$95	$70	$50	$85
Nexus Fee Per Unit	$285,000	$147,000	$105,000	$82,571
Combined Fees Per Unit	$443,808	$285,777	$168,247	$113,188
Combined Fees per SF	$148	$136	$80	$117
Scenario 3 Fee per SF	$75	$50	$40	$50
Nexus Fee Per Unit	$225,000	$105,000	$84,000	$48,571
Combined Fees Per Unit	$383,808	$243,777	$147,247	$79,188
Combined Fees per SF	$128	$116	$70	$82
Scenario 4 Fee per SF	$50	$30	$25	$30
Nexus Fee Per Unit	$150,000	$63,000	$52,500	$29,143
Combined Fees Per Unit	$308,808	$201,777	$115,747	$59,760
Combined Fees per SF	$103	$96	$55	$62

Comparison to Neighboring Jurisdictions

Figure VII-12 compares the fee scenarios for Palo Alto with the current housing impact fees and in-lieu fees in other nearby cities. If either the maximum housing impact fee levels (Scenario 1) or the second-highest fee levels (Scenario 2) were adopted in Palo Alto, they would significantly exceed the residential impact fees charged in the neighboring jurisdictions in San Mateo and Santa Clara Counties listed in Figure VII-12. However, San Francisco has adopted fees ranging from $199,000 to $522,000 per unit, depending on the unit size, which are somewhat similar to the maximum fee levels calculated for Palo Alto. If Palo Alto were to adopt the recommended fee levels its fees would be higher than most other cities in San Mateo and Santa Clara Counties, but lower than the housing impact fees in San Francisco.

Figure VII-12. Comparison with Impact Fees and In-Lieu Fees in Neighboring Jurisdictions

	Single Family Detached	Single Family Attached	Condominiums	Apartments	Date Fee Was Adopted
Palo Alto Fee Scenarios					
Scenario 1 (Maximum)					
Per SF	$111	$90	$75	$105	N/A
Per Unit	$333,501	$189,037	$158,519	$101,906	
Scenario 2					
Per SF	$95	$70	$50	$85	N/A
Per Unit	$285,000	$147,000	$105,000	$82,571	
Scenario 3					
Per SF	$75	$50	$40	$50	N/A
Per Unit	$225,000	$105,000	$84,000	$48,571	
Scenario 4					
Per SF	$50	$30	$25	$30	N/A
Per Unit	$150,000	$63,000	$52,500	$29,143	
Impact Fees					
Cupertino	$15/SF	$16.50/SF (a)	$20/SF	$25/SF	2015
Daly City	$14/SF	$18/SF (b)	$22/SF	$25/SF	2014
East Palo Alto	$22/SF	$22/SF	$22-$44/SF (c)	$22/SF	2014
Mountain View	N/A	N/A	N/A	$15/SF	2015
San Carlos (d)	$23.54-$43.54/SF	$20.59-$42.20/SF	$20.59-$42.20/SF	$23.54-$43.54/SF	2010
San Francisco (e)	$199,698-$522,545/unit	$199,698-$522,545/unit	$199,698-$522,545/unit	$199,698-$522,545/unit	2015
San Jose	N/A	N/A	N/A	$17/SF (f)	2014
Sunnyvale	N/A	N/A	N/A	$17/SF (g)	2015
Inclusionary Policies and In-Lieu Fees					
Palo Alto	15%-20%	15%-20%	15%-20%	N/A	
Mountain View	3% of Sales Price	3% of Sales Price	3% of Sales Price	N/A	2015
San Jose (h)	15% or $17/SF in-lieu fee	15% or $17/SF in-lieu fee	15% or $17/SF in-lieu fee	N/A	2014
Sunnyvale	7% of Sales Price	7% of Sales Price	7% of Sales Price	N/A	2015

(a) This fee applies to small lot single family and townhomes.
(b) This fee applies to townhomes.
(c) Fee ranges from $22 per square foot for for-sale housing without structured parking to $44 per square foot for housing with structured parking.
(d) Fees shown as ranges. Actual fees charged depends on project size.
(e) Fee charged depends on unit size (number of bedrooms).
(f) Fee goes into effect in 2016. Developments approved by July 2016 are exempt with a longer exemption for downtown development.
(g) Fees for projects that are between 4 and 7 units pay 50 percent of this fee.
(h) Inclusionary policy and in-lieu fee apply to for-sale developments of more than 20 units.
Sources: The Non-Profit Housing Association of Northern California; City of San Carlos Municipal Code; Vernazza Wolfe Associates, Inc; Strategic Economics, 2015.

The potential fee scenarios can also be compared with existing housing impact fees in other Bay Area cities for regional context. This list is not an exhaustive inventory of all Bay Area cities with housing impact fees, but it provides information about many cities that have fees on rental, ownership or both types of housing. As shown in Figure VII-13, housing nexus fees in other Bay Area cities vary significantly from city to city. None of the fees presented in Figure VII-13 are as high as the maximum justified fee in Palo Alto. However, some of the cities, such as Berkeley and Fremont, have impact fees that are similar to the lowest fee scenario evaluated for Palo Alto.

Figure VII-13. Existing Housing Impact Fees in Bay Area Cities

City	Project Type	Amount
Fremont	For-Sale and Rental Development	$19.50 per habitable SF $22.50 per habitable SF for single family homes on lots 6,000 SF or greater.
Santa Rosa	For-Sale and Rental Development	2.5% of sale price of for-sale units. Based on SF for rentals
Livermore	For-Sale and Rental Development	Based on type of dwelling produced
Pleasanton	For-Sale and Rental Development	Single Family (over 1,500 SF): $10,880 per unit Single Family (1,500 SF or less) and Multi-family (Apt. or Condo): $2,696 per unit Adjusted annually based on CPI
Napa	For Sale and Rental Development	Single Family: $ 2.20 per SF Condo: $2.20 per SF Rental: $3.75 per sq.
Emeryville	Rental Residential Projects	$20,000 per dwelling unit
Berkeley	Rental Development	$28,000 per unit

Note: City of Berkeley Resolution No. 66, 015 authorizes $8,000 discount for eligible projects

Sources: The Non-Profit Housing Association of Northern California, Strategic Economics, and Vernazza Wolfe Associates, Inc, 2015.

Role of Fees in Overall Housing Strategy

The City currently charges a commercial linkage fee of $19.31 per square foot on all new non-residential development. These fees are payable at the time that the building permit is issued. The city also has an inclusionary housing program that requires that 15 percent of the units in market-rate developments consisting of five or more housing units must be sold at below-market rate (BMR) prices. The inclusionary requirement increases to 20 percent for larger projects on five-acre and larger parcels. Two-thirds of the BMR units are to be affordable at the 90 percent AMI level households and the remaining one-third are to be affordable at the 110 percent AMI level. City policy generally requires that the BMR units be provided in the project. In some cases, developers have the option of paying an in-lieu fee of between 7.5 and ten percent of the sales price or fair market value, whichever is greater. The developer must also pay a fee for fractional units.

Revenues from the BMR in-lieu fee and commercial linkage fee programs are deposited into the City's Affordable Housing Fund. The Affordable Housing Fund is a local housing trust fund established by the City Council of Palo Alto to provide financial assistance for the development of housing affordable to very low-, low- and moderate-income households that live or work within the City. It is largely made up of two sub-funds: the Commercial Housing Fund and the Residential Housing Fund. While both rental and ownership units are eligible for assistance, in practice all units assisted thus far have been rental units and almost all have been affordable to very low- or low-income households.

The revenues to be collected from the residential impact fee, if adopted, could provide an important additional source of local funding; however, local fee revenues do not generally cover the entire funding gap encountered by sponsors of new affordable housing. Additional funding from a variety of sources will remain critical. These funding sources typically include public subsidies from Santa Clara County, equity from the Low Income Housing Tax Credits, and financing from conventional lenders.

Potential for Overlap between Residential and Commercial Fees

The City is also undertaking a housing impact nexus study simultaneously, and may soon adopt a housing impact fee in a parallel process to the commercial linkage fee considered in this report. One issue that may arise if a City considers the adoption of both fees is whether there is any overlap between the two impact fees, resulting in potential "double-counting" of impacts.

The commercial linkage fee study examined jobs located in new commercial buildings including office/ R&D/ medical office buildings, retail/ restaurants/ services, and hotels. The nexus analysis then calculated the average wages of the workers associated with each commercial building to derive the annual income of the new worker households. The analysis determines the area median income (AMI) level of the new worker-households to identify the number of worker-households that would require affordable housing.

The housing impact fee nexus analysis examined households buying or renting new market rate units in the jurisdiction. The household expenditures by these new residents have an economic impact in the county, which can be linked to new jobs. The nexus analysis quantified the jobs linked to new household spending, and then calculated the wages of new workers and the household income of new worker households. Each worker household was then categorized by area median income (AMI) to determine the number of households that require affordable housing.

There may be a share of jobs counted in the commercial linkage fee analysis that are also included in the residential nexus analysis, particularly those in the service sector. Other types of jobs counted in the residential nexus analysis are unique to that analysis, and are not included in the commercial linkage fee analysis (for example, public sector employees). The commercial linkage fee analysis is limited to new development in private sector office/ R&D/ medical office buildings, hotels, and retail/ restaurants/ services space.

There is potential that some jobs could be counted in both analyses, and that the two programs may overlap in mitigating the affordable housing demand from the same worker households. Each of the proposed fees is required to mitigate no more than 100 percent of the demand for affordable units by new worker households. In order to reduce the potential for overlap between the two programs, it is advisable to set both the commercial linkage fees and housing impact fees at below 100 percent of the nexus-based maximum. In this way, when combined, the programs would mitigate less than 100 percent of the impact even if there were overlap in the jobs counted in the two nexus analyses.

Administrative Issues

When adopting a Housing Impact Fee, there are several administrative issues to consider. First, does the City want to encourage smaller units? By charging lower fees for smaller units, it is possible that it could encourage development of smaller units.

Secondly, similar to any impact fee, periodically it will be necessary to adjust the housing impact fees. Adjustments may be needed due to possible changes in the affordability gap. However, the connection between new residential construction and growth in employment derived from the IMPLAN3 Model is unlikely to change in the short run.

It is advisable that the City adjusts its housing impact fee annually by using an annual adjustment mechanism. An adjustment mechanism updates the fees to compensate for inflation in development costs. To simplify annual adjustments, it is recommended that the City select a cost index that is routinely published. While there is no index that tracks changes in Palo Alto's development costs, including land, specifically, there are a few options to consider.

- The first option is the Consumer Price Index (CPI) Shelter component. The shelter component of the CPI covers costs for rent of primary residence, lodging away from home, owner's equivalent rent of primary residence, and household insurance. Of the total shelter index, costs associated with the owner's equivalent rent of primary residence constitute 70 percent of total costs entered into the index.

- A second option to adjust the fee for annual inflation is the construction cost index published in the Engineering News Record (ENR). This index is routinely used to update other types of impact fees. Cost index information for the San Francisco region, the smallest geographical area available for this purpose, is available on an annual basis. The ENR cost index measures inflation in construction costs, but it does not incorporate changes in land costs or public fees charged on new development.

Because these indices are readily available, reliable, and relatively simple to use, it is recommended that Palo Alto use these indices for annual adjustments. However, because both understate the magnitude of inflation, it is recommended that the City base its annual adjustment mechanism on the higher of the two indices (CPI or ENR), using a five-year moving average as the inflation factor.

In addition to revising the fee annually for inflation, the City is encouraged to update the housing impact study every five years, or at the very least, update the housing affordability gap used in the basic model. The purpose of these updates is to ensure that the fee is still based on a cost-revenue structure that remains applicable in the Palo Alto housing market. In this way, the fee will more accurately reflect any potential structural changes in the relationships between affordable prices and rents, and development costs.

VIII. GLOSSARY OF TERMS AND ACRONYMS

GLOSSARY OF TERMS

Affordable Housing: Under state and federal statutes, housing is defined as affordable if housing costs do not exceed 30 to 35 percent of gross household income.

Annual Adjustment Mechanism: Due to inflation in housing construction costs, it is frequently necessary to adjust impact fees. An index, such as the Consumer Price Index (CPI) or a published construction cost index (for example, from the Engineering News Record) is used to revise housing fees to reflect inflation in housing construction costs.

Assisted Housing: Housing that has received public subsidies (such as low interest loans, density bonuses, direct financial assistance, etc.) from federal, state, or local housing programs in exchange for restrictions requiring a certain number of housing units to be affordable to very low-, low-, and moderate-income households.

Boomerang Funds: Monies returned to the City by the State of California, after dissolution of redevelopment agencies in the State.

Consumer price index (CPI): Index that measures changes in the price level of a market basket of consumer goods and services purchased by households.

Employment Densities: The amount of square feet per employee is calculated for each property use that is subject to a commercial development housing linkage fee. Employment densities are used to estimate the number of employees that will work in a new commercial development.

Household: The US Census Bureau defines a household as all persons living in a housing unit whether or not they are related. A single person living in an apartment as well as a family living in a house is considered a household. Households do not include individuals living in dormitories, prisons, convalescent homes, or other group quarters.

Household Income: The total income of all the persons living in a household. Household income is commonly grouped into income categories based upon household size and income, relative to the regional median family income.

Housing Affordability Gap: The affordability gap is defined as the difference between what a household can afford to spend on housing and the market rate cost of housing. Affordable rents and sales prices are defined as a percentage of gross household income, generally between 30 percent and 35 percent of income.

For renters, rental costs are assumed to include the contract rent as well as the cost of utilities, excluding cable and telephone service. The difference between these gross rents and affordable rents is the housing affordability gap for renters. This calculation assumes that 30% of income is paid for gross rent.

For owners, costs include mortgage payments, mortgage insurance, property taxes, property insurance, and homeowner association dues. [20] The difference between these housing expenses and affordable ownership costs is the housing affordability gap for owners. This calculation assumes that 35% of income is paid for housing costs.

Housing Subsidy: Housing subsidies refer to government assistance aimed at reducing housing sales prices or rents to more affordable levels.

Housing Unit: A housing unit can be a room or group of rooms used by one or more individuals living separately from others in the structure, with direct access to the outside or to a public hall and containing separate toilet and kitchen facilities.

IMPLAN3: A software model that is used to provide a quantitative assessment of the interdependencies between different branches of a regional (or national) economy. The latest model, IMPLAN3, was used in the nexus studies. The major input is household income, and the major output is direct and induced employment reported by industries

Inclusionary Zoning: Inclusionary zoning, also known as inclusionary housing, refers to a planning ordinance that requires that a given percentage of new construction be affordable to households with very low, low, moderate, or workforce incomes.

In-Lieu Fee: A literal definition for an in-lieu fee for inclusionary units would be a fee adopted "in place of" providing affordable units. For the purposes of operating an inclusionary housing program, a public jurisdiction may adopt a fee option for developers that prefer paying fees over providing housing units on- or off-site. A fee study is frequently undertaken to establish the maximum fee that can be charged as an in-lieu fee. This fee study must show that there is a reasonable relationship between the fee and the cost of providing affordable housing.

Market-Rate Housing: Housing which is available on the open market without any public subsidy. The price for housing is determined by the market forces of supply and demand and varies by location.

Nexus Study: In order to adopt a residential housing impact fee or a commercial linkage fee, a nexus study is required. A nexus requires local agencies proposing a fee on a development project to identify the purpose of the fee, the use of the fee, and to determine that there is "a reasonable

[20] Mortgage terms for first-time homebuyers typically allow down payment of five percent; these terms require private mortgage insurance.

relationship between the fee's use and the type of development project on which the fee is imposed." A nexus study establishes and quantifies a causal link or "nexus" between new residential and commercial development and the need for additional housing affordable to new employees.

Linkage Fee: A fee or charge imposed on commercial developers to pay for a development's impact on the need for affordable housing. The fee is based on projected household incomes of new employees that will work in newly created space. The fee varies according to the type of property use.

Prototypes: Prototypes are used for residential and commercial developments in order to define housing impact fees. The prototypes generally represent new development projects built in a community and are used to estimate affordable housing impacts associated with new market rate commercial and residential developments. While the prototypes should be "typical" of what is built, for ease of mathematical computation, they are often expressed as larger developments in order to avoid awkward fractions.

Residential or Housing Impact Fee: A fee imposed on residential development to pay for a development's impact on the need for affordable housing. The fee is based on projected incomes of new employees associated with the expansion of market rate developments. Two steps are needed to define the fees. The first step is the completion of a nexus study, and the second step entails selection of the actual fee amount, which can be below the amount justified by the fee study, but not above that amount.

RS Means: Data source of information for construction cost data.

DEFINITION OF ACRONYMS

AMI: Area Median Income

CBIA: California Building Industry Association

EDD: State of California Employment Development Department

FAR: Floor-area-ratio

FF&E: Furniture, Fixtures, and Equipment

GBA: Gross Building Area

HCD: Department of Housing and Community Development (State of California)

NAICS: North American Industry Classification System

NSF: Net Square Feet

QCEW: Quarterly Census of Employment and Wages

R&D: Research and development

SF: Square Feet

TDC: Total Development Costs

Attachment E

FINANCE COMMITTEE ACTION MINUTES

Regular Meeting
Tuesday, February 16, 2016

Chairperson Filseth called the meeting to order at 7:12 P.M. in the Community Meeting Room, 250 Hamilton Avenue, Palo Alto, California.

Present: Filseth (Chair), Holman, Schmid, Wolbach

Absent:

Agenda Items

1. Utilities Advisory Commission Recommendation That the City Council Adopt a Resolution to Approve a Power Purchase Agreement With Hecate Energy Palo Alto LLC for up to 75,000 Megawatt-hours per Year of Energy Over a Maximum of 40 Years for a Total not to Exceed Amount of $101 Million.

MOTION: Council Member Schmid moved, seconded by Council Member Holman to recommend the City Council adopt a Resolution to:

1. Approve a Power Purchase Agreement (PPA) with Hecate Energy Palo Alto LLC (Wilson Solar) for up to 75,000 Megawatt-hours (MWh) per year of energy for up to forty years at a total cost not to exceed $101 million; and

2. Delegate to the City Manager or his designee, the authority to execute on behalf of the City the PPA with HEPA, the three contract term extension options available to the City under the PPA, and any documents necessary to administer the agreements that are consistent with the Palo Alto Municipal Code and City Council approved policies; and

3. Waive the application of the investment-grade credit rating requirement of Section 2.30.340(d) of the Palo Alto Municipal Code; and

4. Waive the application of the anti-speculation requirement of Section D.1 of the City's Energy Risk Management Policy as it may apply to this PPA.

MOTION PASSED: 4-0

2. Utilities Advisory Commission Recommendation that the City Council Adopt a Resolution to Continue the Palo Alto Clean Local Energy Accessible Now (CLEAN) Program at the Current Contract Price of $0.165 per kilowatt-hour for Local Solar Resources and at the Avoided Cost Level ($0.081 to $0.082 per kilowatt-hour) for Local Non-solar Eligible Renewable Resources.

MOTION: Chair Filseth moved, seconded by Council Member Schmid to recommend the City Council adopt a Resolution to:

1. Maintain the Palo Alto CLEAN contract price of 16.5 cents per kilowatt-hour (kWh) for local solar resources that have already submitted applications to the CLEAN program and reduce the CLEAN contract price for future local solar resources to their current avoided cost: 8.9 cents /kWh for a 20-year contract term and 9.0 cents/kWh for a 25-year contract term, and continue with a program limit of 3 megawatts (MW); and

2. Reduce the Palo Alto CLEAN contract price for local non-solar eligible renewable resources equal to their current avoided cost: 8.1 cents/kWh for a 20-year contract term and 8.2 cents/kWh for a 25-year contract term, and continue with a separate program limit of 3 MW.

MOTION PASSED: 4-0

3. Commercial and Residential Impact Fee Nexus Studies and Recommend Affordable Housing Impact Fees.

MOTION: Chair Filseth moved, seconded by Council Member Wolbach that the Finance Committee directs Staff to revise the recommendation and bring back an Ordinance with the objective of significantly increasing impact fees for commercial development in order to maximize affordable housing revenue. This includes the following considerations:

1. Set the Impact Fee per square foot for office, medical and R&D at twice the amount as residential; and

2. Consider the extent to which the City can set the Impact Fee for office, medical and R&D somewhere between the maximum feasible fee and maximum justified fee.

INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER to add to the Motion, "to also include the option of either a fee or inclusionary housing, which will allow the developer to construct units instead of paying the fee."

MOTION PASSED: 4-0

4. Approval of Amendment to Table of Organization by Adding 1.0 FTE Management Analyst in the Development Services Department.

MOTION: Council Member Wolbach moved, seconded by Council Member Holman to recommend the City Council amend the Table of Organization by adding 1.0 Full Time Employee (FTE) Management Analyst in the General Fund, Development Services Department.

AMENDMENT: Chair Filseth moved, seconded by Council Member Schmid to add a comment to the Finance Committee recommendation that the target headcount for 2017 Management Professional positions remain at 217.4.

AMENDMENT FAILED: 2-2 Holman, Wolbach no

MOTION PASSED: 4-0

ADJOURNMENT: The meeting was adjourned at 10:30 P.M.

FINANCE COMMITTEE
DRAFT ACTION MINUTES

Special Meeting
Tuesday, June 21, 2016

Chairperson Filseth called the meeting to order at 7:04 P.M. in the Community Meeting Room, 250 Hamilton Avenue, Palo Alto, California.

Present: Filseth (Chair), Holman arrived at 7:38 P.M., Schmid, Wolbach

Absent:

Oral Communications

None.

Action Items

1. Third Quarter FY 2016 Financial Report.

MOTION: Council Member Wolbach moved, seconded by Council Member Schmid to recommend the City Council approve the Third (3^{rd}) Quarter Financial Report.

MOTION PASSED: 3-0 Holman absent

2. Review Updates to Commercial and Residential Impact Fee Nexus Studies and Recommend Framework for a Draft Ordinance to Adopt Housing Impact Fees for Residential and Commercial Construction.

MOTION: Council Member Wolbach moved, seconded by Council Member Holman to recommend:

A. Staff draft an affordable Housing Impact Fee Ordinance using the Staff proposal based on the Finance Committee recommendations found in Table 1 of the Staff Report; and

B. Staff and Planning and Transportation Commission explore options which would allow Office, R&D and Hotels to proportionally reduce their impact fee payment by providing Below Market Rate housing onsite or offsite or by deed restricting existing units as affordable.

AMENDMENT: Council Member Schmid moved, seconded by Council Member XX that the market rate rental housing fee be set at $30 per square foot.

AMENDMENT FAILED DUE TO LACK OF A SECOND

MOTION PASSED: 3-1 Schmid no

Future Meetings and Agendas

Adjournment: The meeting was adjourned at 9:23 P.M.

PLANNING & TRANSPORTATION COMMISSION MINUTES

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This agenda is posted in accordance with Government Code Section 54954.2(a) or section 54956.

Wednesday, July 27, 2016 Regular Meeting
6:00 PM, Council Chambers

Call to Order / Roll Call: 6:05PM
Vice-chair Gardias late

Chair Fine: Welcome to the meeting of the Planning and Transportation Commission (PTC) for July 27th. Robin if you would please take the roll?

Robin Ellner, Administrative Associate III: Commissioner Alcheck, Commissioner Downing, Chair Fine, Vice-Chair Gardias, Commissioner Rosenblum, Commissioner Tanaka, Commissioner Waldfogel. Six present.

Oral Communications
The public may speak to any item not on the agenda. Three (3) minutes per speaker.
None

Chair Fine: Thank you. Are there any Oral Communications or cards from the public on issues not agendized?

Robin Ellner, Administrative Associate III: No.

Chair Fine: Thank you.

Agenda Changes, Additions, and Deletions
The Chair or Commission majority may modify the agenda order to improve meeting management.
Items 1 and 2 switched.

Chair Fine: And I believe now it's time to talk about any agenda changes, additions, or deletions.

Jonathan Lait, Assistant Director: Yes. So Commissioners the consultant for the first item on your agenda is running about a half an hour late and so we would request that you initiate your conversation on the study session as to you until the consultants able to arrive.

Chair Fine: Great, thank you. So we'll switch Items 1 and 2.

City Official Reports

Assistant Director Lait provided an update on the theater.

Chair Fine: And then I believe we have the Assistant Director's report.

Jonathan Lait, Assistant Director: Great, thank you. The only item I wanted to report there's been a lot of publicity about CineArts Theatre. We've learned that the tenants has given notice to the property owner that their plan is not to continue the lease for the theater. That may, that means that the theater will, could close really soon, within the month I would think. And this is a property that was subject to a Planned Community (PC). It is a requirement of the development that a theater be placed there. This is not though a public benefit, but if there was an interest of the property owner to remove the theater replace it with something else it would have to go through a public hearing process that would come before the Planning Commission and then ultimately to the City Council, but there has been no such application filed. In fact a meeting with the property owner today indicated that their interest in that they were going to have a continued conversation with the tenant to see if there were other opportunities to help them stay at the site. So more to be… when we have more information we will share that with the Commission.

Chair Fine: Ok, thank you very much. While we wait for the Vice-Chair and before we get started on the items I'd just like to give Commissioner Downing a moment.

Commissioner Downing: Thanks, Adrian. I wanted to let you all know that I will be resigning from the Planning and Transportation Commission (PTC) and that this will be my last session with you. It has been a privilege and honor to serve with such excellent Commissioners who have devoted so much of their time to this Commission and who strive to always make a better life for Palo Altoans. I also wish to thank the staff whose efforts during my time here on the Commission have been absolutely Herculean considering the limited resources available to them. Thank you for all of that you do for us.

My family will be moving to Santa Cruz and we spent a lot of time trying to figure out financially how to stay in Palo Alto. As many of you know we are renters. We have been renting with roommates. And we have thought hard about the sort of community we want to raise our children in. We wanted them to go to school with people who weren't millionaires. We wanted a future where we weren't staying up at night worrying about how we were going to pay the bills. We wanted a community that was still growing, where young people could still come and could still live, a community that was still adding interesting new hangouts and where independent shops could still exist. We thought about which communities were actively thinking about how to be a better place. Which would add artist space, live music, rooftop lounges, and sadly the answer is no longer Palo Alto. I will miss all of you and I'm deeply honored to have worked with you. Thank you.

Chair Fine: Thank you, Commissioner Downing. Thanks, Kate. It's been an honor to serve with you as well. I think you have done an amazing job on this Commission digging deeply into the issues and providing us all with research and thoughts that many of us had not thought of before you brought them up. Particularly on this topic tonight Accessory Dwelling Units (ADU) you've really helped move the ball forward for the City and I think all of us to be grateful to you for that. Just personally for myself as well it's been a pleasure serving with you, getting drinks with you occasionally at the Nut House and learning what you think and how the City can move forward. I also just want to open it up to any other Commissioners who may have something to say.

Commissioner Tanaka: Yeah, Commissioner Downing I'm going to miss you. To be honest, I am kind of surprised, but I think you'll be missed and we appreciate your work on this and I think whichever community you move to they'll be thankful for your service. So thank you.

Commissioner Alcheck: That's a bummer. I think before I knew you I was just really excited that Palo Alto appointed a woman to this Commission, but after having the opportunity work with you I think that you are extremely, you take this role very personally and I think that's a really great thing because you approached the decision making process as if these decisions were reflections of our own personal values. And I think that you will be missed for that. I think that your vision of what Palo Alto could do to improve the way that it utilized its land was a aspirational one and it was good, it was great to have someone who was that passionate about those sort of values on the Commission. And I think the City will miss you. We will miss having someone who took it so seriously and personally and passionately because this is the sort of job that I think sometimes can get… it's difficult to commit as much energy to a job like this, but you really did it and I'm sad. I'm really sad to see that you're leaving, but I guess we will visit you in Santa Cruz. Maybe we'll see you on that Planning Commission.

Commissioner Downing: Thank you all so much for your kind words. I really appreciate it and I really have enjoyed serving with all of you. You all have come with such interesting points of view, such attention to detail, such perspectives that have really opened my mind about how to look at things, how to analyze things. It's been a deeply rewarding process and I thank you all for that.

Chair Fine: Thank you. So I think we should move on to our action items. I know a few people have walked in, just for the public to know we are switching Items 1 and 2. I do know there's a lot of cards for the impact fee issue, but we're waiting on the consultant for that.

Action Items

Public Comment is Permitted. Applicants/Appellant Teams: Fifteen (15) minutes, plus three (3) minutes rebuttal. All others: Five (5) minutes per speaker.

2. Planning and Transportation Commission Study Session on Second Dwelling Units

Chair Fine: So let's kick it off with the continued study session on Second Dwelling Units (SDU) and if staff has a report let's go through that.

Chitra Moitra, Planner: Good evening, Commissioners. I am Chitra Moitra, Planner, Long Range Planning. Tonight staff comes before you for the second study session on this item. To give you a brief history this item was first initiated by the City Council memo in a colleague's memo format to the Planning and Transportation Commission (PTC) in October of 2015. Council through that memo directed PTC to find greater opportunities to create more SDUs and to figure out ways how to bring the non-compliant SDU to compliance. Our first study session was earlier this year in January of 2016 and it was a very well attended meeting with a lot of public input and we the staff report discussed a lot of topics many relating to SDUs: the benefits of them, some of the constraints which the Palo Alto regulations provide, and then some of the best practices of neighboring cities. Staff has received a lot of good input from PTC in that meeting and the PTC input can be classified into three tasks and these where changes to the existing development regulations, exploration of new ideas, and examine ways how to bring the non-compliant second units into compliance.

Staff over the last few months have done some research and today is bringing to you the findings. The staff report today consists of some of the best practices of the neighboring cities, some of the constraints which the City of Palo Alto regulations have, and it consists of two surveys; Survey 1 and Survey 2. Survey 1 is to solicit general community's input on this subject and Survey 2 is to find out more about SDU which have been already permitted in the City. The next, the survey, the next two slides describes in details the reasoning behind the questions for each of each of the questions and the surveys would be put up on the City's website for two to three weeks. Once we get your input and once we make the recommended changes we would put it up on the City's website. And the timeframe might be mid-August. Survey 2 aims to collect more information on the existing permitted SDU. City has building permit records of approved units from 2002 and we want to see the characteristics of these units how their sizes, their occupants, their affordability, what are the ownership type, and then the occupants parking habits, etcetera. So this survey would be mailed to the 55 plus permitted SDU owners we have in Palo Alto.

The staff report in addition to the surveys also discusses the constraints. And these are minimum lot size requirement, parking requirement, unit size requirement, and height and setback requirements. Staff has done preliminary research and it's still in the process of adding more information to it, which we would bring in the following PTC discussions. Staff has also provided as an Attachment C a frequently asked questionnaire on this subject matter which we will be putting up on our website which we are working on right now. And Attachment A of the staff report also provides the state laws on SDUs. So with the above information provided to you tonight staff thinks we will have a good discussion on the constraints discussion and other items provided to you. This is my brief presentation and I would think we'll have a good discussion on this item. Thank you.

<u>Chair Fine</u>: Thank you very much. Do we have any cards on item, on this item? None? Ok. So just to my fellow Commissioners as you know this is a continuation of our discussion from January. At that time we'd asked staff to consider what regulations currently restrict Accessory Dwelling Units (ADU) or SDUs and how we might change them and what impact it would have on the number of SDUs to be built. There are a number of those changes explored in this report and also a lot of comparisons to nearby communities the four main areas we've looked at so far: minimum lot size, parking requirements, unit size requirements, and height and set back issues. So staff is asking us to kind of look at their work and see if we have any other additional comments, but then particularly we'd like to give some comments to staff on the two surveys. The first survey is a general survey to the public about SDUs and the second survey is

for current SDU owners, those 55 that are currently permitted. So I'm just going to open it up to a round of questions or comments, however you want to go through it. Vice-Chair.

Vice-Chair Gardias: Thank you and good evening everyone. Sorry for being late. The question that I have here is about comparability. Items that you put in the, in your presentation. So you selected a number of cities and of course this, this document will go… well or it will expand toward presentation to the City Council and our follow up meeting. This, my comment about those municipalities that you selected is although they are very interesting I don't find all of them to be comparable to Palo Alto. When I, when I'm going through the list and when I think about our neighbors I think that probably Menlo Park is the most comparable from the perspective of the ADUs. So giving this my question is could you either replace some of those with some other comparable municipalities in the Bay Area or maybe beyond or if you want to stick to them maybe you can expand the list with other towns that are like Palo Alto.

Ms. Moitra: The reason behind selection of these cities was mainly these are the cities which went through their ordinance update recently. City of Mountain View just finished it. Menlo Park did it last year. Redwood City did it I think 2014. East Palo Alto (EPA), San Rafael, and Santa Cruz are the examples of those cities which have done outstanding jobs in changing their code and bringing in new ideas, so that was the reason why we selected these cities.

Vice-Chair Gardias: Right and it's clearly stated in your document, but in terms of us bench marking ourselves to some others maybe you can have at least one or two other examples.

Ms. Moitra: Sure we can.

Vice-Chair Gardias: Like Menlo Park. At least from my perspective those are municipalities that are closer to this, what we are doing here in Palo Alto.

Jonathan Lait, Assistant Director: So Vice-Chair we're happy to study any city that you want us to study. If you can, if you have specific ideas we do have Menlo Park on there, but there's other cities that you have in mind or Commissioners please let us know and we can, we can research that.

Vice-Chair Gardias: I don't have, but I thought that you could expand the selection with some others, right? That we could benchmark.

Mr. Lait: Yes, the idea of comparability is a bit of a challenge. There's no other city quite like Palo Alto.

Vice-Chair Gardias: With the respect to the neighbors, right? I still think that there are some others, right, in California.

Mr. Lait: Again, we're happy to study any city and get that information.

Vice-Chair Gardias: Ok, very good. Thank you. And the second question I say about the survey. So is this survey that you're planning to distribute will it be done on the statistical basis or it will be sent out to all the potential, all potential owners of the SDU?

Ms. Moitra: Survey Number 1 would be put up on City's website and anybody can, prospective SDU owners or regular current owners can fill out the survey even any community members can fill out that. And Survey Number 2 would be made to the 55 SDU owners whose records we have obtained from the building permit records.

Vice-Chair Gardias: Ok. The reason that I'm asking this question is pretty much that I think that there will be economic interest and looking at our neighborhoods and I'm sure that there will be some at least there will be probably different economic interest between North and South and then there may be different economic interests between different neighborhoods. So I would be interested that you identify in your survey the location of the respondent.

Ms. Moitra: There is one question in the survey I think it's question number… at the end of the survey with the map which asks the respondent to fill out like which area you are from and I have divided the city into sections.

Vice-Chair Gardias: Right, but it only just shows like you're talking about this one?

Ms. Moitra: Yes.

Vice-Chair Gardias: Those four quadrants, right? So I was hoping for more if it's possible. It just they can select from a down, pull down menu then the neighborhoods if it's online.

Elena Lee, Interim Planning Manager: So we're working with Stanford University actually on this survey to get their help in doing statistical analysis of these surveys and also to craft these surveys. So they've also helped us on the Comprehensive Plan outreach. So we'll be working with them to help refine the surveys and I'm also working with them as well as other organizations to get the word out on the survey to get as comprehensive response from the public as possible on this.

Vice-Chair Gardias: Exactly. And then probably, if we're in the same we're in the same group of questions, of identification. Probably would like to know if that person is an owner. Or is a part of the family or maybe is the, and if he occupies the property. Because we would like to differentiate between those that lease out the property against those that live on the property.

Ms. Lee: Right, so yes we will work with Stanford to try to refine those questions. We just need to be careful in crafting the survey to not accidentally lean it towards one subset versus the other to make sure that all individuals feel that the survey is worth their time and valid for their interest.

Vice-Chair Gardias: Right, but I'm just raising this consciously because when you look at this SDU the different regulations there is a many municipalities specifically allow for expansion for the owner occupied property as opposed to for the leasor so for this reason, if you ask me, I would be inclined just to have the same language in our pronouncement because those from our perspective those are probably two different parties.

Ms. Lee: Yes, we can definitely incorporate that in.

Vice-Chair Gardias: Thank you.

Chair Fine: Commissioner Rosenblum.

Commissioner Rosenblum: Thanks for coming back with some additional detail after our study session last time. So two parts. First the additional detail and then talk about the survey a little bit. On the additional detail last time part of the discussion is around this paradox which is some people say well, you're not going to get many units built anyway, so if you look at the number of units that are eligible and look at the economics of building a place in Palo Alto and look at the amount you can charge for rent it's just you're not… this is a tool that simply is not going to add much housing stock. On the flip side you have people saying oh, but it's going to do terrible things to our parking and traffic congestion so it's, it goes both ways. Some people think that it's going to cause problems because you evidently will have so many units and others say you'll never get that many units.

Some of the additional information answers question one, which is how many units will be eligible? And so you helped define how many units are eligible under different scenarios of lot size. I think that the piece that we're still missing is there essentially what we're looking at is what restrictions would we relax and then what would the results be? And so it has to do with parking restrictions, minimum lot restrictions primarily I think are the two kind of variables you're playing with. And then you looked at a number of cities as comparables. And so my ask is a little bit different from my colleague although it's related, which is when picking cities to compare not just to see what the regulation was, but what the effect was. So do the applications increase by certain amount? And then what was the key lever that was pulled? So were parking requirements reduced? Minimum lot size reduced? So you have Santa Cruz for example, which did have a it seems like the primary tool they used move from their previous 10 percent of total lot size restriction to a 500 square foot number which would seem to be a lessening of that restriction. It's less strict now. So what did that have as a result in terms of applications for SDUs? I think that will help answer question number one, does anyone actually want this?

Question number two, which is around the traffic, etcetera impact I think is a function of question one. If a lot of people want it then we have to look at the impact of traffic, etcetera and part of that I think we'll, you'll get some answers from your survey. And that's my only comment on the new information. I think it's moving the right direction, but again as Commissioners the main thing we're asking about is if we lessen certain restrictions what do we think will happen? And so I'm interested in any city, not just neighboring or California cities, just the impact of lessening SDU restrictions on applications.

On the surveys themselves I have no input on the survey content. I think it's excellent. I think you'll get the right demographic information even on the getting an address I thought about that too. You have a quadrant in the city verses an address and I'm trying to think what would I do with an address that I can't do with a quadrant. And I can't really think of anything. So I think the quadrant is probably an easier format to answer versus you guys having to have a look up tool against addresses, but I leave that up to the experts that build surveys. I think the content looks good.

The other thing I would say is that on the present owners of secondary units your mailing list to a total of 55 people I think, right? So there's 55 current units. And so given average response rates to these things which I don't know what they are, but like direct mailing responses are two percent. Other kinds of surveys you may get up to five percent. So you're going to get like two people that respond to this and so the thing there around the methodology I'm not sure if you have resources to actually I know this is annoying, but like follow up with a call or have other ways to market to the individuals that have SDUs. But you're not to get data back and you developed like what I think is a good survey and somehow I think you need to think harder about how to get to these people. That's it.

Chair Fine: Thank you. Commissioner Waldfogel.

Commissioner Waldfogel: Thank you. And again thank you for coming back. Let me just make one comment to Commissioner Rosenblum. I think I can reconcile your paradox possibly, which is that even if this is not particularly productive in creating units which it may or may not be and we'll find out I think that it has a potential to create winners and losers. If you happen to be the neighbor or on the block where it is successful you may feel like a loser even if the by and large doesn't produce many units. So just I think we have to be somewhat sensitive to that.

Which leads to my comments I have some general comments and just request of things we should try to learn. And then one suggestion for the survey which overall I think is nicely crafted. And what I'd like you to do if possible is you've done a great job of looking at the kind of physical constraints lot size, parking, etcetera and saying hey, if we at least relax this constraint then there'd be so many more eligible units. It would be great if we could also layer on just a little bit of economic analysis on how many units we think we have produced or whether we think that I mean just what are the economics of creating them? Because we want to know whether we're going to accomplish the goals of creating affordable housing or whether we'll just create lots of Airbnb opportunities or kind of what the, what it is we're going to make by doing this. So, it would be great to try to figure out a way to analyze that. And as we look at things like stay in place opportunities we're actually kind of fortunate that our property values are so high that tools like reverse mortgages could be better tools for people to stay in place then building an SDU, but it's just something I think we have to understand because people have alternatives when they think about how to deploy their capital.

The specific ask is I think it's Q9 in your survey when you ask about purpose, what would your, who would your SDU be occupied by. It'd be great if you could add the category of sort of nobody, like a home office or something like that, because in some of our neighborhoods I think that's a fairly prevalent I mean if you just look at our productivity of SDUs I wouldn't be surprised if a large fraction of them have been produced basically as surge space for people to work at home. So let's just understand that because if that's what's going on I'm actually not that enthusiastic about relaxing the rules to create a lot of surge space. But if it's truly for affordable housing then I would love to know that.

Chair Fine: Thank you. Commissioner Alcheck.

Commissioner Alcheck: I can't stand that sound. I lost my train of thought… I remember having this discussion last time. We talked about a lot of interesting ideas including subsidizing. I know that I brought up the idea of subsidizing costs or permit fees for SDUs, especially ones that could theoretically be marketed towards individuals who work in our community, in our public institutions like school teachers and firemen and such and such. I hope this doesn't upset you, but I'm a little surprised that we're surveying. The colleagues' memo suggested that they wanted us to have a study session and initiate a discussion on SDUs and facilitate the following: increase opportunities to create SDUs with minimum impact on the community, consider steps which depending on who you ask may not even be possible, consider steps to bring existing non-compliant SDUs in compliance and any other relevant… I don't know that we recommended a survey. I mean did somebody on this panel recommend… I don't know. Frankly, I agree with Commissioners on this panel that have suggested that this probably won't get much of a response. That's number one.

Number two, I don't think it's relevant to know all the answers to these survey questions. I'll give you a good example, who would your SDU be occupied by? That isn't going to affect whether or not I think, whether or not this Commission is willing to have, is willing to make a recommendation to the City Council on whether or not we should number one be innovating in that space or encouraging SDUs. We've already been told by the City Council that they would like us to come up with ways to increase the number of SDUs. I don't know, if this survey is designed to provide political cover for either doing something or not doing something then I understand it. I'm not asking for that political cover. Maybe City Council has suggested that we'd like to have the citizens respond to a survey so that when we make this decision we can stand behind it, but as far as my perspective is, I feel like their decision has been made that they want us to start evaluating how to encourage the increase in the number of SDUs. I feel like what we're doing right now is we're evaluating a survey that is intended to take the temperature of individuals in the community on whether or not they think this is a good idea. And that is not really how I read the colleagues memo. And I don't mean to sound critical, but I guess I have a question. Where did this idea come from? If it didn't come from this panel or this Commission then why are we in the process of survey? Why are we in the process of building a survey?

Ms. Lee: Thank you. So the survey idea did come from staff and part of it is because we just want to engage in public outreach. We do realize that what the Council's memo, colleagues memo, is asking for and we are working towards that and identifying and that's part of the research that Chitra is engaged in, but the other part of this is also to get community feedback. And through all the efforts that we're going through with the Comp Plan update and all the various different activities one of the key components that we've been directed to is to also obtain feedback just from the public. It's not going to affect what we're going to come up with necessarily, but it is part of the complete picture that we feel that we need to provide. And if the direction from the Commission is to not move forward with the survey we can certainly do that, but that was the intent to do that.

<u>Commissioner Alcheck</u>: Alright, well I appreciate the answer. I get it. I get that we want to get like as much information, but I think one of the things that came out of this discussion the last time we had it and I can't remember the number, but I feel like at one point we were wondering how many SDUs had been built in the last year or two, three or four and the number was astonishingly low. Like so low that it's single digits. And then we had a discussion on what we could do to encourage it and there was this I believe because I didn't read the minutes tonight. I didn't read the minutes of our last meeting ahead of tonight, but I believe there was some theorizing about whether or not these changes would lead to a dramatic increase in the number of SDUs that got built even if we did go really, even if we did create really dramatic policies to encourage SDU would it even really result in more than the single digit increase in SDUs.

And so considering the sort of skepticism about even how effective these policies could be based on what we have, what we have space for, right, because the limiting even if you eliminate for example I mean there's a short discussion of sort of options here. One of them is eliminating the minimum lot size requirement. So we eliminate the minimum lot size requirement, is that suddenly going to result in eight SDUs getting built next year? And I, it would be my recommendation that we abandon the survey tonight and we proceed with an ordinance that resembles I guess my recommendation would be I would like to know which of our neighboring cities Palo Alto thinks has succeeded in encouraging the largest development of SDUs since they adopted a change in their SDU policy. So Mountain View has eliminated the lot size requirement. Did that end up resulting in an increase in SDU development? If the answer is no then that wasn't enough and if we need to adopt even greater policies to encourage it like for example, waiving permit fees as we suggested last time or even subsidizing the cost of some of this development I think we could create a draft ordinance that we could pass to City Council and then City Council can sit doing one of their meetings and have a discussion on whether or not they think PTC's recommendation to use public funds to subsidize the development of SDUs is good. But you get my point, if we do this survey we're going to meet back in eight to nine months, we'll have maybe at best 150 responses that would be shocking, and we will have not really taken the ball down the road.

I think with respect to this issue the real information I want to know is what difference did the policy changes that our neighboring cities made and maybe it's not a neighboring city maybe we have to look at Portland or maybe there's another city out there that did adopt some serious policies encouraging SDUs and succeeded in actually making a difference in the development and then let's recommend that and let's just, let's get this done. So I know this is a study session, but that would be my recommendation and if my colleagues agree then let's abandon the survey and let's just get a draft ordinance out that I mean, hold on. Let's have instead of allocating any time to survey let's have staff just determine how dramatic the difference was when policy changes were made. That's really what's relevant. If we come back and say because minimum lot size requirements were eliminated in Mountain View that there was a 100 percent increase in SDU development and they go wow, that really did make a dramatic effect. If there's another city in our nation that waived permit fees and that made a dramatic difference I mean I think my take away from the colleagues memo that City Council provided was let's do something to encourage SDU development. And maybe I'm reading between the lines here, but I sort of walked away from that going they're ready to experiment.

There is an acknowledgement housing crisis is upon us, right? I don't need a survey to know whether or not people would make use of these. It's abundantly clear no one can afford to live in this city so let's get some more housing. And so I think from that perspective they're ready to experiment if they're ready to experiment I think I'm ready based on some of the research that you guys could do that would be helpful to make a recommendation to pursue some of those measures. Alright, I'll end there.

Chair Fine: Thank you. Commissioner Tanaka.

Commissioner Tanaka: So thanks for your work on this report. I think the comments that Commissioner Rosenblum made about really looking at other cities and seeing what the effect was I think that's actually one of the biggest values we could do. Is really, because it's hard to predict what's going to happen, but we can look at neighboring cities or and actually when I was looking at the list of cities, cities like EPA or Redwood City I think actually what's probably more important is not local cities, but comparable cities. So like maybe Santa Monica instead of EPA because maybe that's more similar social economic profile to Palo Alto. I think and I think several other Commissioners also echoed that comment so I'm not going to belabor it, but I think that's actually one of the biggest things that we could do. I realize it's a lot of work. You have to go through all these other, you have to go through other cities data and it could be kind of hard to navigate, but I think that's… it'd be well worth it to do it.

Now in terms of whether we should do the survey or not in general I like to be data driven, but I do know how hard it is to do a really good survey and I don't know what kind of budget we have for this and how extensive and all the survey techniques. But to really get good data is actually pretty hard because what might be happening is when you get the survey back it might be just people who feel strongly one way or another versus a true representative sample. So I don't know how rigorous you guys are going to be on this, but maybe you could talk about what you're planning to do? Can someone on staff comment on that?

Ms. Lee: Thank you. We're still working with Stanford to try to figure out the best outreach and part of the reason and we're working with them to get as much data, relevant data from the respondents to make sure that we have good statistical analysis. So the answer, short answer is that we're working with Stanford to make sure that we get a survey that is as useful as possible.

Commissioner Tanaka: Ok, because the survey is pretty long and kind of the problem with long surveys is the longer it gets the worse quality answers you get, so that's kind of unavoidable. And one key question that I don't, I didn't see in the survey maybe it's there, but I was like what's the size of the lot right now of the people you're asking. Since you don't have the addresses we don't know what size lot you're talking about. So that's something or is it there or did I miss it?

Ms. Lee: No it's not there because the purpose of the first survey is really for anybody whether they own property or not. Certainly we can add that if they have a property and then certainly for the second survey that would be really relevant to add that in there.

Commissioner Tanaka: Ok, and then is there a plan to do more community outreach to have like let's say… can you talk about that?

Ms. Lee: Sure. We are actually planning on reaching out to stakeholder groups. So following this goal the intention was that after the survey after we have the initial data then we would reach out to the different stakeholder groups in the city, working with Palo Alto Neighborhood Association (PAN) and other organizations also partnering as well with other groups that have done this kind of work just to get as much data as possible.

Commissioner Tanaka: Ok, well I think it's not just data, but also just to get involvement because this can be a controversial issue and so I think it's important to get buy in.

Chair Fine: Thank you, Commissioner Tanaka. I'd like to make just a few comments before going for another round. On the substantial issues I think would be helpful for us and for Council next time this comes back to get a little background on some of the planning principles behind some of these tradeoffs. I was looking at the lot size coverage and I was trying to figure out like which is, what are the pros and cons of square feet versus percentage of minimum coverage. I don't actually know and we could research it. So that would be kind of helpful in terms of looking at the metrics and the different tradeoffs, what were like the planning principles behind that? What's the best practice around that?

I think also staff's done pretty good work in terms of looking at some of these levers. I agree with my colleagues we need to balance them against the impacts. We are missing one part of the colleagues memo which is about bringing existing SDUs into compliance and so there's not, it's pretty thin on terms of what is the current situation and how we might bring those into compliance, how we even reach out to those folks.

I share some of Commissioner Alcheck's concerns about the survey. It may be a good way to reach out to folks who are not in compliance and maybe figure out how they might be willing to do so, but when I read the survey I was a little confused about is the survey trying to garner support for changing these regulations or is it to discover what the public feels, is it ok to change? I'd like to think it's more informative for Council that kind of matrix that we proposed in terms of what regulation levers we pull and what the impact is on SDUs and impact on the community. I also want to echo what Commissioner Tanaka said about special interests who if the survey's on the public website you may get a lot of folks just piling on to it who have one position or another that they'd like to push and just keep on taking the survey over and over. So there are some worries for me there.

If we do proceed with the survey one thing I might recommend is showing examples. I think a lot of folks may not be completely aware or knowledgeable about the different types of SDUs that exist whether it's internal, attached, detached and I think one nice strategy might be to show folks what these are. If they're local examples whether it's Palo Alto or nearby cities just kind of letting folks know this is what it is, this is what they're used for, this is how you might get one in your house, and providing some background about the current situation that this many lots are excluded from building SDUs, this many are included, Council has directed us to look at those numbers. So those are my comments for now. Vice-Chair.

Vice-Chair Gardias: Thank you. So since we talk about survey I will add my three cents. I think that we should proceed with our discussion and survey should not be stopping us. Having a survey it's not a bad idea given that it's not your focus and priority and so I for this reason I totally agree with my colleague, Mike Alcheck, just to proceed. But I think that it's not a bad idea just to do the survey in parallel because it will show the community that this is the focus of the, of our work and also may elevate to us some risk. So this survey and any other documents that we're going to issue will ultimately steer some comments in the community which will be a good idea because it may alarm us about attitudes towards this potential change. So, but none of the less I believe that we should proceed with our discussions, internal discussions about the regulation.

There is the second comment I have is pretty much is about the data that you're gathering. Ultimately what we should have, we should have pretty much it's so this is what you're doing just by looking at other municipalities, studying the lot size, meaning lot size decrees and potential minimum size or the maximum size of the SDU. This should result ultimately with some regression analysis and then we should just pretty much have a mathematical equation that would allow us just to plug in the numbers and just tell us ok with this number of the change we will have that many units extra and that would be with a different change you will have another. And so that's pretty much if you work already with some statisticians from Stanford that's maybe extra work for them so they could address us and then different factors may be taken into consideration that my colleagues already addressed. Thank you.

Chair Fine: Commissioner Rosenblum.

Commissioner Rosenblum: Yes after hearing the argument from Commissioner Alcheck I think I agree that the survey doesn't feel like it should be a top priority and if the… again, you have your own budget and you guys know how to spend your budget. My recommendation would be not to do it. It doesn't seem like it gives us additional information for this this particular decision. Particularly the survey towards those who already have a second unit because the sample size is so small, but even the first survey asking people essentially do you support or do not support, which is gauging community support, I think there are other ways to gauge community outreach versus a citywide survey. Particularly the methodology used, which is posting on the website which becomes sort of a contest of voices.

I was thinking about the earlier discussion though around the key piece of information we need I think is if we relax regulations what do we think the result will be? So how many units will get built and what will the problems be that emerge from those units being built? And so it so happens that the San Francisco Bay Area Urban Research Center is doing a lot of research on this right now. So that's highly relevant. They're based locally; San Francisco, Oakland, and San Jose. Berkeley is undergoing an ordinance right now. Oakland just did. San Francisco did in 2014 and San Jose is also working on this. They cited in their report that Vancouver and

Portland are the two cities to watch that have been most aggressive in this. And Vancouver in particular that 30 percent of rental properties are ADUs. So my ask would be to have staff basically use this great resource. So this is something they're actively researching and probably a few steps ahead of us in terms of the cause and effect of ADU regulations versus what happens.

Chair Fine: Thank you. Vice-Chair Gardias.

Vice-Chair Gardias: Thank you, so one more thought if you don't mind. So just when I'm thinking about this there is there should be ultimate goal in all this what we're doing. At the end of the day there should be a no or negligible change to the neighborhoods. However we going to just do it, whatever regulations we change, whatever we permit there's ways up from the user's perspective from the neighborhood's perspective and citizen's perspective there should be the change should be very minimal because otherwise it may backfire on all this effort. So I think that if it's in the survey or if it's in the regulations we should just think about this just having this ultimate goal that change should be very small. Thank you.

Chair Fine: I believe our last comment is Commissioner Alcheck.

Commissioner Alcheck: Yes, I just want to add in anticipation of the next study session on this topic or the next meeting on this topic I can't find it, but I feel… it was my sense that staff sort of came to the conclusion that the parking requirements were either perceived or are in fact very restrictive. I don't know where my where the other Commissioners are in this, but in moving forward I would suggest that our proposal make that requirement less onerous. I know there's sort of discussion about what that means, but I would suggest that we should the next the draft version of whatever we're going to recommend or whatever staff will put forward that we can discuss at our next meeting to push on to City Council should essentially eliminate the parking requirement altogether so that we can again create a dramatic incentive and see if we can push the needle a little bit. And I make this suggestion because I think what will happen is that whatever we recommend will be discussed by City Council and likely dialed back a little bit. And so I think giving them sort of what I would call like the dramatic recommendation on every potential lever will allow them to pick and choose the ones they're most comfortable with in the political climate in which they operate and achieve the goal that they set out which is to encourage the development of best use, right?

So again I want to just bring this back to I would like very much that by the end of 2016 we have actually given our City Council a draft ordinance that suggests the changes that we have identified as most likely to dramatically increase the development of SDUs and then they can go down the list of changes and debate them as to whether which ones they're willing to adopt. Does that make sense? That's where we should be at the next meeting. I mean yes, fine. You want to do the survey? Do it. Do it concurrently, but I think at the next meeting let's just get that proposal up and push it push it forward.

Chair Fine: So I tried to cut the discussion off too quickly. Vice-Chair.

Vice-Chair Gardias: Thank you. I think that maybe at the end of the day we should just give staff just a clear direction on the survey because I think that some of us spoke differently. So unless they already have the feeling how they should proceed, but I wanted to talk about something else. So when we are addressing this colleague's memo because of the constraint on the housing, but when you think about the secondary units throughout the world they are used not only for housing purpose but also for the business purpose. And I just want to make this comment because although it's a little bit outside of the scope, but it will maybe just trigger some thoughts for the next meeting when we're going to discuss this regulation.

So secondary units are very valuable for us for housing businesses of certain professions: doctors, architects, artists, and so forth, right? And they are throughout different municipalities giving the regulations. So when we talk about this subject we can just maybe at opening the use of those SDUs for the business purpose. And they are of course benefits like for example, easing up traffic. If people don't have to go to certain places where their businesses are located where they can have the business with the respect to their neighbors, of course. That reduces number of trips. Then it distributes number of trips evenly throughout the neighborhoods because not everybody goes to the same location where thousands of offices are. So that's another benefit. And then of course there is number of other benefits that you state. If you are a business owner is stay closer to your family, if you really conduct yourself with respect to the neighborhood it may bring more interest to the vicinity where you live. I just wanted to make this comment because it may become relevant once we are discussing secondary units. Thank you.

Chair Fine: Commissioner Waldfogel.

Commissioner Waldfogel: Thank you. I just want to say I'm not unhappy with the track that we're on. I mean I think that getting the best information is a good idea. I certainly acknowledge a lot of the comments that my colleagues have made about how hard it is to create a high quality survey with meaningful results, but I'm sure that you'll do your best to generate meaningful results. And I think that I'd be pretty excited at just seeing some sensitivity analysis on what different changes will generate. I mean I don't want to just go to the close and say let's just relax all the parking requirements, which could have a double whammy effect in some cases if a garage gets converted. And if a primary residence garage gets converted into an SDU then we're losing parking for both units and that potentially some impacts. Let's just understand the impacts, let's understand the sensitivity on those impacts, impact on the neighborhood. If these become home offices those can also draw traffic, and I mean an architect has clients who come to visit. And all these things just play off shifts in neighborhood use patterns. So let's just be very methodical and thoughtful about disclosing what those effects are so that everybody can make rational choices about what tradeoffs that we want to accept. So let's not just jump to the close, let's line up all the ducks, get the information, and then make some good decisions with that.

Chair Fine: So just to sum up I think the general feeling up here is we would love to see a bit more as Commissioner Waldfogel just mentioned sensitivity analysis on the regulatory tools that we have at our disposal and that we can show for Council. There's a couple specific issues folks would like looked into. I think the Vice-Chair's question about we should be given guidance on the survey is a good one, but I want to ask staff do you guys care or you're just going to do it because doing civic engagement and public outreach is the right thing to do? I mean do you want feedback on that or? Yes, and so I guess another way of asking it is: would you be able to do the survey on time by winter so that we can still get this to Council and give them some choices to make in terms of what they want to do with SDUs?

Mr. Lait: So… sorry. I tried to do two things at once here. So regarding the survey, we received your feedback and there may be another follow up question that I have for you on that. I don't know that the survey is really holding us up and producing some more work. We do have a little more data to collect. It's not going to take eight or nine months. We're going to, we plan on coming back I think in October with what we would anticipate is the next more substantive hearing on this issue with some more data which admittedly is not, we're not bringing forth all the data that we have at this meeting. I don't think we're going to be usually impacted whether we do the survey or not. We think it could be helpful. We're trying to find ways to get more data, but I share the concerns that we heard. I mean there's going to be self-selecting survey. People who have an interest in this one way or the other will opt in and for one of the surveys the data set will be small and I don't know at the end of the day what kind of conclusions we'll be able to draw from it, but we won't be able to draw any conclusions if we don't do it. That I know.

Chair Fine: Ok. I guess I would say if you can do it concurrently, but still keep the ball moving in terms of writing the ordinance and figuring out those different levers that would be helpful for us and for Council. Commissioner Alcheck.

Commissioner Alcheck: Yes, I just really quickly. When you're at your first show over the first time you spoke mentioned office and then the second time we spoke you mentioned it again and I didn't know where it came the first time and then the second time after sort of looking through here I see there's a question in the survey that says something like what is the purpose of your SDU used for and one of the options is for personal home business. I guess I'm a little sensitive to that because we're really talking about affordable housing here and increasing housing supply. And the notion that someone's building office space and then opening up their architect's business and hosting… is there, is that a concern? I see that is there's one bulleted question that sort of asks that and I'm wondering if there's a reason that staff has a concern about commercial businesses setting up in these ADUs.

Mr. Lait: Well that happens actually today. I mean we do have code enforcement cases where homes are being used for offices. I mean it is an issue and I think what we're trying to get at is there could be a number of reasons why an individual may choose to create a new SDU. We're just trying to understand the universe of what that might be. I mean I guess we're interested in affordable (interrupted)

Commissioner Alcheck: I get it. I don't mean to interrupt, but there could be a number of reasons why they would create an ADU, but a lawful one would not be to use it as an office, right? That would be a code violation in which case there would be a code enforcement issue.

Mr. Lait: Let me just back… so yes, I mean you can't do an office use in a residential area unless it's a home occupation. And you could do say an architect's office in a you know, like that, but I would also say you don't need to create an accessory dwelling unit with a full kitchen and bath facilities to create that unit. You could do that today in your home or in an accessory building.

Commissioner Alcheck: Right.

Mr. Lait: So they're apples and oranges a little bit.

Commissioner Alcheck: So let me just rephrase. The reason why I'm saying that is because I think that it's particularly harmful to this discussion to suggest that we would somehow be allowing our parcels to develop some sort of commercial office space. And I say that because if the public sort of walks away from this discussion tonight with a fear that their neighbors are going to open up startups in these ADUs that may result in some political opposition to this again this notion of creating additional housing. And for all intents and purposes when we talk about developing affordable housing units by permit we would be talking about units that were really specifically set up to house people which would have a kitchen, an operable kitchen, right? It would have essentially everything you need to live. And so I just if that, I wonder if that question isn't problematic because it's asking somebody if they would use an ADU in a way that we're actually not contemplating such a use. That's not to say that they couldn't do it, but it's like on that television (TV) show Silicon Valley and they have this feud between this neighbor who's basically running some sort of what does he call it? Yeah, yeah. That's not what this is about. This is about sort of coming up with incentives to house your parents or to potentially house as an individual who works in this community or wants to live in this community and can't afford to, but they could afford to potentially rent a 400 or 500 square foot unit. I just I don't want to sort of lose sight of that and I certainly the notion isn't to relax parking standards so that somebody who is operating some sort of architect's office and I'm not talking about a solo architect working out of his garage on an easel I'm talking about a real… I just want to make sure that we're not encouraging some sort of fear in our survey of that sort of result. Sorry.

Chair Fine: Thank you, Commissioner Alcheck. Staff is there anything else we can answer for you/provide help with?

Mr. Lait: We're good. Thank you for your thoughtfulness and we're planning on coming back again in October with a more robust discussion.

Chair Fine: Excellent. Well, thank you so much. Let's close this item and let's go to Item Number 1. Good point. Let's take a five minute break. And thank you all for your patience I know we flipped the items. Thanks.

The Commission took a break.

Chair Fine: I'd like to apologize. We accidentally skipped someone for their comment on the SDUs. So Vice Chair if you wouldn't mind, let's get this comment on the record.

Vice-Chair Gardias: Of course. Sorry for this omission. And we have Doria Summa that's going to just extend her comments to us on the topic that we just discussed of SDU. Thank you.

Doria Summa: Thanks. Thanks, Chair and Planning Commission. No worries. And just a disclaimer, I'm President of the College Terrace Resident's Association and I'm also on the Citizen Advisory Committee (CAC). And I do not live in R1, but so I wanted you to know that.

I wanted to thank staff for the report and I understand this is an ongoing event and you're still gathering data and community feedback which I really appreciate. ADUs are already legal of course, but have site and design requirements, setbacks, etcetera so that the accessory units won't become a problem for neighbors mainly. I don't believe the correlation between building more accessory units and more affordable units, meaning lower rent, has been established. I think our understanding of the accessory existing ADUs might be understated as there are many non-conforming units exist in most of these probably are garage conversions. So in that sense they do affect parking and I don't think that making those units legal will either will increase the number of units. I support staff's approach to getting a lot of community feedback on this as I do think it is kind of a political issue of interest to neighbors.

Finally I do not believe that relaxing the standards for ADUs should be used as a workaround to diminish the qualities of R1 zoning. I think many people want to live in R1 zoning. I don't, but I don't live in R1 zoning, but I respect that many people do and it's a standard for a community like this. I agree with many comments of the PTC that staff should continue to gather real data with impacts before a decision or recommendation is made. Thanks.

Vice-Chair Gardias: Thank you very much.

Chair Fine: Thank You.

Commission Action: No action taken, Commissioners provided comment and suggestions.

1. The Planning and Transportation Commission will Consider a Recommendation to the City Council for Adoption of a Draft Ordinance to Update the City's Below Market Rate Program and Adopt Affordable Housing Impact/In Lieu Fees for Commercial and Residential Construction by Repealing Municipal Code Sections 16.47 (non-residential projects) and 18.14 (residential projects) and Adding a new Section 16.65(Citywide Affordable Housing Requirements) and Direction on Future Corresponding Changes to the Housing Element. The Proposed Ordinance is Exempt From the California Environmental Quality Act (CEQA) per 15378(b)(4) and 15305.

Chair Fine: So let's move on to the second item or previously the first item and this is our consideration of a recommendation to Council for the adoption of a draft ordinance to update the City's Below Market Rate (BMR) program and adopt affordable housing impact/in lieu fees for commercial and residential construction. So this is a potential ordinance update to the City's BMR program and the impact fees. In short it's consolidating the commercial and residential fee programs into one so it's a citywide program. As I'm sure you all know this is a big deal. Let’s take our time and do our diligence and if staff wants to kick this off with their report.

Eloiza Murillo-Garcia, Senior Housing Planner: Thank you, Chair Fine and Commissioners. My name is Eloiza Murillo-Garcia and I’m the City's Senior Housing Planner. And I also have Sujata Srivastava from Strategic Economics who is our City's consultant on the Nexus studies here tonight and will be discussing as you said the commercial and residential housing impact fee ordinance. So the purpose of today's hearing is to conduct a public hearing and receive public input on the topic before you as well as to review the commercial and residential Nexus study conclusions. Also to review the proposed fees that are described in the staff report and to review the draft ordinance and make a recommendation to the City Council.

Just to give you a bit of background on this, the City currently has a 15 percent inclusionary requirement for residential for sale development with five or more units. And in this situation in lieu fees are applied to fractional units or when building affordable units is deemed infeasible. The City currently charges commercial impact fees based on a 2002 Nexus study. Thank you. And part of the reason that we've now updated our Nexus studies is because the Housing Element that was adopted in November of 2014 called for updated Nexus studies. It also called for considering an impact fee on rental housing and also called for inclusionary requirements on developments of three or more units.

The City entered into a contract with Strategic Economics and Vernazza Wolfe Associates in 2014 piggybacking on a countywide collaboration in San Mateo County known as 21 Elements. As part of this effort the City received two drafts or final drafts of the studies in November of 2014 and there are two studies. There’s a commercial and residential. The results of the Nexus studies were presented to the Finance Committee on two separate occasions on February 16th and June 21st earlier this year. And with the Finance Committee’s direction we have prepared a draft ordinance that reflects the Finance Committee's direction. I'm going to turn it over to Sujata now who is going to discuss the methodology for the two Nexus studies.

Sujata Srivastava, Strategic Economics: Good evening. So our analysis actually first began by defining what types of commercial development would be most likely to happen in the City based on market trends and discussions with staff. So we looked at office, Research and Development (R&D), medical office uses as well as hotel uses for the linkage fee update. We had to make some determinations about what the likely employee densities were so that the whole idea of the linkage fee analysis is to be able to demonstrate that new workers occupying newly built space some percentage of them will have a demand for affordable housing because their wages are not sufficient for the household to be able to afford market rate housing. So we start by quantifying how many workers occupy the space. We look at wage data to establish what household incomes would be and how many of them would fall in the very low, low, and moderate income categories. We also measure what the gap is between what those types, those households at those income levels can afford to buy or rent relative to what it costs to build a unit in Palo Alto. And so when you apply this gap to the worker household needs you determine what that total, you quantify basically what that total demand is.

And that demand can then be divided by the square footage of the space that's being built. In this case we used 100,000 square feet (sf) for simplicity and that leads you to a fee per square foot. And that's the maximum fee that can be charged on new development. In almost all cases we don't recommend jurisdictions adopt the maximum feet for a variety of reasons including financial feasibility. So we conducted some analysis to see how these fees would affect a developer's bottom line at different levels, and we also looked at other fees in other jurisdictions in the Bay Area to provide some context, and looked at kind of the existing fee structure in the City. So bundling all this together led us to the recommendations that you see here.

On the Residential Nexus study methodology this is not, you do not currently have a housing impact fee. Our methodology first begins with looking at again what types of development are likely to occur and at what price points. The housing impact fee methodology is a series of indirect linkages between the housing that is built, market rate housing, in a particular community and the household spending that results from those renters and buyers that are occupying the market rate housing. So somebody comes into the community as a new household and is putting money into the economy in the form of purchasing goods and services. This generates demand for new workers many of which are in service occupations or other types of jobs that may be low wage jobs. So that relates to a demand for affordable housing. So you first look at what's the household income of residents, how much spending are they generating in the local economy, how does that translate into jobs indirectly? And then based on those jobs we look at how many again using occupational wage data how many of them would be very low, low, and moderate income households. We apply that same affordability gap number that I mentioned before to calculate the total cost or the total need. And then that is then can be translated on a per unit or on a per square foot basis based on what the size of the units are.

Again we did some feasibility analysis for all the prototypes which I should mention include single family detached, single family attached or townhouses, and condominiums and apartments. And our fee recommendations are based on the results of our feasibility analysis as well as comparison of fees in other cities and a look at what your existing fee structure looks like as well as understanding how it compares to your existing BMR policy.

Ms. Murillo-Garcia: So to give you a summary of the recommended fees on the commercial side, this table the first column has the City's existing fees for the three prototypes. We currently only have one fee for all of the prototypes and the existing fee is currently $20.37 per square foot. As a result of the Nexus study the recommendation in February when staff went to the Finance Committee was to increase the fees for office and R&D took $35 a square foot, increase the fee for a hotel to $30 a square foot, and maintain the retail, restaurant, and other at $20.37 per square foot. Based on the Finance Committee's recommendation at that meeting the recommendations were revised a bit. So the office and R&D recommended fees based again based on the Finance Committee direction were increased to $60 per square foot. Hotel and retail remain the same as the February proposal.

And on the residential side the City as Sujata said we don't have impact fees. There is an inclusionary program that has in lieu fees and the existing fees are 7.5 to 10 percent of the sales price for each unit for single family detached, single family attached, and condo. And there are currently are no fees on rental housing projects. The February proposal to the Finance Committee was $95 a square foot and $50 for all the other prototypes. Based on Finance Committee's recommendation at that meeting the fee was revised to $50 a square foot for a single family detached. So it's $50 a square foot for all of the different prototypes.

And also based on the Finance Committee's direction a draft ordinance was prepared and the draft ordinance consolidates both the commercial and residential fee programs into a single uniform ordinance codified in a new Chapter which would be 16.65. And it repeals the current Municipal Code Sections 16.47 on the nonresidential projects and 18.14 for the residential projects. The ordinance also gives the City the ability to charge an impact for rental housing. In 2009 you may be familiar with the Palmer decision. The California Court of Appeal held that requiring inclusionary housing in new rental housing projects violates the Costa-Hawkins Act. So jurisdictions were no longer able to require inclusionary housing on rental projects. The ordinance also gives the developers the opportunity to build affordable units rather than pay the fee even for mixed use commercial development projects. And on the commercial development side it differentiates the fee structure so there's different fees for different uses. So there's as I mentioned before there is a fee for hotel, one for office, medical, and R&D, the other for restaurant, retail, and other uses.

The draft ordinance also simplifies the in lieu fee for residential development. It's simplifies it in the fact that there would be a fee charged per square foot rather than 7.5 percent of the sales price. The ordinance also clarifies which projects would be exempt from commercial impact fees. It adjusts the threshold for inclusionary units from projects with five units or more to projects with three or more units. And this was something that was, that is stated in our Housing Element and Program H 3.1.1. The ordinance is not proposing to increase the existing inclusionary housing requirements to adjust the percentage of affordable units required at this time. That is something that can be looked at a later date.

So the next steps after tonight's hearing, discussion, and recommendations are to go to Council for their consideration of the draft ordinance along with the Commission's recommendations and a concurrent consideration of a draft ordinance to establish the fees at the levels described in the staff report. And that Council date is tentatively scheduled for September the 6th. We are available to answer any questions that you might have.

<u>Hillary Gitelman, Planning Director</u>: Thank you Eloiza. Just add one thing, I'm Hillary Gitelman the Director and I wanted to thank everyone at the table here for working on this long and hard. It's been a long time coming. We did get a number of letters as you know from interested parties and this is a public hearing. We'd love you to open the public hearing and hear the testimony and then we're available to answer the Commission's questions and respond to any questions that you might have after you hear that testimony.

<u>Chair Fine</u>: Thank you very much. I believe we have a number of speakers, let's kick it off with them.

Vice-Chair Gardias: Yes, Mr. Chairman we have six cards submitted to us. So we would like to hear from Lauren Bigelow who will be followed by Bonnie Packer. You have five minutes.

Lauren Bigelow: Good evening, Planning Commissioners, and thank you for giving me the opportunity to speak tonight. My name is Lauren Bigelow and I am the BMR Administrator for Palo Alto Housing. As you may know Palo Alto Housing administers the BMR program for the City of Palo Alto and has done so for over 40 years. We are very happy to hear that the City is interested in incentivizing developers to create more BMR housing. Most would agree that our city needs more housing. However, as Palo Alto Housing is also one of the leading developers for affordable housing in Palo Alto we are deeply concerned that the numbers proposed in the ordinance will not incentivize more units. It is our belief that this ordinance will discourage developers from building in Palo Alto when the fees are significantly lower in neighboring jurisdictions. At that point we lose BMR units onsite and we lose the Affordable Housing Fund.

The Affordable Housing Fund plays a critical role in building affordable housing as we can leverage the public funds to house more families. With BMR units onsite a property adds on average between three to seven units to Palo Alto's inventory. With the Affordable Housing Fund we can build a larger project that serves even more people. For example, when we built Tree House in 2011, it's a beautiful 35 unit affordable housing building, we were able to leverage the Affordable Housing Fund to successfully compete for low income housing tax credits and thus build the project. Otherwise construction would have stalled out completely. We need both BMR units and the Affordable Housing Fund to fight the housing crisis. Should the City be interested in talking through our concerns our door is always open and we're happy to work with you to find the best solution or solutions to the problem of affordable housing in Palo Alto. Thank you so much.

Vice-Chair Gardias: Thank you, ma'am. We have Bonnie Packer followed by Jeff Levinsky.

Bonnie Packer: Good evening, Commissioner Fine and Planning and Transportation Commissioner (PTC) Commissioners. My name is Bonnie Packer and I'm currently President of the League of Women Voters of Palo Alto and I'm speaking on the League's behalf tonight. And in this letter when I say the League I mean the League of Palo Alto.

The League applauds the City's continuing efforts to provide mechanisms for the provision of housing for those with very low, low, and moderate incomes. The League has historically supported both Palo Alto's inclusionary housing program and the assessment of housing impact fees on nonresidential development for the Affordable Housing Fund. These programs have provided many BMR rental and for purchase homes and have been a valuable source of funding for very low, low, and moderate income housing developments in Palo Alto.

We are in a housing crisis. The City needs to create opportunities for far greater numbers of housing units for those with very low, low, and moderate incomes than ever before. What is the best policy to do this? To encourage the development of units for those with very low and low incomes should the City encourage housing impact trees for a robust Affordable Housing Fund rather than encouraging market rate developer provided on or off site units? Or to encourage the development of units for those with moderate incomes should the City encourage those market rate developer provided on or off site units rather than collecting housing impact fees? The staff report states that the ordinance before you is designed to create incentives for developers to provide units on or off site rather than paying the very high housing impact fees that are being proposed. The League is concerned that this would mean less funds for units with those with very low or low incomes.

While the League supports policies that allow for the provision of units for those with moderate incomes where it is feasible for the developer to do so the League notes that this ordinance may have the consequence of producing much less cash for the Affordable Housing Fund. Today cash from this fund can be leveraged to obtain other sources of funding; for example, through the federal tax credit program for the development of many more units than those with very low and low for those with very low or low incomes than can otherwise be provided when a developer is asked to provide units on or off site rather than paying the housing impact fees. Thus this proposed ordinance may have the effect of creating tension between the need for units for those with low or very low incomes versus those with moderate incomes. Is this the policy the City wishes to implement?

In reviewing this proposed ordinance we urge you to consider the following: will the levels of the housing impact fees on both office and residential development in the proposed ordinance generate sufficient cash for the Affordable Housing Fund to support the development of many more units for those with very low and low incomes? Are the requirements for determining the infeasibility of providing units versus paying the fees too onerous? We note that the methodology does not include the loss to the developer of income from sale or rental when they are asked to provide the BMR units. Are the fees so high and the infeasibility requirements so onerous as to discourage all types of development and thus reduce the sources for these funds and units? Will the cost burden of the fees and/or the cost burden of providing the units be passed on to the renter or purchaser thus increasing the market rate rental for office or residential and purchase prices even more? Will the proposal to impose fees on rental housing cause the high rates in Palo Alto become even higher thus making it even more expensive to live here? Thank you for considering these critically important policy issues tonight.

<u>Vice-Chair Gardias</u>: Thank you, ma'am. We have Jeff Levinsky followed by Peter Chu.

<u>Jeff Levinsky</u>: Good evening, Commissioners and staff. I have a handout for the Commissioners if I could give that to someone? Thank you. First of all I'd like to thank Council Member Filseth and the staff for looking at my comments about math errors in the report that was given to the Finance Committee and then to this Commission. I generally agree with their conclusion, but there they did not change the number about the cost of a condominium which shows and they figure as you can buy a 2,100 condominium for under $1.4 million dollars which I don't think is really the case. There's a typo as well, but I won't go into it.

The main critical point in my letter remains unaddressed and that is that the policies that were being proposed still undercut providing the City policy of onsite BMRs. So I put together numbers for the Maybell project and I used numbers from the staff and I'll explain as we go. The cost to the developer and staff said for providing the 15 percent onsite units comes to a little under $7 million dollars there and that assumes the fractional unit pays $700,000. The current 7.5 percent in lieu fee for that we agree would be $4.2 million dollars. So by claiming infeasibility the developer basically took away $3 million dollars from BMRs. Who lost that $3 million dollars? Well the losers are the people who would have gotten $3 million dollars' worth of affordable units. They lost by this what happened over this issue. It would have gone to create some affordable homes on the site as well as the $700,000.

The Finance Committee advocating switching to a $50 per square foot approach as you see here I calculate that at it would generate only $2.1 million. I differ from staff because I believe the ordinance says that existing square footage would not have to pay the fee and there is existing square footage on that and most sites. So I subtracted for that I estimated so I come out a little lower than the staff estimate for that, but as you can see it's basically half. So by adopting the Finance Committee recommendation you would be again cutting the money for affordable housing down. The Staff proposal mentions that you could go as high as $95 per square foot and by my calculation that comes out to still a little under $4 million dollars.

So what's happening here is basically that the City policy is to encourage onsite BMRs. And there are many reasons for that. One is that when you build the BMRs elsewhere you're creating segregated communities. You're saying we're not, we don't want people who need affordable units to live in the same place as people who can afford market rate. I don't think that's really great city planning and I think that should be part of your discussion.

Secondly, when the money is given to a fund or something to develop BMRs elsewhere they have to go out and find land and get permission to build elsewhere and as you know that can be very, very hard. In fact Maybell is the perfect example of that of course. So those additional costs aren't factored in to the equation here and for that reason I come up with a suggestion that if you're not going to be able to build the onsite then you should pay more in lieu or per square foot then otherwise. So my suggestion would be look at a 15 percent in lieu fee and that would raise $8.4 million which would exceed the $7 million that it would cost them to build onsite.

And finally I think it's wrong to have rules allowing developer to claim something isn't feasible and then save millions of dollars. I hope that the ordinance changes will prevent that, but it breeds distrust and lowers respect for our City government. And it's unfair to developers who have been playing by the rules. So for all the reasons I've covered I urge you to advocate upping the fee when onsite BMRs aren't built in developments where units are being sold. You'll be helping both those who are eligible for the BMRs and our City as a whole. Thank you. And I'm going to have to leave soon, so.

<u>Vice-Chair Gardias</u>: Thank you. We're going to have Peter Chu followed by Rebecca Byne.

<u>Peter Chu</u>: Thank you, Commissioners. My name is Peter Chu, a 30 years plus residents of Palo Alto. I wanted to cite several things just to add to the discussion. Is, the first one is I think is most important that is a single family and multifamily housing helps the housing versus job imbalance rather than hurts unlike the commercial developments of the office building and high tech. So they should not have to pay for the BMR in the first place. Now I think somehow

that has been forgotten and then we just keep referencing to this old rule of whatever, 9.5 percent. And that is fundamentally wrong in the first place, ok? So given that. Also if you recall the whatever the percentage on the existing rule that includes the land price. As you know land price increases until the builders cannot afford it. That's how the land price was determined. So if you convert that into this 95 percent, $95 a square foot if you compare it to the real cost of people trying to give their family a better place to live that is the improvement price rather than the total price. That come out to be roughly in my calculations 25 percent to 35 percent increase of their real cost. Just imagine if somebody buy a piece of land and trying to improve it by building a new house that is very popular in here and that would basically kill this whole idea.

So that go back to another a question on what we are trying to address. What kind of people we are trying to address the focus has been on low and moderate income people, but the real homebuyer residents are middle to high or low sort of middle higher income people who are employees or a small business owner or have they have some stock therefore they have some equity they can buy into it and then you wanted to increase their price, their cost even further. I don't know how you can do that. And then also I read this residential part of this report saying that a detached single family house you say ok, the income to be able to afford that is like $535,000 per year. What kind of people is that? Is that almost like a Chief Executive Officer (CEO) of a mid-sized company or a university president and how many people are actually like that? That means the fundamental concept is this I mean is people who can afford to buy a regular market rate house in here have some equity built up and their income is far less than that. So somehow you wanted to extract their disposable income to such an extent that they would just say hey, Palo Alto is too expensive.

So what I want to say is not only you need to pay attention to affordability of lower income people, but the middle class people. You don't want to kill the whole culture of Palo Alto so that you end up with billionaires and venture capitalists and big developer only. That is not the vision we want to go to. And also just look at the Facebook latest deal with Menlo Park, it average to be $6.55 per square foot. And that is a reference on what the deal they can put together. So if you just add 15 times of that, that fails the smell test. Thank you.

Vice-Chair Gardias: Thank you. So we have Rebecca Byne. If I pronounce this correctly? Is she on the floor? Followed by Herb Borock. We don't have Rebecca Byne on the floor, right? She must have left. So Mr. Borock, please.

Herb Borock: Chair Fine and Commissioners I believe we should retain the current method of calculating the in lieu fee by having it be a percentage of the sales price. And you should also add language to the zoning code to implement Housing Program H point… H 1.2.1 says that when a loss of rental housing occurs due to subdivision or condominium conversion approval of the project shall require 25 percent BMR units. The equivalent in lieu fee should be 12.5 percent. That's what should've applied to 567 Maybell, but there was no implementing language that staff could use to require that higher fee. However, if you choose a per square foot BMR fee it should be applied to all the floor area built rather than just the floor area counted against the allowable floor area amount. The consultant’s report relies on a fictitious prototype rather than actual sales prices per square foot. 567 Maybell subdivision example relies on fictitious house sizes rather than the house sizes that will be built and also uses a fictitious sales price rather than actual sales prices per square foot.

The Palo Alto Weekly this year's spring real estate edition shows that the average per square foot sales price for a single family home is $1,536. That compares to the consultant's report of $1,014 and the example for Maybell of $1,167 per square foot. Consultant’s report also shows per square foot prices for attached single family of 900 of $793 per square foot and for condominiums of $662 a square foot, neither of which are comparable to actual sales. For example, compared to the $1,536 average for last year there are two single family homes sales reported in today’s paper at 1413 Dana of $1,560 per square foot and at 2572 Webster of $1,547 per square foot. Seven and a half percent of $1,536 is $115 per square foot. And that price and the sales is escalating faster than any escalation factor you would put on a per square foot fee that's being proposed by staff and the Finance Committee.

Also 567 Maybell assumes a 3,000 square foot house size. The average house size based on the lots in that 60 unit subdivision is 2,529 square feet of allowable floor area. So that would be basements averaging 471 square foot. Typically those basements would be half of the allowable, at a minimum half of the allowable floor area. So you'd really get a house size about 3,800 square feet instead of 3,000 square foot. And the disparity before between calculating a BMR fee based on sales price rather than the per square foot that's being proposed would be even larger than is being shown in the examples.

Also in terms of single family subdivisions historically there have never been inclusionary zoning for single family subdivisions that have BMR units comparable to the for sale units. When the school district had single family subdivisions on surplus school sites they did the BMR requirement by providing a duplex BMR and the rapid escalation in price of market rate housing compared to those BMR units that are restricted in escalation indicates that it may be time to focus BMR fees that would be used either to preserve existing affordable housing or to purchase land that would be used for 100 percent affordable housing.

The original Council adopted guidelines for setting the price of BMR units in multiple family for sale housing was to base the price on the incremental cost of building, constructing the unit, and having all the land cost and soft core supply to the market rate units. But under the previous City Manager Planning staff started setting the prices of BMR units based upon the income guidelines which essentially gives developers profit on BMR units. So I think it may be time to go back to the original one which is basing it on the incremental cost of constructing the unit so that the land price is based solely upon the market rate units rather then also upon the BMR units. The setting of the percentage sale price for a BMR fee was always been based upon 100 percent of the cost of building units rather than the developer’s much smaller investment. And to get a comparable amount of money based upon the sales price sources building BMR units you should go back to actually calculating it based upon the investment, a return investment rather than assuming it's a 100 percent investment. Thank you.

<u>Vice-Chair Gardias</u>: Thank you, Mr. Borock. So just want to make a comment, we established a best practice with Mr. Chairman for this year to respond to the comments of the citizens and

the response should follow up immediately the comment that you just heard. So are you ready to respond to Mr. Borock's comments?

Ms. Gitelman: Yes, why don't I start out; first, I want to respond to Mr. Borock's suggestion that we implement that Program H 1.2.1 he cited about the loss of rental housing. And that's actually in the proposed ordinance. It's on packet Page 219, Section 16.65.030 A3. So we can check that one off. I think we carried that forward and that's a good comment and I'm glad we've included that.

We had number of other comments as you heard maybe not all of them, some of them expressing opinion that that maybe we don't need to respond to, but I wanted to make an observation that we did hear two sides of an argument in the commenters. We heard from one commenter that they would prefer that we collect fees rather then get inclusionary units onsite in some cases because with the money that you get you can probably build more units at a lower affordability level than you would if you just got the inclusionary units onsite. So that was one perspective expressed. We also heard the opposite perspective from commenters who wanted the units onsite even if they were very costly units the thought that a bird in hand is worth more than a bird… then whatever that expression is. Anyway I wanted to point that out. I also thought that we've heard from a number of commenters in writing and this evening that their main concern was not the methodology and sort of what we're proposing, but the actual fee amount. That we're going far above other jurisdictions and that's a notable comment I think.

The other thing that I just wanted to point out, Herb brought this up and I think this was inherent in Jeff's comments too, this methodology that we use currently about a percentage of the sales price it is really hard to administer. I think one of our big objectives in going to a per square foot fee is it makes all, first of all it makes all the fees we implement all the fees in the same way and we implement them at the time a building permit is issued. So there's no uncertainty about when the money's going to be collected, whether we're going to remember to collect the money, whether we got the right amount of money. It's just pretty straightforward you look at the plans how many square feet, you look up the fee, you charge the fee, and you get the fee before the permit is issued. So that's one of our inherent goals here.

So I think I got most of the questions except for the question about why we did this based on prototypes instead of market data. If you want Sujata to go into that we could, we could do that.

Vice-Chair Gardias: Yes, please if you don't mind. Just because there were just number of the comments from Mr. Borock, right, about some discrepancies and (interrupted)

Ms. Srivastava: Sure.

Vice-Chair Gardias: Examples that he provided.

Ms. Srivastava: I mean I think first there's mentioning that the data was collected in 2014 and the market has changed. And this is kind of a constantly moving target when you're looking at sales prices and rents particularly in this market. So the purpose of setting the sales prices and I think I heard the comment that we're looking at $1,000 per square foot for single family detached and today it's something closer to $1,500 for certain properties. We actually did do a survey of recent transactions at the time, so it's not based on just one or two transactions. It's actually based on what we were able to collect for that period of time, but the purpose of collecting that information is to then be able to run an economic impact model that will then measure what those households are spending in the local economy. So the results are actually more conservative in terms of the maximum fee which puts you in a stronger position in terms of being able to implement that without facing potential challenges. So we typically take a conservative approach and we set the prices that these fees are based on so that we're not overstating the market. Understanding that the market is constantly changing we don't want to set things at the peak market conditions, but rather something that can be a little bit more moderated.

Vice-Chair Gardias: Thank you, this concludes the hearing.

Chair Fine: Thank you. Thank you to all the speakers. That was very helpful. Do we need to do disclosures on this one?

Cara Silver, Senior Assistant City Attorney: This is a legislative matter so you don't legally have to do disclosures.

Chair Fine: No? Ok. I'll just say I did speak with somebody from Silicon Valley at Home about some of these issues, but it was all in the email they sent as well. Let's open it up. Let's start with questions. Just go around. I know there's going to be a lot. And then we'll get more into comments. So the first light was Commissioner Downing.

Commissioner Downing: So one question I have is with regard to the Nexus studies and what I want, what I would like to here is when you do Nexus studies for both commercial development and residential development how do you afford, how do you deal with double charging? Because on the one hand you're charging people on the commercial side for the jobs that they're creating and the housing which those people in those jobs will then, but at the same time on the residential side you are yet again counting the housing and then the jobs that will create and then the housing that that will need. How do you not get stuck in an endless loop when you were doing this data?

Ms. Srivastava: That's an excellent question. There is some potential for overlap if you were to charge the maximum fee for both of both the housing and the commercial linkage fees because then you're really doing 100 percent of each. There's a potential that you are counting two jobs for both sectors particularly I think this may happen for certain types of service jobs in the retail sector and restaurant sector perhaps. Many of the jobs that are associated with hotel or office and R&D would not overlap as much as the ones that may be associated with retail and restaurants. And we're not looking at retail and restaurants for this particular Nexus study so that's another area where we're minimizing overlap, but one of the reasons we don't recommend the maximum fees for either, any of these prototypes, is to be able to minimize the potential for overlap.

Commissioner Downing: Ok. And then I want to make sure I'm really getting this point correct, but with respect to market rate rentals like an apartment building, with respect to their impact fee there's nothing they can do about that. There's no escaping that impact fee, right? Because they can't offer BMR instead can they?

Ms. Gitelman: I think there are alternatives that they could pursue if they chose to in the alternative section. So there's a basic requirement that's the fee, but then in Section 16.65.080 there are alternative means of compliance. So they could choose to provide some units onsite, provide some units off site or take advantage of one of these other alternatives.

Commissioner Downing: For rental they could provide?

Ms. Gitelman: Pardon me?

Commissioner Downing: Like BMR rentals they can provide onsite?

Ms. Gitelman: Correct.

Commissioner Downing: Ok. And what are those numbers look like?

Ms. Gitelman: Pardon me?

Commissioner Downing: What are those numbers look like? Are we also looking at the same percentages as for sale properties?

Ms. Gitelman: Well, I'd have to look at that. It's on packet Page 224. Oh no, sorry. It's in this whole section so I'd have to think, I'd have to look carefully at what the alternatives look like and what that would mean. If you want to give me a minute I'll…

Commissioner Downing: Yeah, yeah. You do that we'll go to some other question askers.

Chair Fine: Commissioner Rosenblum.

Commissioner Rosenblum: Thank you. First question, what was the goal of the proposed ordinance? I'm not talking about the Nexus study per se which I understand, but what is the stated goal? And a couple possibilities would be are we trying to maximize City revenues from the impact fees to fund more affordable housing or are we trying to make it more difficult to build housing and offices in general? Do we think there's just too much and this is a way of restricting additional growth? What is a stated goal and so what is the function we're trying to maximize?

Ms. Gitelman: I think we're trying to increase the funds for affordable housing and we're trying to increase the stock of affordable housing. So we're also trying to make this fee program easier to administer rather than the current in lieu fee program.

Commissioner Rosenblum: Ok. So this is to me the main thing that's missing from the calculation is that we are substantially raising the fees in most cases and there's the fear that you will just get no or very little new development and therefore will decimate the total fee base. And so it's hard to gauge from the study because the study uses words like between 2013 and 2015 the City received an average of $1.65 million annually from Commercial Housing Fund and then makes an assessment it says, but of course this will have to do with the desirability developing under these scenarios. And so it's difficult to estimate what you think will actually happen under these fee structures. So first just noting that to the extent that I have a recommendation and our colleagues will have other questions a big one is sort of elasticity of building demand given these fee structures. My gut is because we now are it's level so much higher than neighboring communities the total level of development on both commercial and residential will go down and the calculation has taken into account.

So then my second question is related to the answer on the goals. So the goals of the program is to maximize total impact fees, maximize affordable housing, and simplify. Is that?

Ms. Gitelman: I didn't say maximize.

Commissioner Rosenblum: Ok.

Ms. Gitelman: I said increase. I mean I think the way the Nexus study is structured they've actually calculated what the total justifiable fee would be and we're not suggesting that. They've done a subsequent analysis of what the maximum feasible would be taking into account the world according to the developers' perspective and they've also done a comparison to adjacent jurisdictions. So those additional analyses have informed the recommendations.

Commissioner Rosenblum: Yes, I'm struggling with that one a little bit because I understand that if you say our goal is just to increase then the level is just any… a dollar above today, but it does feel from the study that what we're trying to do, what would be a reasonable thing to do is to try to get the maximum funds to help build affordable housing and that would include the impacts. So in terms of the desirability to build in this area would be taken to account. So if the maximum fee that was supported by the Nexus study was not recommended for that reason that you wouldn't get anyone or it would be very difficult to get anyone to actually build anything, but I was actually asking about something a little bit different which is did you distinguish between residential and commercial from a policy standpoint? Meaning we're trying to address an issue of lack of housing stock and in particular lack of affordable housing stock and so was the desirability of increasing development fees on any housing development in particular rental housing development an issue of discussion with staff? And if so I'd love to hear a bit about your thoughts there. Because one thing that struck me is if we are concerned about affordability of the region that anything that lowers desirability to develop housing should be called, should be subject to scrutiny. And in raising development fees for rental housing or any housing, market rate housing also increases more market rate housing, more housing stock, increases the affordability of the region not just for low income, but for all income. So my question is: was there consideration not to impose development fees for housing because we're in a housing crisis?

Ms. Gitelman: That raises some interesting thoughts. First the Finance Committee spent quite a bit of time talking about both residential and nonresidential and particularly how they should be balanced. On the nonresidential side there was really a concern that the more we add employment and people and increase housing demand those new projects with new employment should be paying for their impacts. So there was a real desire to have robust fees on the nonresidential side.

Commissioner Rosenblum: Yeah.

Ms. Gitelman: And then the committee had a concern about sort of the balance between residential and nonresidential fees. They wanted the residential fees to be quite a bit less than the nonresidential fees and that's why you saw the fee for single family detached go down from February to the Finance Committee recommendation from $95 to $50 a square foot.

But let me get to the question about whether charging impact fees to rental housing increases the cost of rental housing. We were talking about that before the hearing this evening because several of the written comments make this point or raise this question. And I'll let Sujata speak to it a little, but I wanted to point out that we kind of know something about this relationship because of what happened with the Palmer decision. We used to be able to impose an inclusionary requirement on rental housing. So 15 percent of the market rate projects had to be BMR units and that provision was eliminated by the courts in 2009 or thereabouts and we did not see the cost of rental or the rents go down as a result. So I think the opposite is true; if you impose a fee on rental housing it's going to affect the cost of the land, but we're not necessarily going to see the rents go up just as we didn't see the rents go down after Palmer. So Sujata do you want to add to that?

Ms. Srivastava: I think we've heard this from developers as well that when they look at a site. They're calculating what the maximum rents or revenues are that they can generate from that site and then they're subtracting the cost. So this if you increase the costs which in fact this is what you're doing here the way that we model it is that what when you subtract the costs from the revenues you end up with what the effective value of the land is. So developers have told us when they look at potential projects they're factoring that into what they think that they'd be able to offer for a property. So as long as that land value is consistent with what current market value expectations are in a community then you could consider that that fee would be financially feasible to implement. So that's really what we're modeling.

I think I would also point out that I think for rental housing you are implementing a new fee that doesn't currently exist, but for the ownership housing we actually did a comparison to the existing cost of either providing the units onsite or paying the in lieu fees. And the fee levels that are being proposed are actually not an increase over those existing policies.

Commissioner Rosenblum: Yes, but my main concern is imposing a fee for market rate rental housing. So I would like for my colleagues to also be able to ask their questions and voice their concerns, but so I asked a couple of questions. The concern I have already is given the goals of the project or this whole program it seems counterproductive to me to impose a new fee on market rate rental housing and it feels counterproductive to increase fees to the extent that we are proposing even for office/hotel because I think that will be counterproductive. It seems suspicious to me that we can get away with charging multiples of our neighboring communities and expect that we will still have development here which is what fills the coffers right now of the Affordable Housing Fund. But let me I'll stop there and let my colleagues take...

Chair Fine: Thank you, Commissioner Rosenblum. Vice-Chair Gardias.

Vice-Chair Gardias: Thank you. So of course we are just discussing the numbers of the recommended fees and I just want to ask about the legality, right? I mean because specifically this number of $60 per square foot stands out. Is it really legal just to impose any fee that actually it's not supported by any substance? What it seems to me because there was a proposal from the consultants was $35 a square foot which must have been based on some economic analysis just looking at the name of your company and then we have the recommendation from the Finance Committee pretty much just to double it. So I would like to understand the reason. There must be some reason behind this, right? Which would be supported with some economic analysis that would be the reason and, but if there is no reason can we just charge any fee? What about, what's the why 60 not 70 or 80. What about a hundred.

Ms. Silver: Yes, thank you; Cara Silver, Senior Assistant City Attorney. So I think you're referring to the $35 a square foot for office and R&D that was recommended originally by staff and it was increased to $60 a square feet on the recommendation of the Finance Committee. That $60 came from the Nexus study. It is supported by the Nexus study. It is the amount that is justifiable and so when you go through all of the full analysis of all of the costs you come up with a total justifiable amount of $60 a square foot. Oh, justifiable is even higher? Ok, ok. Ok, I'm sorry.

So the $60 is the feasible amount. So actually the Nexus study recommended or provided evidence to support an even higher fee. And so that is certainly the baseline. You can't impose a fee that is higher than that which is supported by the Nexus study. What we'd like to see though is a fee that is not only supported by the Nexus study, but also is actually feasible. So when a developer comes in they can make a profit and that addresses some of the comments that Commissioner Rosenblum made about supporting the overall need for housing in the region and the comment that Commissioner Downing made about double counting. So once you… you need to take into account those types of things and so we hover around the feasible fee. And of course you can also charge a fee that is less than the feasible fee.

Vice-Chair Gardias: Of course, but that's interesting. So thank you very much for this clarification, but that's interesting piece of information that you offer. So it seems to me that here there is a column that's missing in this presentation because apparently there was a Nexus I mean in the Nexus study which is of course in the body of the attachment, but it would be nice to pull it out and just show it to us. There should have been a column that would be saying that that Nexus study recommended this and this fee. So then we would be able to compare truly what is the economic analysis for this fee and then that's Finance Committee recommended fee would be of course at their discretion, but it would be benchmarking against those analysis. So could you just show us the page were those numbers are?

Chair Fine: Page 17 of the packet.

Ms. Gitelman: And if you'd want to just kind of cut to the chase in the staff report itself on packet Page 185 or staff report Page 5 we kind of summarize the methodology and the conclusions of the commercial Nexus study and report the maximum justifiable as well as the feasible and the original recommendation. It's on the top of page, packet Page 185.

Vice-Chair Gardias: I am also looking at Page Number 5 which is 17 of 237 that shows that maximum justified fee for office and R&D is $264, right? So pretty much from this benchmark the Finance Committee truly elected just to go with $60.

Ms. Gitelman: That's correct. And it's because $60 was calculated as the maximum feasible. So it's the point at which the developer would still get a return on investment. And we advocated as staff strongly that we not go above that amount or we'd end up in the situation that Commissioner Rosenblum pointed out which is you just won't have any development and you won't get any fees. So the committee recommended that highest amount.

Now I should say that all of this is policy decision so the Council could ultimately go lower than any of these fees that have been recommended. And in fact it wasn't a unanimous vote at the Finance Committee. One of the Finance Committee members wanted to go lower on the residential rental fee. Instead of $50 they wanted $30, but it was a 3-1 vote and the recommendation of the committee as a whole was $50.

Vice-Chair Gardias: Understood, but my expectation was that this $264 a square foot would still provide the return reasonable rate of return on investment for developer.

Ms. Gitelman: That is not the conclusion of the Nexus study. The Nexus study says it's $60 where the developer would still get a return.

Chair Fine: Just a comment to kind of answer that as far as what I've studied. The justifiable fee is the total impact to the community in terms of affordable housing that the project generates. The feasible is what developers could support in the current environment. So we could charge the $264, just nobody would built anything, right? We could charge I've heard actually from other parties on the street who charge more than $264. You're just going to get sued.

Vice-Chair Gardias: Great, thank you very much for the clarification.

Chair Fine: Do I have any lights down this way? Commissioner Waldfogel.

Commissioner Waldfogel: Thank you. It's a great study. I mean I think at some point we should consider having a study session on methodology behind these kind of studies because I think there are a lot of other things we could build into it, but I don't want to quibble about methodology today. Not the right time or place.

A couple things, I'm a little puzzled by Jeff Levinsky's comments. Unfortunately he just left the room. Timing is imperfect, but he seems to be suggesting that the $50 per foot proposed fee would generate less revenue than in this example than what we would get with the current fee structure. Can you… is there anybody who can comment on that? Or am I understanding him correctly?

Ms. Gitelman: Yes, you are. And in fact that's the subject, one of the subjects of the at places memo that we provided. We have a slightly different calculation then Jeff, but it reaches a similar conclusion that at $50 a square foot the project we're using as our guinea pig here would generate less in fees than the current 7.5 percent of sales price methodology. But if we use the $95 a square foot and remember we're talking about the single family detached prototype. So if we use the $95 that was originally recommended by the Nexus study we would be higher we believe than the current calculations.

Commissioner Waldfogel: But the $95 is largely off the table or at least that's not what Finance forwarded to us.

Ms. Gitelman: Correct. The Finance Committee wanted the $50.

Commissioner Waldfogel: Wanted the $50. Ok, so the assertion that this will discourage development doesn't seem to be true if this, if Jeff's analysis is right.

Ms. Gitelman: Well again Jeff is talking about the for-sale housing projects and they are currently required to meet this 15 percent inclusionary requirement. So that's an existing requirement and you're right if we transition to a $50 per square foot fee they're actually going to ultimately pay less.

Commissioner Waldfogel: We did that project already.

Ms. Gitelman: If they get approval for to pay the in lieu fee. Now the ordinance sets a pretty high bar and I think Jeff referred to this as well. You're required to provide those 15 percent units onsite unless it's infeasible to do so. And in the current ordinance there's not a good test about what's feasible or not. And we've tried to strengthen that in this ordinance so it's easier for the City to say uh uh, we want the units onsite and the developer really has to demonstrate that it's infeasible to do so. So I can find that section of the ordinance (interrupted)

Commissioner Waldfogel: That's ok. I don't, I think there's a lot of detail here to wade through, but I think that's helpful. I'm looking at some trends on office, on per square foot office sale prices. And over the last couple of years, I don't know exactly what this is measuring, but this is this is Palo Alto statistics, Santa Clara County. Office sale prices have gone for $250 a foot according to this staff to $400 a foot and yet there seems still seems to be demand for office space. So I'm not as worried that these kind of numbers, $50, $60 a foot of fees will dramatically change the desirability of developing in this community. I mean I think that when the business cycle shifts we'll have a lot of people pointing at this as an excuse, but that's the way that these things go.

But I am struck by one other thing which is the justifiable number shows $264 a foot of impact of affordable housing impact and if we accept this then best case we're still spewing out $204 a foot of impact for every square foot of office that we develop. That's what this shows. We're showing (interrupted)

Commissioner Rosenblum: That's not. That's if you have 100 percent of the people all living here. That's how they calculate it.

Commissioner Waldfogel: But that's what this study shows. We're not here to debate the methodology tonight. And if we accept the methodology this methodology shows $204 a foot of impact is caused by each square foot of office. And so that's why I think we should have a study session on the methodology. But I mean that's what we're discussing and this isn't counting traffic impact, it's not counting other types of impacts that these square feet of office can be causing. So it's this is actually really startling. So $60 is a pretty darn good deal for mitigating $264 of impact. Anyway that's all I've got to say about this.

Chair Fine: Commissioner Rosenblum can you give a counterpoint that you were… I'd like (interrupted)

Commissioner Rosenblum: I just I think it's important clarify because I spent a lot of time looking at the methodology and I think you've misinterpreted a bit what they're doing. So they have an assumption that says what if 100 percent of the people that are in this office will live in our city. Under that scenario how much housing given assumptions about variability of income would we need to provide? And that's how they come up with the maximum number. And they say well, not 100 percent. And correct me if I'm wrong on this, I believe this is the methodology. Clearly we have a lot of studies about what proportion of people who work in Palo Alto live in Palo Alto and it's not even close to 100 percent. In fact I think it's less than a third. So then they adjust it to that and then look at developer return on investments to try to set the feasible number, but the maximum justifiable number says if you assume the maximum number of people from this project that could live here, here is that number. And so it's purely a math exercise. It's not saying we believe these projects will cause $270 worth of impact, but (interrupted)

Commissioner Waldfogel: I would like to hear, I'd like to hear the consultant comment about that.

Ms. Srivastava: I think that it's true that you are making an assumption that those workers are going to demand housing within the jurisdiction and so the maximum justifiable fee is based on the idea that the development occurs in your jurisdiction is also the workers are being housed inside your boundaries, but we didn't do any adjustments to that. Our reductions are based on what we think that the market can bear. What a developer could provide and that's a reduced feasible fee.

Commissioner Waldfogel: But if they're not provided in our jurisdiction are we just saying we'll lay this problem off on our neighboring jurisdictions around the Bay Area? I mean at some level this has to get, this has to balance.

Ms. Srivastava: I think that's an interesting point that came up because as you may have been aware this was part of a 21 elements for all the jurisdictions in San Mateo County as well that you all kind of joined in on partly with the idea that this was a collaborative approach. And so we took 100 percent for every one of those jurisdictions. We didn't reduce anything with an assumption that a smaller number of residents would demand housing within each of the cities partly because we understood it to be a regional issue.

Chair Fine: Commissioner Tanaka.

Commissioner Tanaka: So I have kind of more of a broader question which is can staff go over what are the current impact fees? So this is just one of many. So can staff talk a bit about kind of like what are the overall different impact fees involved and how have they changed because I noticed that some of these development fees changed in 2014 in Palo Alto. So I would be interested in hearing staff's kind of because what I'm trying to think about is what is the cumulative impact of all these impact fee changes? Can staff talk a little bit about that?

Ms. Gitelman: Thank you, Commissioner Tanaka. I think you're talking about just the cost of all the fees that are currently charged and we have that in one of the exhibits. I think it's in the packet Page 233 is a table that shows existing fees and permits by prototype. So its showing based on the prototypes we've analyzed the existing City fees and permits then the commercial linkage fees and total combined City fees and permits by scenario. Is there anything I could add on that?

Ms. Srivastava: Are you looking at the residential or the commercial?

Ms. Gitelman: I was looking at the commercial. Did you did you find that? So this is in one of the attachments, Attachment F.

Commissioner Tanaka: Ok, so these are all the fees that the City is charging development to mitigate impacts, correct?

Ms. Gitelman: This is also permit fees.

Commissioner Tanaka: Ok.

Ms. Gitelman: So just processing fees, user fees, and impact fees.

Commissioner Tanaka: Ok. Are there fees around school impacts?

Ms. Gitelman: Pardon me?

Commissioner Tanaka: School impacts.

Ms. Srivastava: There is a school impact fee, yes.

Commissioner Tanaka: Because I don't see it on this list here.

Ms. Gitelman: I think they're grouped in a line that says total combined fees. We didn't call them out separately.

Ms. Srivastava: Right, so the second line in that table is called "Existing City Fees and Permits" which does not include any existing linkage fees that the City has in place on for affordable housing. So we're just looking at all other impact fees and cost of development within the City. So it includes schools, it includes infrastructure, includes any traffic impact fees, etcetera.

Commissioner Tanaka: Ok. And so how many feet, how many of these fees are already updated, how many of them plan to be updated in terms of… I'm just trying to understand what are the plans, what are the current changes and where are the ones that are coming up again that are going to be updated in terms of they're going to be increased or changed. Do we know?

Ms. Gitelman: The City has a practice of reviewing its fee schedule every budget cycle and so we typically will increase our fees to reflect the cost of living with the adoption of an annual budget. So we just went through that process in addition just this past year on the, in the Planning Department we did a separate fee study and adjusted some of our user fees. So it happens on a regular cycle and this examination of impact fees again we haven't done this on the commercial side since 2002. So it's a little overdue on the commercial side and on the residential side I don't know what the last time frame was.

Commissioner Tanaka: Ok. So I guess what I'm trying to understand is because I'm just trying to think of it in terms of what all the developed what are all the impact fees are changing where are they right now? Like which ones are fully updated, which ones aren't, and what is the rate of increase? Do we have a table like that somewhere? Or can you speak about it?

Ms. Gitelman: We don't have a table like that, but we do as I say adjust all our user fees and impact fees on an annual basis to reflect cost of living increases.

Commissioner Tanaka: I thought you just said there was an impact fee that wasn't updated since 2002.

Ms. Gitelman: That's the last time we did a comprehensive study and adjusted our commercial linkage fees, but since then every budget cycle we review our fee schedule and the Council typically adopts an increase based on the cost of living.

Commissioner Tanaka: Ok. I just want to make sure I heard this correctly. So basically the fees have been updated year by year by year and there hasn't been any fee that hasn't been updated since 2002.

Ms. Gitelman: I apologize for not explaining this correctly. I mean if you want to do a kind of in-depth examination of your fees and prepare a Nexus study it allows you to take a kind of comprehensive look at the impact that you're trying to mitigate and set a fee. 2002 is the last time we did that for commercial linkage fees. We're doing it again here. In the intervening years you can adjust that fee to reflect cost of living increases and we've done that.

Commissioner Tanaka: Ok, I see. I see. So we've done kind of minor cost living adjustments, but this hasn't been looked at in several decades? Ok. Understood. Thank you.

So can you speak about like which fees have increased and which like and by how much? Because I'm trying to understand because right now we're looking at one impact fee in isolation and I kind of want to understand the bigger picture here in terms of what have all impact fees been doing. Do we have a picture of that?

Ms. Gitelman: I would have to research. That would take a bit of research to give you the full picture.

Commissioner Tanaka: Because I think when we look at impact fees and we look at them in isolation because this is just one of a big list of stuff that they're changing. It would be very helpful to know like what are all the… how do all these fees add up? So that's what I'm trying to understand.

Ms. Gitelman: Yes, well that is shown in this table. We've calculated all those fees and we haven't outlined exactly what they are, but they're all (interrupted)

Commissioner Tanaka: No, no. I guess what I'm trying to understand though I see ok so for instance I may be looking at the wrong page. It's 233? Is that right?

Ms. Gitelman: Yes. 233.

Commissioner Tanaka: Of 237? Is that the right page I'm looking at?

Ms. Gitelman: 233 of 237. That's right.

Commissioner Tanaka: Ok and it shows like a prototype, a 10,000 square foot prototype, right?

Ms. Gitelman: Right, right.

Commissioner Tanaka: Ok, so I'm looking at my page then. So what I don't understand though is how it's been changing over time. Like have these fees been like this since the beginning of time? Has it just changed yesterday? Are we going to change it tomorrow? Like that's what I don't get.

Ms. Gitelman: Ok, so it changes periodically. For example, last year the City instituted a public facilities fee. We hadn't had a public facilities fee in the past. Last year the Council adopted one. It's now included in this number. So on occasion we update our fees.

Commissioner Tanaka: Ok.

Ms. Gitelman: And then on a regular basis we adjust them for the cost of living.

Commissioner Tanaka: Because I mean my point is I get a static snapshot of one point in time right now, but I don't have any historical context.

Ms. Gitelman: That's correct.

Commissioner Tanaka: I don't see what it's done before and I don't see what it's projected going forward.

Ms. Gitelman: That's correct. We've given you the baseline of today and what it would look like in the future.

Commissioner Tanaka: Because we're trying to make a decision here in terms of what the fee should be and we're looking at just one… and maybe you could do the math for me. What in terms of all the fees that are paid on a project what is what percentage is this fee compared to the rest of the fees?

Ms. Gitelman: We can answer that based on the data in this table if you give us a few minutes.

Commissioner Tanaka: Sure, if you guys tell me what it is.

Ms. Gitelman: Yes.

Ms. Srivastava: Well, yes, if you look at your existing let's do this on a per square foot basis because that's easier.

Commissioner Tanaka: Sure, what's 100,000 (interrupted)

Ms. Srivastava: [Unintelligible] numbers.

Commissioner Tanaka: One decimal point over.

Ms. Srivastava: So your existing fees are about for office and R&D and medical office excluding your linkage fee is $37 per square foot, so $3.7 million. If you add in the linkage fees and these are outdated they don't include that cost of living adjustment the CPI Index.

Commissioner Tanaka: Well I think when we look at these fees we should look at (interrupted)

Ms. Srivastava: Right.

Commissioner Tanaka: Like what it is right now.

Ms. Srivastava: Well let's say $20, right? Because they're it's $20 and thirty something cents. $20.37. So if you add that to $37 that's a $57 that would be your existing that's your existing fees on Office/R&D $57 per square foot. So with your potential increase to $60 per square foot you would now be going from $57 to $97 dollars per square foot.

Commissioner Tanaka: So what percentage is that of the total fees today?

Ms. Srivastava: So that's what a 40… 60 percent increase? I'd have to…

Chair Fine: I just want to combine a couple comments I've heard here per Commissioner Tanaka's comments I think it would be helpful to see trend lines of all these fees broken out: school fees, the new public facilities fee, things like that. But then also I want to kind of bring back Commissioner Rosenblum's point about the elasticity of demand that there may be some relationship here between the amount of square footage built and affected by these fees over time and we may be able to begin to tease out what that elasticity is based on these, based on those two lines, right? So one is the trend line of these impacts fees on different levels and the other was kind of the built space over those years.

Commissioner Tanaka: I think the other thing that would be good to understand is this like, like someone, like you said no real comprehensive study has been done since 2002 so maybe some of these are really out of whack. Maybe some of these aren't really recovering the cities cost or maybe some of these are just way over what it cost us. I don't know, but it would be really nice to know like where does it lay because when we're adjusting this fee which we're talking some pretty big changes here it would be really good to understand the context of what else is going on with other impact fees.

Ms. Gitelman: I take your point. I mean we could certainly see what we could do about developing some trend data. I'm not sure how easy that's going to be, but we can look at that. I just want to make sure that we're clear that we are talking about impacts fees here so we're not talking about the cost of delivering service. Those fees are also adjusted on a regular basis, but where it comes to impact fees you're right. The longer between the study, the Nexus studies, the more kind of "out of whack" you are in terms of what you're charging compared to the level of the impact that's being generated. So the fact that it's been since 2002 is a real signifier that we're due for some kind of adjustment.

Commissioner Tanaka: Sure, I think that's clear. I guess the thing is that I'm just trying to make sure that we don't, we're looking at one fee here, one of many fees and I just wanted to make sure of we're not missing the forest by looking at just a tree. And that's what I'm trying to understand what else is going on here and I understand on 233 we have kind of the example, but it's hard to really know what's going on by just looking at this static picture, this one snapshot in time, which some of our consultants say is not fully updated either. So it's hard to fully appreciate how will this change… because I think for the I think probably from the developers point of view they probably look at this not in isolation. They tend to think about it in terms of all the cumulative fees that add up towards a project. They don't just think of well ok, just affordable housing impact fee. They probably think about all the fees, right? Am I misunderstanding this or are people exempt from some fees and not others? I'm sure everyone has to pay all these fees, right? You can't just pick what fee you're going to pay. So I think from that context I think it's super important before we make big decisions about this to understand all of that.

Ms. Silver: So I can provide some historical backdrop on the fees. We have several categories of fees. We have our community service, libraries, and park fee. And we did recently have a consultant look at those fees and the consultant determined that those fees were even though the Nexus study had been done quite a while ago the fees were still reflective of market conditions and didn't recommend doing a Nexus study to update those. Then as Hilary mentioned we did a Nexus study for public safety building fee and that just has recently been implemented. Public safety building and I think other government buildings. And then the third major category of fees are transportation impact fees. And I think that we are looking at some of those fees and we have a consultant on board that is going to look at those, but that is that the transportation fee is the one area that is probably due for update and other than the housing impact fees. So I think that you're taking an action on the housing impact fee is very helpful and we will also be bringing back the transportation impact fee in the near term.

Commissioner Tanaka: Ok, that's helpful. I'm just trying to make sure we make the right decision just, but we I think we have to understand what else is going on because it seems like a lot of other fees are getting updated and it would be good to know like so which ones are super old which ones are kind of fresh, and it's not clear by looking at this table which is which. And I realize we're just looking at one fee, but I think the danger of looking at just one fee in isolation is that you may think you have a lot of room on it but not if all of the other fees also just jump up suddenly, right? So I think that I personally would love to get this kind of data before we make some major decisions here.

Chair Fine: Thank you. Commissioner Alcheck.

Commissioner Alcheck: So a lot has been said. I'll just try to summarize some of the issues that I that I think are worth repeating. In a city like San Francisco where there's a tremendous amount of multifamily luxury housing being developed and not a lot of affordable housing being developed you get the impression that increasing market rate housing fees would be a productive way of creating some capital that could be used to develop affordable housing units should those developments not wish to pursue the kind of development that would include affordable housing onsite. I think the concern that Commissioner Rosenblum raised about a fee and having increasing the fee for market rate housing, multifamily market rate housing development is worth consideration because we don't actually have that sort of scenario. We are not developing in our City lots of multifamily housing.

One of the, one of the changes which would be modifying the requirement so that it's triggered when there are even fewer units being developed that to me is very productive. Because what I think we've seen is housing developments that they literally shrink the number that they could do just so that they don't fall into that group. And I think we've gone down to three and maybe two is just like impossible, but it always seems like a shame when you see a development that if this if that if the rule was eight would they have built eight? And the answer is probably yes. How do we get that and then so they decide we're just going to build five and they're making a calculated assessment there that foregoing the benefits of building more housing is worth the headache of not having to deal with the impact fees or the requirement or the encouragement of having onsite affordable housing.

Look, I think there's a misconception, I think that there is in the public there's a misconception that whatever we don't take from the developer he takes. And I don't think that's what's happening in the marketplace. I think landowners are benefiting because they see the action in the market and when they see the product the final product go for X like for example, we had a speaker tonight talk about 1500 named sites that were sold for specific square footage numbers. When people in the marketplace see that they go wait a minute the cost to develop per square foot of let's just say these are single family homes that were used for the example so I'll use the single home example. They will do their own math, ok? Well if it's $400 or $500 to develop a single family home then my land's worth $1,000. So I think what's happening is property, the market, the notion that developers are reaping massive rewards makes the assumption that the developers have the land for longer than they have and they haven't. And so what we're really talking about is when new when new development is evaluated in this current market space they're looking at a land acquisition cost and then they're trying to figure out how to develop it to the greatest extent they possibly can to maximize the risk they're taking, right?

I appreciate the comments that were made regarding the concern for or the like the concern about the likelihood that the funds will do will diminish. So my background's in land use development and I have a lot of exposure to I've had a lot of interaction with developers in my field and there's this they often make this example about how you don't require your local supermarket to have an aisle of food like imagine your cereal aisle, right? That this half of the aisle has the same carton of Frosted Flakes, but this one is half the price if you qualify as a lower income individual, right? The supermarket doesn't bear that burden of providing its goods at a lower price for individuals who can't afford the higher priced good, right? And they make that argument to suggest that we're requiring on the private side the responsibility of bearing the burden of creating housing at a lower cost.

Not very many people have sympathy for that argument understandably, but I think that maybe there is maybe in this discussion and maybe in this draft ordinance there is space for us to recommend some greater level of subsidization by the City to promote affordable housing, to subsidize this fund that theoretically may or may not be depleted by the increase in fees. And this is a, this isn't something that was put on the table tonight, but how do people with lower incomes afford food? They have a food stamp program. That food stamp program is paid for by all the citizens in a community based on taxes, right, tax revenues. So I do feel like as a city we could potentially participate in a greater way regardless of the impact fee collection in the subsidization of affordable housing.

I don't know who the members are on the Finance Committee and I don't know how the City Council will review this, but I think it would be worth their consideration to suggest that if for example we in effect this ordinance at these rates there be an automatic review within 12 or maybe 24 months where if we've seen depletion of our Affordable Housing Fund dramatically that either the City subsidize the difference which would not be cheap, but would be a clear indication that we give a darn about affordable housing. Because again, we are not really developing that much multifamily here and if we aren't paying more than lip service to this discussion then I think we have to not only be concerned about the fund, we have to do both. We have to promote onsite development and we have to in theory create a greater source of revenue, but if that fails we should come right back to the drawing board.

So we've had that before. We've had sunset provisions in our ordinances which require us to come back. It doesn't, this isn't going to be something that like can get away from us for 10 years and we've done nothing to address it and our fund has lost all this money. So I think, I think instead of sort of going down the road of saying we're very likely to destroy our fund let's, I would encourage us and I would encourage City Council to basically create a fallback situation where we would either subsidize half of the difference and potentially roll back the increase if the result was dramatic. I think that's we all have a little bit of a fear here because we don't know what's going to happen. And I think part of this is fueled by the fact that feasibility and likelihood of development are not the same thing and I think part of this has to do with the general sense that maybe we are approaching a moment in time where development is about to slow down and if that happens then we're talking about then the word crisis is going to be an understatement for the housing situation, right?

So if for example, come November or December or 2017 whatever people are projecting there's some sort of plateau then what happens? I think that's I would be concerned about that too if I was… let me just say this, in the event that things are really uncertain and the market plateaus that would be a good thing for non for profit affordable housing developers. They are waiting for the market to slow down a bit because they can barely compete in this marketplace for land. And so they need the private developers to get a little skittish and go ok and then they can come in and maybe they can get with their subsidized grants some sort of development. But it would be a shame if at that same time they had no more money.

And so I think one way that we can accomplish the goal of raising these impact fees and not feel like we're dooming the system is by creating a sunset clause that requires either in-depth review of what has happened to the fund within 12 months or 18 months' time and then even a suggestion could even suggest returning to the previous impact fees until such time as we have demonstrated that we have in fact increased our affordable housing supply stock in that timeframe or we have increased the relative size of the funds that have been collected as a result. That sort of language I think would go a long way to sort of appeasing some of the concerns regarding the uncertainty of the result.

So one of the, I think other takeaways that I just want to say is this suggestion that we can't really enforce onsite affordable housing development. And one of the bullets is to sort is introduce other provisions to encourage developers to provide affordable housing rather than pay the fees. I think in a city like Palo Alto that is an appropriate goal. And I'm wondering if there are, is it diverse would be a little bit more concrete do we have anything more concrete than just the conception for how we can do that in a day I mean we've all we basically reduced the number of units that would qualify. I think that's a very good thing because now you're now somebody who's now somebody who's looking at an opportunity to build maybe they could have built eight units and they that they're going down to five is a lot more appealing than going down to three. So I think that's a good start, but I'm wondering if there is more in your mind that we can do to also encourage onsite development?

Ms. Gitelman: Well clearly for sale housing we're trying to perpetuate our requirement for onsite except in the case where that's infeasible and making it much more clear what we mean by infeasible. So that's reflected in this ordinance. In terms of incentives for rental housing and for mixed use or nonresidential projects to build units onsite instead of offsite we have this whole section on alternatives that lays out some options for developers instead of paying the fees. I don't know how many of them, I don't know how attractive they'll be, but we are kind of flexible. We talk about building units offsite. We talk about the potential for deed restricting rehabilitating and deed restricting existing units as affordable. So a developer, a commercial developer could buy or have existing market rate units that they agree to deed restrict as affordable and meet the requirement. And there's some potential for a developer to be kind of creative and propose a plan in some instances reflected in this ordinance so that that's how we try to address that.

Commissioner Alcheck: Ok so I have sort of one additional question. I would because not all commercial projects come through this Commission or commercial projects in particular come through this Commission I feel like we have a good grasp of this, but I think it would be helpful if we understood better how much multifamily residential housing has been built in the last decade in Palo Alto. Because I think the number is very low. I don't count five units as multifamily because that is the amount that they could build without subjecting themselves to the requirement. I think it used to be five, right? That was the number that you could get away with building without being subject to these affordable housing fees and that was… that's like I'm building something I might as well build five units because I'm allowed to do that without actually being affected by it. So I'd be interested to know how many five plus six plus multifamily developments have been built in the last 10 years not including by our housing company. Because if that number is really low then I think we know we can get a sort of a sense for what to expect and I think it would that would help me. I think, I don't know that we're going to meet again on this before it goes to City Council, but maybe they could be presented with that information and they could see like they can know well here's what we're talking about. Ok, thank you.

Chair Fine: Thank you. I want to take a few minutes. There's been a lot of good comments about impact fees in general about how we encourage onsite affordable. Those are all good discussions, but I do want to keep us focused on the specific policy which is the commercial or residential linkage fee. I'm going to start with the big one which I'm not sure I’m comfortable making a decision of a certain fee giving a thumbs up or thumbs without kind of knowing that elasticity issue. And so my question is what do other cities do in terms of judging that? If you're in Milpitas and they're upping it from $17 to $18 like how do they make that decision?

Ms. Srivastava: It's really typical for folks to do a pro forma financial analysis similar to what we have done in our study. They also often look at what their neighbors are charging and compare themselves to other places. So we have provided that information. The other thing that they do is they look at how much they're increasing total fees overall. So to go to the point of how do you contextualize this within the your existing cost structure which we also have provided here so that you understand how much your total fees would go up, which is 70 percent by the way, if you were to adopt a $60 per square foot commercial linkage fee. So I think that those are the types of analyses that they do which is, but I think that ultimately it tends to be more of a policy question and then it is because as I think Cara mentioned the Nexus justifies a fee that is much higher than what is being recommended here.

Chair Fine: Right. I mean with all due respect that's just not very satisfying. I'd like us to have a bit more of a guide in terms of determining how we do I think Hillary laid it out pretty well in terms of we want to support affordable housing funding. We also want to support onsite and you want it to be administratively more simple. Like those are all good guiding North Stars I just don't have a way of balancing those first two, right? The administrative thing like I get it, sure if you move to this new regime it's a little easier for the department and City to administer and estimate what's going to come in. I don't see us having good data on determining what the Affordable Housing Fund will look like or what will be built onsite and I think those are both important goals for the City. I also want to echo what Commissioner Alcheck said is like we are likely approaching recession and that changes the game here too. So that's something I just want to lay out there, I think we need more data there and I'm on the fence about moving this forward.

A couple other comments and questions in different areas; one, I'm in general in support of some of the stakeholder feedback about phasing in the fees over the time whatever we do. That was one of the points so maybe over a couple years I don't know what's standard practice there, but that seems to make sense in terms of stepping them up slowly. I'm wondering if the City could also further segment office, R&D, and small business development on Page 20 it shows San Francisco does that. That San Francisco looks at a number of different more granular fees based on the type of use. That may be helpful for Palo Alto and I think that also kind of addresses the issue of that the Housing Element isn't looking to… it's not looking to look at the generation of construction out right it's more looking at the employment generated by construction, right? And these different uses vary pretty radically. So I mean it's nice to see hotel broken out, but office, R&D, and medical like those are all really different. I think it would do us well to look at those and see what the different segments are.

On top of that there's also the issue of the employment densities and if they're correct. I believe they're based on federal and then region wide averages. So I just put it to my colleagues that maybe those are appropriate for Palo Alto, maybe not. I think it was like 333 square feet per employee in office. At least my experience and my work at a tech company that's probably not that's probably too generous. I don't have that much space. I wish I did.

Ms. Srivastava: It’s a conservative assumption.

Chair Fine: Yes.

Ms. Srivastava: Because I think if you used a higher density you'd have higher demand and result in higher fees.

Chair Fine: Right. And one other question that would be nice (interrupted)

Ms. Gitelman: I'm sorry; I just wanted to link that back to your other comment about differentiating. It's also higher than we're used to because office, R&D is lumped in with office in this instance. And if we wanted to desegregate those and medical office we'd really have to revise the Nexus study. We'd have to sort of redo this calculation to pull to tease that apart.

Chair Fine: Yep, which the City may or may not do. Another comment I'm kind of in agreement with Commissioner Rosenblum that charging impacts fees to housing projects is questionable. There's like a weird feedback loop as Commissioner Downing pointed out and it's also just it's raising the cost of housing, right, overall across the market. There's a few more lights here, but I would like to sort of hear from folks, it's nine o'clock whether we think we have an idea about how we'd like to move this forward, whether we are looking for a more data in terms of things, but anyways let's go through the newest lights. Commissioner Downing.

Commissioner Downing: I want to start with a couple of kind of specific points and then talk a little bit more to the general issues that have been raised by this Commission. So one of the specific points I'd like to make is I've been on this Commission for almost two years. I don't think I've ever seen a housing project come in front of me that's purely housing. I don't think I had, we've had a housing project that has come before me and then my time on the Commission. I have only ever seen mixed use projects come here. I've never seen a building that's just plain apartment buildings or just plain condo buildings. I haven't seen it. It hasn't happened. So what I have seen is mixed use projects where in order to avoid all these fees and avoid extra requirements what they're doing as part of mixed use is they're building penthouses. They're building 3,000 square foot apartments. And I don't think that's going to go away even with these regulations especially combined with our parking requirements. We're going to see more of that.

So one recommendation that I have is if we're going to reduce the number of units, if we're going to say oh this applies when three units happens that's probably not going to work unless we also have minimum density requirements, right? If you're 15 RM then that's what you build. If you if there's a density that can be allowed you can build it apartment buildings and that's what you have to build. I think those two things have to be paired because otherwise this doesn't work. It doesn't actually get us more housing. It doesn't actually get us more affordable housing. So that's one point I would make.

The other point I would make is that picking a number like $50 is really problematic because you don't do automatic adjustments for the economy. As the economy wanes, as things get worse, right, you're still asking for $50 a square foot, but without regard for where the financing now is. Without regard for how much that unit will actually sell for. You're putting yourself in a position where you may get to a point where with that fee you're just going to have empty units because the developer can't sell it at the price that it would take him to recoup his fees. And you're going to get distortions happening in the market. If you guys don't want to go back to like the percentage because that's too hard to calculate there needs to be an automatic adjustment within the ordinance to change that $50 number up or down depending on the economy. And I think you just have to write it in. Like that should be just something that you calculate every time you take that fee. It shouldn't be something the Council has to come and update every month. You can create formulas for this. You can tie this to the markets. There are rates you can use just like the banks use to do this. So that's my other kind of specific on this.

I want to talk about sort of the broad policy that's being expounded here and I do want to talk about the purpose. Because ostensibly we're here to talk about affordable housing and about affordable housing fees and supposedly all this is so that we can raise affordable housing fees so we can build more affordable housing. But honestly I'm looking at the fee increases and just looking at how massive and aggressive they are I just can't help but feel like everything in this packet is actually about how do we not build any more housing ever again in Palo Alto. That's what this is actually about. And why do I say that? I say that because if you are actually truly interested in maximizing the number of funds we have for affordable housing the answer is to allow people to build higher, the answer is to allow people to build more square feet, right? More sf gets you more money into Affordable Housing Fund, but that's not being proposed. That's not on the table. There's not even a whisper of that anywhere here. And in fact I think you have a major problem when the people who actually administer affordable housing are here in the room telling you that this is going to decimate their fund. I think that's outrageous.

And I'll go back to say it again, we don't build housing in Palo Alto. I haven't seen an actual housing project here in two years and we definitely don't build affordable housing in Palo Alto. Within the last Regional Housing Needs Allocation (RHNA) cycle, so seven year cycle, we built a total of 156 units for low income people. That was 12 percent of our target, ok? 12 percent. So 156 units over a population of 65,000 people, ok? So my point on this is that even if you raise all the affordable housing dollars in the world I have a very hard time imagining that we're actually going to build a significant amount of housing with that money. We have a City Council that trembles at the thought of a four story apartment building, ok? So even with all the money in the world I do not find it credible that we will actually spend it on affordable housing. And I don't see the Council actually talking about potential sites for this affordable housing, potential places where they could up zone for it, where they could allow it for. I've never heard that conversation happen in all the time that we've been talking about these fees. So where that housing is going to go and whether or not this Council is actually going to approve it I find that all very dubious.

And then I'll say more about this, the supply of affordable housing even with everyone's best intentions even if this Council was doing everything they could possibly do to actually add affordable housing, which I don't believe is the case here, but even if they were it would still be extraordinarily limited. Every time there's an affordable housing project that's built up and down the peninsula there are literally thousands of people who apply for every single unit. Thousands of people who apply for every single unit. So what does that tell us? That tells us that the vast majority of people who are lower income individuals they live in market rate housing. They pay market rate prices. So let's talk about what that means, right? So let's talk about 1,400 square foot condo. That's a moderate sized two bedroom condo, right? At the fees that you guys are proposing, not you guys, the Council. At the fees that they're proposing that's an extra $70,000. So you're talking about people who are already barely making it who are already scraping to get by, right? And you're asking for another $70,000. That's enough to buy you an entire house in other states. So and you're asking for this extra $70,000 from the people who can already barely afford it and you're calling that affordable housing. I don't really see what's affordable about that.

What you're doing is you're decimating the middle class. That's what you're doing, right? And you're ensuring that the only people who can come here and who can afford that extra $70,000 are super rich people. And then of course on the other side when it comes time to actually build something with that Affordable Housing Fund we're going to see the City not actually build it and not actually approve it. So I struggle. I struggle with Palo Alto's sincere regard for affordable housing while on the other hand Palo Alto continues to take actions that make sure that more and more of its residents are going to require handouts instead of standing on their own two feet. I find this problematic. I don't like the fee increases. I don't like the legislation that's being proposed here and I find it… I find it unthinkable in a time of housing crisis.

Chair Fine: Thank you. Commissioner Rosenblum.

Commissioner Rosenblum: I have a little bit of different, I usually agree with Commissioner Downing, but I think I'm approaching this slightly differently. I agree with most of the sentiments, but around this, this is about the fee structure so just concentrate on that fee structure in this more narrow task. I think we've all had a round of questions so it's ok I just wanted to give some input where I'd like to see this go.

So the first is I do think that the formula we should be trying to is we should be trying to maximize funds for affordable housing. So to the extent that there's an analytical framework that we're using it should be maximize funds to build affordable housing. That's my recommendation. I know that wasn't what the objective was, but I think it's a good objective. So with that in mind in order to do that you would need some sort of I guess supply elasticity analysis in order to do that. So you have set the optimal point where you think for each category the decrease in development desirability will be offset by the increase of fees to maximize the pot. So that would be my ask is that when this gets developed further if it does there needs to be some assessment of where the maximum point is before your coffers decline. Do you understand what I'm asking?

Ms. Srivastava: I'm just trying to understand how that would be different from a feasibility analysis.

Commissioner Rosenblum: Yes, I believe the feasibility analysis took two things to account. One was the maximum justifiable impact fee which we already had a discussion about. And the second was an assessment for developer return on investment where a reasonable return could be expected for the developer. That's different from the maximum point where developers would want to apply for additional development dollars. So the methodology used for example, you could say well it's reasonable we've calculated a 7.2 percent return or whatever the cost of capital that you guys use. I forget exactly what you use for as your assumption, but seven or something percent return on capital for (interrupted)

Ms. Srivastava: It depends on the product type.

Commissioner Rosenblum: Ok, yeah. And it would be a reasonable return, but that's not necessary the maximum return. Meaning what is there's some point where the maximum number of units being built times the expected value of the impact fees is at its maximum. And so I'm asking for that, an assessment of that number. If you believe it's the same, first it's weird to me that would be the same, but if your answer is it's probably the same or we just don't do this then that's another matter. But my ask and again in the interest of time I'm just going to say I would ask that that be included, some sort of analysis of what the maximum point is for filling the coffers for affordable housing.

Then next I'm going to steal an idea from Commissioner Alcheck, which is that we're worried that if you set the fees too high that no one will build anything and then you won't have money for affordable housing. And so my additional request is if there is a way for the City to guarantee funds for affordable housing and so basically saying well, if we set these fees really high and therefore we didn't get any development we will guarantee that the Affordable Housing Fund shall not go below this number which was set based on 2016 levels. So that would address Commissioner Downing's concern that this is all like a Trojan horse to stop all development for example. That if in the case there is no development the City then has to fund affordable housing directly. I'm not sure if there is such a mechanism, but this would certainly address some of that concern that we're setting these irrationally.

And then finally around the actual fees for each like I said I think to many of us this fee is important. I think setting any fee for rental, for residential rental doesn't make sense given the goals of this whole program. That's a new fee and it's the kind of housing that we probably need most. And so again my personal recommendation would be that that not be considered.

And then finally just a question and then probably response to it depending on the answer: the analysis that Mr. Levinsky gave is interesting. He has the 15 percent of onsite as BMRs calculated as cost of $6.96 million. My question there is: is it the case that when you have a BMR unit as part of this 15 percent carve out are they equivalent to the non BMR units? So Herb Borock made the point that in for example I used to live on Ortega Court when we had our duplex there that was the BMR unit. It was not identical to the other units that have been constructed the street. So is it the case that he assumed an average price of $3.5 million per house which is how he came up with the $7 million of value. Is the case that the 15 percent set aside are identical to the others and therefore this is a fair assumption? In which case his math seems to be right which is that the current method seems to maximize value in terms of just pure housing value.

Ms. Gitelman: There is a provision in the ordinance related to the comparability of the BMR units. I think originally it said that they have to be comparable, but there are some product types in which a smaller unit is allowed.

Commissioner Rosenblum: Ok.

Ms. Gitelman: And I'll have to find it in the ordinance, but there is some flexibility.

Commissioner Rosenblum: Ok, so then I'll finish my comments with actually either way it's a bit perverse, like you don't necessarily want BMR to have I would much rather have 10 smaller more affordable units than two $3.5 million houses. And so in that case I still favor the in lieu, but I also recognize that anything the formula that reduces the value is also suboptimal. And so again, the current 7.5 percent in lieu fee seems to be a better situation than the proposed $50 fee.

Ms. Gitelman: The provision that I mentioned is on packet Page 221 and 222. It's talking about the standards for the affordable units that are provided and it says they are going to be, they have to be comparable in exterior appearance and overall quality and then paragraph two is the size has to be comparable, but it says that in except in a single family detached development where the Council or the decision making body may allow smaller affordable units or duplex units.

Commissioner Rosenblum: I see.

Ms. Gitelman: If permitted by the zoning.

Commissioner Rosenblum: Ok, well then I guess to finish that off the certain terms of the fee structure it seems like the 7.5 percent in lieu fee offers both the flexibility to find and build appropriate housing for folks like Palo Alto Housing Corp or others and has the maximum value compared to the $50 dollar per square foot or $95 per square foot based on that, the model used. And so anyway so just to wrap up my comments if we are asked to weigh in on the different fee structure possibilities that seems to balance the flexibility of where you can use the funds with the maximum dollar amount which is like I said I think the function we're trying to solve for is to get the maximum amount into the coffers for affordable housing. That's it for me.

Chair Fine: Thank you. Vice-Chair.

Vice-Chair Gardias: Thank you. So when I first spoke about the fees in that table I'm going to just come back to this comment that I made. So those fees and my colleagues just address it, they were addressing different things, but they touched up on this numbers. They just pretty much when you look at the numbers like 50, 60 what else? And 9, 50, 60, and 30. They, the numbers just they look too round to be true, right? That's the first thing. If you dilute the numbers, right, you know that this is got to be true. So for this reason, but I understand that you just did some scenarios and those numbers are pretty much reflected in the scenarios. You didn't do the true analysis because the number could be falling somewhere between, the real number, the true number that would maximize the return on the investment. You just have certain distinct scenarios.

Ms. Srivastava: Yeah, we created some fee scenarios.

Vice-Chair Gardias: Exactly, yes. So you're going to be leaving some money on the table, right? Or just pretty much or you decentivize developers if you have a gap, right?

Ms. Srivastava: I think it's that's possible. I also think that a pro forma analysis like this is just a tool to help you get close to what we could, would consider an economically reasonable number. But as you know the prices shift constantly. There are constant fluctuations. So I think it would be I don't think it would represent the analysis accurately for me to say that you could solve down to the last cent exactly what that number should be.

Vice-Chair Gardias: Right, but that's not what I said. I mean these numbers are too rounded I'm not asking about a cent. I'm just asking you to develop the real number. So and then when you look at your analysis the great document that you created. That there should be a first page of this should be really just showing us the maximizing the funds fees or I would rather set not the fund, maximizing the fund, but maximizing the stock of the below markets units per some markets fee that provides developers with the competitive rate of the return which also looking at your when I read your paper you disclose that pretty much just hiking the fee to $60 and I'm talking about the office puts us at a competitive disadvantage against other municipalities. So developers in seeking their return they would be going to Menlo Park. What John Carlton did and everybody would be gone and the others would be going to Mountain View because there were, this is where they can build. They would not be coming to Palo Alto to develop. So the first cover sheet of your study should just show us the linkage between the maximizing the funds or the stock of the below market units, market rate units, and the fees that you would be proposing. So that's just an observation that I have in general.

I would like to just spend a moment on the other items. There is in terms of the and I just don't expect that the answer it seems to me that we may return to another session because there were so many different observations that we may need to have farther input before we just make recommendation to the policy. So let me just give you a couple of study points. So in terms of the office and R&D fees we have two different types of the office locations. One is the Stanford Research Park where large corporations are located and then there is anything else where there is lots of small business. I would like to know if we can differentiate the fees to sustain this small property owners and make sure that they can develop the properties within their means from the large corporations that can scale and then can develop their facilities based on different economic models. So that's my comment to this office $60 a square foot.

In terms of the retail I believe that correct me if I'm wrong, but I think that the retail if we have a retail in the ground floor and then office upstairs that pretty much is that the total fee is a composite of the separate of separate fee based on the ground square footage for retail and the office on the upper floors. So what I would like to understand having our interest on the that was expressed in the prior sessions and couple of resolutions that we had, can we change the fee for retail development to allow to incentivize more retail space that we truly need on the ground floor level in certain zones especially along El Camino corridor and some other commercial districts. So my first guess would be maybe as opposed to keeping at the same level maybe it should go down. So that's the question that I would have for another session.

And the last point was on (interrupted)

Ms. Silver: Commissioner Gardias?

Vice-Chair Gardias: Yes.

Ms. Silver: Just one point on that last comment. The ordinance currently has an exemption for smaller retail businesses of less than 1,500 feet.

Vice-Chair Gardias: Ok, so it's already addressed. So thank you very much. So then skip this item. I thought it was still an interesting observation. So yes, so let me just stop at this and I'm sure that my colleagues have other comments. Thank you.

Chair Fine: Thank you, Vice-Chair. Commissioner Tanaka.

Commissioner Tanaka: I was just thinking that of this list to my fellow Commissioners and it seems like everyone has there are still some open questions given the data that we have right now and I was just thinking about whether we think we can actually arrive at a coherent motion or recommendation or whether we should at this point in time given the time whether we should give staff some clear direction on what kind of homework they could do to make this a easier decision on our part. So I wanted to just put that out there because I know I for one could use some better information to make a good decision. And it sounds like almost at least from what I've heard everyone else also would like that as well. So I think we have a choice of we could go for the marathon session tonight to try to use what limited information we have or maybe give some homework to staff to try to develop this into a better shape so that when it goes does go before Council they are better informed as to what decisions you're making.

Chair Fine: I'm in agreement with that and I want to take a quick crack to set this up for folks. I think the major thing this Commission would like to see is how the impact fees will affect the ultimate outlays for the Affordable Housing Fund and onsite housing production. There was also some interest in whether the City can guarantee affordable housing fees or sunset these fees if they're not working out for us in the right way. There were a few questions about exemptions, about employee density figures, whether we can further segment these fees by location or different use types. I had my comment about phasing the fees in over time. Am I missing anything?

Commissioner Tanaka: I mean just what I was started with at the beginning which is I just want to understand how to do these fees fit in with all of the other fees happening and just like you said trend lines. I just I want to make sure we see the bigger picture because if we're stacking a bunch of new fees on top of really fees that are going to bump up again I think that's super important to know.

Chair Fine: So I think I'm willing to make a Motion to have staff look into these issues.

Ms. Gitelman: Chair Fine. Can I just try and clarify because what we obviously want to get this to the Council. It's long overdue and they're very interested in the subject as I appreciate you are. And I want to give you the information you need. I just want to be realistic about what we can do and what is maybe not possible. So I think we can give you some additional assessment about how we think the recommended fees would affect the housing funds and the production of housing. So we can do a little more on that. Again, you're going to get our opinions based off assumptions and we'll do our best. And we can also do our best to develop some information for you on the last I don't know five years or so of our fees at the City and how they've changed over time. Would do you think going back five years would be sufficient?

Commissioner Tanaka: You know more the better and I think it would also be good if you could break these fees out so we could see…

Ms. Gitelman: We can do that.

Commissioner Tanaka: Yes, and the percentage of each. Just so it's really clear and easy for us to see where the trends lie on.

Ms. Gitelman: Yes.

Commissioner Tanaka: And also like when things got updated because like if you're planning a major increase tomorrow it's really good to know about that.

Ms. Gitelman: Yes, ok. So we can do a little more research on that. I think we can also take a look at the feasibility analysis that we did in light of Commissioner Rosenblum's comments. I'm not sure that it's really that much different than what you're asking, but let us give that some thought and see if we can go deeper there.

I think I can tell you right off the bat we're not going to be able to differentiate by use any further than we have without redoing the study. We also, I think can't really provide you with any more information about triggers or phasing or what, but I thought that someone on the Commission suggested that we pursue a phase in and then that would give the Council or the City the opportunity to that basically stop the train. If after phase one you see detritus results and you don't want to go any further you cannot implement phase two. You can stop the phase in. That might be an alternative to a mechanism to backfill the… I just didn't see how we could build something in to backfill with General Fund revenues that starts to get super, super complicated. So maybe when we bring this back the Commission could recommend to the Council some kind of phase in strategy and this was on the table at the Finance Committee. They never really focused on it, but it's an idea that's been out there and you could advance that as part of your recommendation without us having to do a lot of additional work.

I think we can also provide the Commission with some background information on or just the City's track record of units produced. I'm not sure we can get to the level of detail of how many were in projects of less than five units, but we'll see what we have. And did I miss anything on your list?

Chair Fine: I think that would be pretty good and some of those other ones we've mentioned could be as recommendations to Council to look into. As you mentioned some of them are a bit more complicated and messy and kind of ancillary to this in a way.

Ms. Gitelman: I did want to point out that with the exception of the yes/no on whether to charge fees for rental housing almost all of the issues that you're talking about have to do with actually setting the fees rather than the ordinance that we put in your packet for your review this evening. The ordinance actually doesn't have the fee amounts in it. That's going to be in a separate table that's adopted by the Council in a separate ordinance. The ordinance really talks about administration of the in lieu program, administration of the impact fee program, what applies to mixed use projects, what applies to for sale, what applies to rental. So I just make that observation that when we come back together again we may want to separate these two ideas because we've spent 95 percent of our time on the fees and 5 percent on the kind of procedural structural things that are just addressed by the ordinance.

Chair Fine: Ok. Thank you. Commissioner Downing I see a light.

Commissioner Downing: I think we would be remiss if we left this session today and didn't strongly send a strong message about housing fees on market rate rental housing. We know those fees are going to be directly passed off onto renters who are in fact the most vulnerable people in our community. So I'm not sure how we can leave here and not send a strong message on that. Lots of people on this Commission have talked about that tonight. That should be in writing. That should be in our Motion.

I also think that we really like the idea of a security package for the affordable housing. If the true intention of this ordinance is to increase Affordable Housing Funds then I like the idea of asking the Council to make up the shortfall if this policy decision doesn't end up being a good bet. It’s the poor and the lower income in Palo Alto shouldn't be paying for that bet, it should be the City. So those are two things I would add to our Motion and there's two things I'd like to see happen before I leave tonight.

Chair Fine: Thank you. So I’m going to open the floor to Motions. I've always found it’s always open and willing to entertain... Commissioner Tanaka.

MOTION

Commissioner Tanaka: I’d like to make a Motion for us to continue this item to a date uncertain.

SECOND

Vice-Chair Gardias: Second.

Chair Fine: All right, so we have a Motion on the floor to continue to a date uncertain with a second. I believe staff has a fair read on what we'd like to see at the next session. Any comments? Would you like to speak to your Motion?

Commissioner Tanaka: I think I already said my piece so I’m fine. Thank you.

Chair Fine: Speak to your second?

Vice-Chair Gardias: Yeah, I think that given the amount of the comments it's self-explanatory; although, I still would like to just get some at least approximation about my request for differentiating of these fees between Stanford Research, large corporations, and the rest of Palo Alto. But otherwise I think that there was for the amount of the material that we would expect from the staff so for this reason it would be nice to have another session.

Chair Fine: Commissioner Alcheck.

Commissioner Alcheck: I just want to make a quick comment why I think this is a good idea. I understand that they're waiting for it. It's not often that we get a lot of feedback in this room. But this is a big deal and I will assume that the reason why we are not hearing from any private developers tonight is because they're either very busy or on vacation. I just it's just struck me as a bit odd that we didn't get a lot of we didn't get a significant number of emails on the topic and we didn't really have a lot of speakers here tonight considering the impact of the change. And I think that despite I know your goal to sort of move this down the road I think there's a part of us that I think that what you're seeing here is that we need a little bit more time to deal with this. I would have appreciated more feedback from the development community in understanding this.

I really appreciate all the effort that our hired consultants have provided, but I hope that this will be somehow acceptable that we can at least have another session to get into more depth on some of these issues and hopefully get a little bit more feedback. One of the things that we don't, one of the things that we're not going to have, I hope that the individuals that spoke tonight that had concerns will come to our next session and address some of the suggestions we've made and how those relate to their concerns. Whether that appeases some of the concerns or whether you've got some other suggestions on how we could move this forward because unfortunately that doesn't get to be a conversation. So I would like to know if some of the suggestions we've made are making a difference in the eyes of the individuals who have expressed concern. And that would be nice if there was a little bit more input. I think that would help. So hopefully this won’t (interrupted)

Ms. Gitelman: I just want to make sure that you have we should have probably done this at the beginning, run through the list of the letters that we received prior to this meeting. We did get a letter from the BIA and we did get a letter from another development center. So we’ve had some input from the development community. It was interesting to me that their comments focused mostly on the amount of the fees suggesting that the $60 is too high that we should be more in line with adjacent jurisdictions.

Commissioner Alcheck: There are a few developers in our local community who are very active. They’re self-interested, but they're very, very active, right? I feel like in the Planning Department you can probably think of two names that have developed over 10 parcels in Downtown Palo Alto alone, right? I just wonder this goes hand in hand with the comment that Commissioner Downing made and sort of my request for understanding how many multifamily developments have we had in the last 10 years. I'd be interested if we… look it's not our jobs to reach out to them for input, but it would be, I would have been interested to hear from individuals in our community who are a little active in this space. I know NAIOP (National

Association of Industrial and Office Parks) I'm very familiar with NAIOP but they're regional I mean they're more than regional. But it would just be interesting to speak to a few of the, to have a few of the developers in the space. Maybe they would not give you the feedback that you want to hear, but at least it would give perspective. And I'm not suggesting that we need to wait for that. I'm just saying I think that having another session would have, will be beneficial for that purpose and that's why I'm going to support this.

Ms. Gitelman: We did have a stakeholder meeting that was very well attended by some local folks and we sent them notice of this. We sent them a link to the staff report, notices of this meeting so they're aware of it. I should mention too that there are a bunch of projects in the pipeline which is part of the reason that the Council is interested in getting this ordinance sooner rather than later and I'm not begrudging the Commission the need for another hearing. I think we should give you the information that you need, that you've requested, and we'll do our best to do that expeditiously. But the Council is eager I think to (interrupted)

Commissioner Alcheck: When you say pipeline you mean apply or (interrupted)

Ms. Gitelman: Well there, there's at least one rental housing project in the pipeline. There's the for sale housing project that was discussed this evening that was recently entitled and there's some nonresidential development in the pipeline that could pay these higher fees if they are enacted.

Commissioner Alcheck: Ok. I imagine those people in particular would be interested in this discussion. Ok, so I don't want to slow this down. I just, ok.

Chair Fine: Vice-Chair.

Vice-Chair Gardias: Just in the same perspectives I would like to just ask Ms. Bigelow, thank you very much for staying that long and Chairman allowed me just to reopen this communication because we typically just close the public hearing at some point of time. But you made a comment when you spoke that there are some tax credits or there are some credits. And I think that we didn't discuss this in depth, but we would be interested if you could just for the follow up session if you could gave some perspective on those credits to the staff and to consultants so maybe when they are just updating their models they could also account for those stock credits or some other credits from your perspective would they would help in building of the stock of the below market units. Thank you.

Chair Fine: All right. I think we're ready to vote. The Motion (interrupted)

Jonathan Lait, Assistant Director: I'm sorry Chair. If you, we think will be ready by August 31st. So if you can continue to a date certain, August 31st, that would be helpful.

Commissioner Tanaka: For me it's really staff's work. I mean I think what's most important is for this Commission to have a really high quality work product so that Council can make a good decision. So it's really if staff thinks I mean I think just about every in fact every single Commissioner had kind of a ask from a staff and there was a lot of asks. So I just want to make sure that staff has enough time to kind of fulfill these asks because I think we don't want to do is slow things down and I think it's important that we've got a lot of comments from just about every single Commissioner about more information for this. I think if August 31st is you guys can do it I think that's great, but if you guys can't I think it's good to pick a date that you guys can do this because otherwise this this will cause delays. We'll have another meeting and there will be the things that we've asked for wasn't done and it will cause more so I just I guess just I'm not so hung up on a date. I don't know how my other fellow Commissioners are in terms of a date, but I don't want to make staff like if you guys can't do it by then I don't want like…

Ms. Gitelman: Well I think we're saying that we'll try and do it by then. Obviously if we don't get it done we'll ask for you to continue it rather than hold the hearing.

Commissioner Tanaka: Well I'll leave that up to the Chair in terms of like when you guys maybe during your, you guys agendize items you guys can see and make sure it's ready.

Chair Fine: Ok.

Commissioner Tanaka: So that we don't use our time, we use our time wisely as well.

Chair Fine: Ok. I think let's trust the August 31st date. If it doesn't work out that's too bad, but it's soon but if staff can do that that would be great to move it forward quickly.

Ms. Gitelman: And if Commissioner Tanaka's concerned about it maybe we should confirm once again the additional information we're bringing back because I mean I know there's work here, but I didn't see it as maybe as complicated as you, as you were suggesting. I mean we we're going to do some additional thought about let's just make sure we're on the same page if you don't mind?

Chair Fine: Sure.

Ms. Gitelman: So we're going to give some additional thought to how the fees will affect the fund balances and housing production generally; just some more thoughts on that. We're going to look at the trends of fees that have been adopted by the City over the last five plus years if we can. We're going to (interrupted)

Commissioner Tanaka: Actually I'd like to just add maybe also in comparison with other cities. So we could see a trend line.

Ms. Gitelman: I'm not sure that we can do that. I mean that is that ton of work to go back to these other cities and we've done that twice so to go back and look at their track record I think would be an extraordinary ask. Do you really think that that is a necessary?

Commissioner Tanaka: I guess it's kind of like we're not Palo Alto's not Island, right? We have what we do here also kind of affects what people do in other places and so if we look at our City in isolation I think we don't have the complete picture. So like for instance if everyone else was charging $1 in impact fees and we're charging $100 that's kind of meaningful. So I guess that's why it's good to have a complete picture about what's happening. I'm not talking about like all the cities in California, I was talking about like the local ones so we could see that how we're doing, how everyone else is doing, and also like when certain fees are getting updated or which ones are really old which ones are 2002 vintage? Which ones are (interrupted)

Ms. Gitelman: I'm just being honest with you. We have that information for today and so you have a comparison to adjacent communities to go backward in time for those other communities is an extraordinary amount of work and we just have to allocate our resources in a smart way. I just I mean if the majority of the Commission feels like that's a critical piece of information we can try, but that certainly means that August 31st is not going to work.

Commissioner Tanaka: Yes, I mean for me it's I think it's important, but I would love to get other Commissioners opinions as to whether that's important or not. If not then that's fine as well.

Commissioner Rosenblum: I'm personally not as concerned with that as a [unintelligible]. I'm actually more to me the two things are a honest attempt at what I'm calling supply elasticity. So basically where they think the maximum point for filling the coffers would be. And then second I think that you were dismissive of this, but I do want to throw it back out. Staff should figure out if there is a mechanism for the City to give some guarantee for housing funds. So this is the concern we have here is that we're going to raise fees to an extent that we end up with no development and then no fees. And so if that can be taken off the table that fear then I think people are much happier.

Chair Fine: I'm going to chime in that I think the fee schedule in general for the City is helpful. It would be nice to have other communities, but it's not critical to me.

Ms. Gitelman: Just to continue on the summary. This question of elasticity of supply I think we'd like to talk to you briefly after the meeting to make sure we understand because we're, we kind of feel like the feasibility analysis we've done is getting at that same issue. So maybe we could just talk offline for a minute and make sure we understand.

With regard to the idea of backfilling I mean I guess we can give that some more thought about how that might look like. It's I don't really know how we would do that. And then you also asked for the track record of units produced and projects over the years. And we can scrounge that up too. Did I get everything?

Commissioner Downing: I would like to make a brief comment on the sort of research we're being, we're asking the Council to do. So it makes me think about your comment when you talked about the Palmer decision and you said we got rid of these BMR restrictions on apartments, housing prices didn't get cheaper. Ok, but the problem is at the same time we weren't building anything and hundreds of thousands of people were coming to California. So you're going to like whatever analysis they do is going to tell you the same thing. Like the fee impact you're not going to be able to disambiguate from the fact that supply compared to demand has not lined up. That the housing shortage has gotten more and more dire. So you're not going to get any data that you want from that, from the impact fee analysis. Do you understand what I'm saying? Because it's all going to be confounded by the shortage. So I don't know, take that into account.

VOTE

Chair Fine: Alright. I think we have a Motion on the floor. It's almost 10:00. So this is a Motion to continue to August 31st with a number of points for staff to look into as Hillary's outlined and we will try to help you in terms of understanding what we'd like in the elasticity issue. So everybody ready to vote? All in favor? That passes unanimously. Thank you very much. That closes that item.

MOTION PASSED (7-0)

Commission Action: Commissioners provided comment, moved to date certain of August 31, 2016. Passed unanimously

Study Session

Public Comment is Permitted. Five (5) minutes per speaker.[1,3]

Approval of Minutes

Public Comment is Permitted. Five (5) minutes per speaker.[1,3]

1. June 29, 2016

Chair Fine: We have approval of minutes from June 29th. Do I have a Motion?

MOTION

Commissioner Rosenblum: I move to approve the minutes.

Chair Fine: Thank you, Commissioner. And…

SECOND

Vice-Chair Gardias: Second.

VOTE

Chair Fine: We have a second. All in favor? Everyone. Thank you. Let me just write this down.

MOTION PASSED (7-0)

Commission Action: Commissioner Rosenblum motioned to approve the Minutes of June 29th, Vice-chair Gardias seconded the Motion. Motion approved unanimously.

Committee Reports

Chair Fine: In terms of committee reports Citizen Advisory Committee (CAC) is still going along. I think we all want to get home tonight so nothing major, but…

Vice-Chair Gardias: No, in terms of CAC I think that we going to have an update at the following meeting, right? On the CAC. We talk about this at the pre-Commission meeting that at the next meeting we would have the schedule of all elements coming up to our, to the Planning and Transportation Commissioner (PTC).

Jonathan Lait, Assistant Director: Right. We can give you a schedule for that. Our next summary update on the Comp Plan which will include a CAC discussion is I think scheduled for September, but we can provide some information about where we are relative to the elements being reviewed by the CAC.

Vice-Chair Gardias: Very good, thank you. And one minor comment I think that we may remove the midtown connector study from the subcommittees based on the Council's decision, this body I think naturally dissolved.

Chair Fine: Good point. Thank you.

Commissioner Member Questions, Comments or Announcements

Chair Fine: So no questions/comments, but Kate I just want to thank you again for everything you've done this Commission. We've all enjoyed serving with you. We will miss you and there's some cake in the back so maybe we can talk about elasticity of these impact fees over some cake if you guys are interested.

Commissioner Downing: That's a fine send off.

Chair Fine: Good point. Thank you all. This meeting is adjourned. It's 9:50.

Adjournment: 9:50PM

Planning & Transportation Commission
Action Agenda: August 31, 2016

City Hall / City Council Chambers
250 Hamilton Avenue
6:00 PM

Call to Order / Roll Call: 6:02 pm
Commissioner Alcheck absent

<u>Chair Fine</u>: Order this meeting of the Planning and Transportation Commission (PTC) for August 31, 2016, at 6:02. And Robin if you wouldn't mind taking the roll for us please?

<u>Robin Ellner, Administrative Associate III</u>: Commissioner Alcheck, Chair Fine, Vice-Chair Gardias, Commissioner Rosenblum, Commissioner Tanaka, Commissioner Waldfogel. Five present.

<u>Chair Fine</u>: Thank you very much.

Oral Communications

The public may speak to any item not on the agenda. Three (3) minutes per speaker.

David Carnahan, Deputy City Clerk – made announcement regarding recruitment vacant positions on the various Commissions and Boards.

<u>Chair Fine</u>: Ok, we have one speaker card.

<u>David Carnahan, Deputy City Clerk</u>: Good morning, Chair. Good morning. Good evening, Chair Fine and Commission; as you know David Carnahan in the City Clerk's Office and when I am here the City is recruiting for boards and commissions including this Commission. We have three terms that are going to be up shortly on this Commission and we're hoping that those that are interested in reapplying reapply, but most importantly we would like you the members of the community here or those watching from home to help spread the word throughout the community.

We're looking for people to apply for three positions on Historic Resources Board (HRB), four positions on the Parks and Recreation Commission, three on Planning and Transportation, and two positions on the Storm Drain Oversight Committee. These are fabulous ways for members of the community to give back and help chart the future of Palo Alto. Most of these terms are for three years. The PTC terms and the Storm Drain Oversight Committee terms are four years. Applications are due on September 14th, 5:30 p.m. Applications are available online on the City Clerk's web page. We're going to leave a couple flyers here and then we just hope that emails that you received you'll share with the community for anyone that you think is interested or organizations that might be able to find interested folks. Thank you and have a fabulous meeting.

Chair Fine: Thank you very much. A lot of openings and I'm sure we'll all be sure to share them with our networks. Do we have any… we have no more speaker cards? Ok.

Agenda Changes, Additions, and Deletions

The Chair or Commission majority may modify the agenda order to improve meeting management.

None

Chair Fine: Any agenda changes? There's one item tonight so I don't think so.

City Official Reports

Assistant Director Lait provided an update on City Council items.

Chair Fine: Reports from the City?

Jonathan Lait, Assistant Director: Thanks, Chair Fine. Just thought I'd let you know that the City Council gave us direction on scenarios to study, Scenarios 5 and 6 with some modifications. We'll be taking that direction and doing that analysis and returning. The on Tuesday next week the City Council will be taking up the Residential Preferential Parking (RPP) Phase 2 update and following that on the 12th the City Council will be considering the Planning and Transportation Commission (PTC) and Architectural Review Board (ARB) recommendations on the update to the AR findings. There is also a prescreening application going before the City Council regarding 2755 El Camino that might be of interest to the Commission even though you've not had direct involvement in that this time. Just as a reminder your Commission representative for September is Commissioner Tanaka. So if there's an interest in being present to that meeting that would be encouraged.

Action Items

Public Comment is Permitted. Applicants/Appellant Teams: Fifteen (15) minutes, plus three (3) minutes rebuttal. All others: Five (5) minutes per speaker.

1. The Planning and Transportation Commission will Consider a Recommendation to the City Council for Adoption of a Draft Ordinance to Update the City's Below Market Rate Program and Adopt Affordable Housing Impact/In Lieu Fees for Commercial and Residential Construction by Repealing Municipal Code Sections 16.47 (non-residential projects) and 18.14 (residential projects) and Adding a new Section 16.65(Citywide Affordable Housing Requirements) and Direction on Future Corresponding Changes to the Housing Element. The Proposed Ordinance is Exempt From the California Environmental Quality Act (CEQA) per 15378(b)(4) and 15305. For more information, contact Eloiza Murillo-Garcia at Eloiza.murillogarcia@cityofpaloalto.org **Continued from July 27, 2016**

Chair Fine: Alright, so we've got one item tonight and then some approval of minutes. So the first item is a discussion again of the draft ordinance to update the City's Below Market Rate (BMR) program and affordable housing impact or in lieu fees for commercial and residential uses or construction. I think let's first do we want to go for the report first and then public comments? Sure. Let's do that.

Hillary Gitelman, Planning Director: Thank you, Chair Fine and Commissioners. Hillary Gitelman the Planning Director and I'm being joined again by my trusty companions Eloiza and Sujata who are going to help describe where we are with this item, how we've responded to your request at the last meeting, then we'd love to hear any additional public comment and your comments on these, on the ordinance before you.

Eloiza Murillo-Garcia: Good evening, Chair Fine and Commissioners. I'm just going to give you a really brief overview of what we discussed last time just to jog your memory on what was discussed. As you know this item was discussed was continued from July 27th. And the two main items on which we asked input on are to review the proposed fees that were described in the staff report and to review the draft ordinance and make a recommendation to the City Council.

And here are the recommended fees that we described the last meeting. Office and Research and Development (R&D) the recommended fee is $60 a square foot, hotel is $30 a square foot, retail, restaurant, and other is $20.37 a square foot. On the residential side the recommended fee is $50 a square foot for all product types.

And these are some of the key issues on the draft ordinance. The draft ordinance consolidates the commercial and residential fee into a single uniform ordinance. That's codified in a new chapter which is 16.65. It gives the City the ability to charge an impact fee for rental housing. It gives developers the opportunity to build affordable units rather than pay the fee. It differentiates the fee structure for commercial development so there is different fees for different uses.

The ordinance also simplifies the in lieu fee for residential development. So the fee will be changed to a, based on a per square foot basis rather than a 7.5 percent of sales price which is what the City currently has. It clarifies which projects should be exempt from commercial impact fees and adjusts the threshold for inclusionary units from projects with five or more units to projects with three or more units as stated in Program H3.1.1 of the Housing Element. The ordinance is not proposing to increase the existing inclusionary housing requirements to adjust the percentage of affordable units required.

At the last meeting there was some additional analysis that was requested of staff and that is also included in the report. The additional information that's in the report is how the proposed commercial and residential impact fees combined with other City impact and development fees have changed over time and that can be found in Attachment I which is packet Page 342. There was also information on your units produced in the last two Reginal Housing Needs Allocation (RHNA) cycles and that is Attachment J or packet Page 345. There is also a discussion on how proposed impact fees will affect the Affordable Housing Fund balance and unit production and that's in packet Page 11.

And finally there is an analysis of the maximum residential impact fee required to generate funds without decreasing development or the elasticity of demand and that is in Attachment K which is packet Page 349. And in moment Sujata will give some more detail on that attachment. I'll now turn it over to Hillary who's going to talk about feedback that we've received from stakeholders.

Ms. Gitelman: Yes, thanks Eloiza. I just wanted to add a few thoughts about some of the input we've gotten both in the run up and at the last meeting we held and just in the last couple weeks in advance of this meeting. I think a lot of the commenters have suggested that the City would be well served to set fees that are more in line with other jurisdictions. If you read through the written comments we got from a number of groups prior to the last meeting and I think at the testimony we heard at the last meeting that was kind of a theme and we did present in one of the attachments that you had last time and it's reproduced in the packet a listing of what other agencies are charging when it comes to residential and commercial impact fees.

Another thought that we've or another comment we've gotten just in the last few days has to do with the desirability in some cases for in lieu fees rather than inclusionary units. As you know the City has an inclusionary program so where there is for sale housing we require 15 percent of the units to be affordable. Generally that creates moderate, units that are affordable to moderate income households. And so some of the stakeholders of said hey, that's great, but what if we want to get low or very low income housing for lower income population? In that case it would be better to get the money instead of the units and we can take that money and fund affordable housing projects that yield units that are affordable to low and very low income populations. So what we did in this ordinance and the kind of direction we took with the Finance Committee was to actually set a pretty high bar for when an inclusionary project could pay the fee instead of building the units. And so the ordinance that we're proposing and want your recommendation on says feasibility is the test and it has a couple of different definitions of feasibility and it's only if providing the units on site is infeasible that the developer can pay the fee instead. And so the comment we've heard is hey, maybe this should be more of a discretionary thing where there are instances or housing types where instead of providing the inclusionary units on site we want the money to build the units off site. So that's a thought that just came in in the last few days.

The other comment we got in one of the late comments tonight and in the last few days was about this issue that if you're using tax credits to build affordable housing projects you can only deed restrict the units for up to 55 years. Currently our ordinance suggests that units have to be deed restricted for 99 years. It's not really an issue in our inclusionary program because those units that are produced through the program are going to have tax credits, but if someone were to take advantage of one of the alternative compliance mechanisms that are outlined in the ordinance this might be an issue. And so Cara and we have been talking about how we might make a slight adjustment to the ordinance to address that issue and maybe she can speak to that later if you're interested. Those were the three issues that I wanted and maybe Sujata now can take you through her analysis of the feasibility of these various fees and how that relates to what you identified last time as an issue with elasticity.

Sujata Srivastava, Strategic Economics: I think that the request was to prepare a supply curve that would show the impact of fees on how much housing would be built in Palo Alto. We don't really have sufficient information to be able to project the number of units that are built in the future. There are many variables involved in that that have nothing really to do specifically with these fees, but what we can do is show you some graphs that illustrate how these different fees are likely to affect the development feasibility of certain types of projects. We've done some analysis that's in our full reports showing what the development costs and revenues or value, values are generated for each of these housing types and this graph on the screen is just really showing that. The blue is showing you the revenue side in terms of the sales or capitalized value and then the orange is showing you costs and basically the difference between those two is really what's left to pay for the land and any additional impact fees if you decide to implement them. So that's really the margin that we're talking about and for certain product types it's a bigger difference than others and that's because there are different cost structures for different types of building types.

So the next graphic summarizes what that looks like for single family detached prototypes. Yeah. And what we've done here is we've modeled it based on what's the land value that's left for a developer to purchase the land when you implement these fees at these different levels. On the Y axis is the, we've got the residual land value per square foot. So this is the value of the land per square foot. The higher the value of the land the more you can afford to pay the land owner. And then the impact fees are on the X axis, the horizontal axis. So as the impact fees increase you would expect the residual land value to decrease and that's what you're seeing here. There are two dotted lines, the gray dotted line at the bottom is sort of the minimum value of what the typical transaction is for a single family detached project and then the blue line is what the maximum value is in Palo Alto for single family detached. So really anything within that band we would consider feasible.

Now because the fee the maximum Nexus fee was $111 per square foot, I wonder if that’s me? We’d actually recommended something much lower than that at $50 per square foot. And you can see that both of those fee levels would be feasible because they're kind of above that range of what we would consider the minimum values for land in Palo Alto currently.

So the same type of analysis was done for attached single family townhouse prototypes and again, because of the high value of these types of homes in the City and the high revenues that are generated you see that there's still quite a big margin between the fees that we have recommended and what the value of the land is in the City. For multifamily housing the minimum threshold is higher, but that's because multi… parcels that are zoned for multifamily have a higher price. They, you can do more with those parcels and therefore they're about, they're more valuable. So those are between $150 and $250 per square foot. And for condo prototype again we found that the maximum Nexus justified fee and the recommended fee were both kind of yielding a land value that is above what the current market value is for land.

And then apartment prototype is one that looks a little bit different from a financial feasibility perspective. And that is because this is a higher cost product to build. So this graphic is showing again that multifamily land values in Palo Alto are between $150 and $250 per square foot. At the maximum Nexus fee of $105 per square foot you're actually getting a residual land value that is below $150 dollars per square foot so we would not consider that to be financially feasible. In fact, anything higher than $89 per square foot is not financially feasible if you have this expectation of being able to purchase the land for $150 dollars or more.

Our $50 per square foot recommended fee really is in between the maximum and minimum market value of land. So that's what you're kind of seeing visually depicted here. So I think that the conclusion to take away from this is that if you were to be able to implement a fee of $50 per square foot you're still, you still have a bit of a margin to work with in terms of what the minimum market value for land is in Palo Alto.

Ms. Gitelman: Thank you. We'd be happy to hear the public comments and Commission questions.

Chair Fine: Thank you very much. This is helpful. I'm sure there will be some questions from the Commission, but let's start with public comments.

Vice-Chair Gardias: We have two speaker cards and first one is from Lauren Bigelow followed by Herb Borock.

Lauren Bigelow: Good evening, Planning Commissioners and thank you for giving me a minute to speak. My name is Lauren Bigelow and I am the BMR Administrator for Palo Alto Housing. As I mentioned at your last meeting we are concerned that should the impact fees proposed to be too excessive and not in line with neighboring jurisdictions that combined with restrictive zoning and regulations will discourage all development all together. When we have no new development we have no money for the Affordable Housing Fund and we have no new onsite BMR units. Both are necessary to fight the housing crisis because they serve two different populations. With onsite units we're able to serve those who fall into the low to moderate income category. With the Affordable Housing Fund we can serve the extremely low to low income population.

There are some instances when there are significant number of units where it makes sense to build the onsite BMR units. When there are two, three, or four units provided onsite we would prefer to have the fees because the fees from one property can be leveraged at the tax credit level to provide three to four times the number of units. Tax credit is a majority source of funding for 100 percent rental affordable housing and they want to see the City commit public funds. Without this City committing money from the Affordable Housing Fund we cannot build any affordable housing at all. Thank you so much for your time.

Vice-Chair Gardias: Thank you. Mr. Borock.

Herb Borock: Chair Fine and Commissioners the staff report before you on packet Page 115 refers to the court case in San Jose that upheld inclusionary zoning, but it doesn't say what the court case said. It said there was a legitimate purpose to increase the number of affordable housing units in the City in recognition of the insufficient number of existing affordable housing units in relation to the City's current and future needs. And now I know one current need are the Association of Bay Area Governments (ABAG) numbers that we have to satisfy. The decision also said that assuring that the new affordable housing units that are constructed are distributed throughout the City by placing them as part of mixed unit, mixed income development multiple family developments provides the benefit of having the mixed income and the affordable units throughout the City rather than having them confined to just a low income development. And so there were those purposes and the other thing you have to understand is that it was based on the need for units and not on the need for money. The cities and the court decision was based upon affordable units being built and as an alternative getting cash. The staff report and the consultant said just the opposite direction. It says, it gives the developer the opportunity to build affordable units rather than pay the fee and I believe that's backwards. In San Jose ordinance a higher percentage is required off site than on site.

In regard to the previous speaker's comments since the Reagan administration instead of the federal government through the Housing and Urban Development Department (HUD) providing low interest loans long term to develop properties essentially it's set up to write income for people who get limited equity tax credits. So that whole idea of having that money and using that kind of a program the principal benefit are the people who are getting those tax benefits as opposed to the residents who would be living in those units. The, setting the fees based on other cities [set] doesn't make sense. That's not how developers determine where to develop. They make their decision based upon where they can get the most profit and I think they do rather well in Palo Alto considering the escalation in prices. And that escalation in prices is related to establishing a fee that is the current fee has not kept up with the what can be required to be built. In other words you can't get as much out of the current 7.5 percent BMR fee compared to actually providing units on site and the $50 fee that is being proposed provides even less money.

One of the reasons for the current fee not being appropriate is that it was based on an idea of the developer not borrowing any money to build. So it's based on the total investment in total property cost, construction cost rather than the actual return on investment. And the prototypes are based on past sales, not the most recent sales. And as you know with the escalation in prices that they don't give you a real number and they also give you another reason for getting a fee that's much too low. Thank you.

Vice-Chair Gardias: Thank you. Would staff like to provide a response to Mr. Borock’s comments?

Ms. Gitelman: Yeah, I think Cara can respond to the legal decision that was referenced. I'm not sure I understood all of what Mr. Barak was saying, but at least in his conclusion his conclusion is that you would have the potential to set some of these fees higher then are proposed and that is true based on the Nexus study. You could go somewhat higher in the case of some of these fees and that's a policy decision that you could make. I think we're hearing from most of the stakeholders that they're high enough or maybe too high. So we've heard both sides on that issue and I think we can we can respond if the Commission has specific questions about the Nexus study and what kind of flexibility it provides in terms of making that decision or recommendation. Cara?

Cara Silver, Senior Assistant City Attorney: Thanks, Cara Silver, Senior Assistant City Attorney. So this is a very complicated area of the law and I think the staff report goes through the evolution of the case law and does describe the San Jose case. As we mentioned in the staff report the San Jose case was pending at the time we commissioned the Nexis study. We commissioned the Nexus study sort of in an abundance of caution and out of concern that the San Jose case would come out against cities. That said, the San Jose case actually came out in favor of cities and upheld the city's ability to impose inclusionary housing requirements in ownership housing and commercial projects under the city's general land use authority. And so it is important though to distinguish between the commercial developments and ownership housing where we do have that land use authority where we clearly can impose inclusionary housing requirements and the rental housing area. And in that area the San Jose case really didn't address rental housing.

And in the rental housing arena we have another set of statutory restrictions and that's known as the Costa-Hawkins Act that limits a city's ability to impose inclusionary housing on rental projects. So the way our ordinance is structured is that we impose fees, impact fees under AB 1600 and that's why the Nexus study was commissioned, but the ordinance allows the developer as an option to paying those impact fees to instead provide inclusionary units. So it's the reverse really of the ownership model in the ordinance which prefers inclusionary housing units, but allows fees if the inclusionary units are not found to be feasible. So we have really two different distinctions primarily in the residential feel.

Chair Gardias: Alright, thank you so much. Let’s open it up to a round of questions from the Commission and I’d also like to get… another question?

Vice-Chair Gardias: I believe that you were also going to speak about the tax credits for the developers? For the developers?

Ms. Gitelman: Yes.

Vice-Chair Gardias: This was the comment that Director… that I’m sorry, we’re in the election period. That Director Gitelman was talking about the difference between the timing of the, of 99 years versus 50 years I believe. This was the difference.

Ms. Gitelman: Yes, yes, thank you. So yes there was a comment made by Palo Alto Housing that the ordinances requirement to deed restrict housing units for 99 years could conflict with federal tax credit requirements which impose a 55 year requirement. And so we would suggest some revisions to the ordinance that say something like if the affordable unit is funded through federal tax credits or other similar funding the Director may reduce the affordability period to 55 years to comport with funding requirements. So we would propose some language like that and we would work with Palo Alto Housing on that language to make sure that it meets their needs.

Vice-Chair Gardias: But this is just a tax credit or it's not funding isn't it? It's a tax credit so how you want to?

Ms. Silver: Well a tax credit is a form of affordable housing funding and so we would reference that exact tax credit statute.

Vice-Chair Gardias: Right, and (interrupted)

Ms. Silver: To make that restriction very narrow.

Vice-Chair Gardias: And just for our information is it for any entities? Any legal entities, corporate entities or it is for the tax is related to the development types. How is it being applied for? If you could just tell us more besides those just two eliminates, right, of the timeline so we can understand applicability of the tax credit. Is it for the corporate entity of a certain registration or is it for the size of development or some other attributes?

Ms. Silver: Right. So you know Palo Alto Housing may have a little bit more information on tax credits, but in general the way a tax credit transaction works is that a nonprofit partners with a for profit entity and that for profit entity will take the tax credit and becomes monetized and the tax credit is then used to fund the affordable housing project. But it is the corporate partner that receives that the actual tax credit as part of that overall transaction.

Vice-Chair Gardias: Corporate partner?

Ms. Silver: Yes.

Vice-Chair Gardias: That is it's a partner of a nonprofit entity, right?

Ms. Silver: Yes, yes. Because nonprofits don't need a tax credit (interrupted)

Vice-Chair Gardias: Of course, yes.

Ms. Silver: So they have to partner with a profit for profit entity.

Vice-Chair Gardias: Right.

Chair Fine: Ok, so let's go to questions from the Commission and as I was saying I'd also like to hear your all take on whether this is ready to move forward to Council. A nice guide is kind of on the, let me find it quickly, the first and second page there is executive summary with seven bullet points. I think we probably should check through each of those and then add any others or take them off as we need. The first light I see is Commissioner Rosenblum.

Commissioner Rosenblum: Is it appropriate to ask one of Ms. Bigelow some questions based on her is that from a… is that permissible? Hi, I'm wondering… I have I just have a couple of quick questions for you and then I also have some questions for staff. It might be easiest if you use the microphone up here. So while you're coming up the question I have is you listed a desire for both inclusionary units and for in lieu fees that will give you the option of building more flexibly and in lieu or inclusionary I suppose because it represents a different income group and also because the units will be scattered throughout the City versus concentrated in one area. But proportionally is there one of these categories that you're lacking more than the other? So the explicit goal of this ordinance and I quote, is "adopting high in lieu fees for market rate for sale housing would reflect the City's preference for seeing units constructed on site minimizing the use of in lieu fees to truly special situations and fractional units." I'm wondering if Palo Alto

Housing has a preference in terms of where you have a desire to push the balance one way or the other?

Ms. Bigelow: Oh, am I comfortable answering that question? So I'm really familiar with the BMR program because that's the program that I run and the development side of things is another section of our nonprofit. So I can speak a little bit to what they do. We have currently have 22 projects all across Palo Alto. Each of them maintains their own waiting list which are long. They're very long. So there's clearly a need there, but the same could be said for each of the BMR units at the new sites. It's… you need them both because they do address different income populations.

Commissioner Rosenblum: Ok.

Ms. Bigelow: One without the other is you're missing sections of the population that need help.

Commissioner Rosenblum: Do you happen to know or someone from City staff happen to know we have been missing our goals as a city as mandated by RHNA on every category of housing I believe, but some probably worse than others. So in this construct if the in lieu fees generally go for very low income whereas the inclusionary units are more appropriate for slightly higher income, but still moderate to low and where is the gap the largest? And I apologize I could look this up too, but I just I hadn’t thought of it until Ms. Bigelow was giving her opinion.

Ms. Gitelman: You know maybe Eloiza can confirm this, but I recall when we updated the Housing Element last we actually had a bigger gap in the moderate income category. And I just wanted to step back and clarify for a moment with the ordinance and the fees before you all of the resident the residential rental fees and all of the commercial fees are go directly into the fund which is used to provide money to low income housing developers and generally net low and very low income units. It's just the ownership residential side where the ordinance has a preference for getting the units onsite and it's on packet Page 224 is the section of the ordinance that says that you can pay a fee instead of providing the units onsite if we can find that it's not feasible to provide them onsite.

We also do get some fees from ownership projects because of fractional units or in this ordinance for the first time we'll be charging fees for the first and second unit provided in mixed use developments. So currently we only charge… we have an inclusion requirement that applies to projects of five units and above. With the ordinance we're imposing that requirement on projects of three units and above and for the first time we're charging an impact fee when units number one and two are in a mixed use project. And it's really because we've seen a lot of development proposed Downtown whether it’ll be like one or two penthouse units and we're thinking like jeez, those the Nexus study clearly shows those have an impact on affordable housing and we should be able to capture the impact fees from those units.

So there are there's no question that with the fees that are proposed in the structure of all of this we are going to net funds into the Housing Fund that could go towards the provision of low and very low income units. We are also going to continue to have an inclusionary program that generally will net moderate income units. That make sense?

Commissioner Rosenblum: I'm having trouble actually [unintelligible]

Ms. Gitelman: Ok.

Commissioner Rosenblum: And so I'm going to [unintelligible]. I think it's incumbent maybe on me to like go through [unintelligible]. I find the explanation to be a little circuitous and it's hard for… because ultimately I guess if I ask the question a slightly different way. There are two things that I think would be really useful. If it is the case that in lieu fees and inclusionary units service two different groups then in your summary presentation I think that something that would be really good is first outline the goals of the program. So with this ordinance we want to do what? And it seems like last time we had this discussion you said, well, we'd like to raise the total amount available for affordable housing and based on this ordinance the paragraph that I saw it seems like there is an attempt to shift or to have a preference for sites built or units built onsite and so part of the analysis would be to show why. Why there is that preference and what need it's addressing.

Now the other piece of that if you are trying to actually raise the total amount of money available in some way that is my second question. So I wanted to confirm it is staff's opinion that raising the impact fees by this level will increase the amount of money that is available for affordable housing. So once this goes into effect your belief is that next year there will be enough projects times this new impact fee amount that will equal a greater amount of money. And that's your considered opinion. Is that correct?

Ms. Gitelman: I think because we're raising the fees our feeling is that ultimately it will net an increase in funds for affordable housing. Now as we pointed out in the staff report it always depends on the economic cycle and how many projects you get of what type. So it's hard to predict exactly what (interrupted)

Commissioner Rosenblum: Yeah.

Ms. Gitelman: Next year will look like or the year after that or 10 years from now. But (interrupted)

Commissioner Rosenblum: Yeah, but this is like when we talk about like 100 year floods versus 10 year floods. So like barring an act of God sort of thing, like based on standard assumptions that next year will look like this year, you believe that raising these impact fees if we assume the next five years are like this year for example that the total amount coming into the coffers of Palo Alto Housing will increase based on these fee increases.

Ms. Gitelman: That's right and in the in the staff report on Page 11 we talk about if we produce the same number of units next year with these new fees that we did last year we'd get $2 million more in the fund.

Commissioner Rosenblum: Yeah. By the way this is a criticism of the analysis that I have and just to be really blunt about it the elasticity is not at all in the elasticity analysis and you've admitted that and said it's very hard to do it, but it is just a graph showing that if $2 are added to impact fee then you take $2 away from land value and so it's not very revealing. But that comment to just again to be very direct on it is the same. Saying assuming we build exactly the same number of units we'll make this much more because we're multiplying by a higher number, but the entire point is that there's a fear that when we raise that the impact fees this much that people won't want to build and so that that's the crux of the matter. And so you know these are my questions.

So I wanted to understand a couple yeah, I'm sorry about that. I called you up. That was my only question. I apologize.

And so I think that this is still I appreciate that some graphs were added, but I don't think it gets the crux of the matter. And when this goes back to Council I don't know if there are cycles for additional analysis, but the way that I would do it is clearly cities occasionally adjust their impact fees. And so when a city adjusts its impact fee by a giant amount if that ever happens, so we're proposing in some cases tripling the impact fee, what happens to building applications? And so that would be the closest thing to what I'm talking about. So if there is any regional city that suddenly took their impact fee from $20 to $60 something per square foot what happened? And so that would be the sort of thing that people say ah yeah, it does turns out doesn't really change that developers make so much money anyway that they still develop. And so that would be a nice thing I think for Council to be able to have a rational discussion on this because otherwise of course if everything remains the same in terms of number of units being built times a higher number will result in higher number, but the fear is that will decimate our Housing Fund. And I think it's a real fear like it's something that doesn't really make sense to me that we can get away with just raising our fees by that much and not expect that it affects the desirability of development. And I get in that impact fee analysis that it shows a return on capital that seems acceptable.

Ms. Gitelman: In addition to that I would add that the impact fees are such a small percentage of total development costs that while it might factor into someone's decision it's a I guess in our opinion it's not the make or break for a project going forward or not. There are so many other factors that a developer would take into consideration. The other thing I'll point out I don't know if this got to the Commission we got a very late comment before this evening's meeting from the Silicon Valley at Home (SV@Home) organization and they actually made a suggestion about monitoring and evaluation and staggering the fees. So if you're going to raise the fee a high amount phase them in and then monitor and evaluate after a they're suggesting after a three to five year period to see if they've had the intended effect. So that might be one thing for the Commission to consider recommending.

Commissioner Rosenblum: I just had, this is a little bit of a one off question. Your slide on Page 10 I'm just wondering if you can explain it to me because I'm not sure I get it. So for example, single family detached the blue bar is $90 million and the orange bar is $25 million. Then SF attached townhouse is $17 million. I don't get these numbers are.

Ms. Srivastava: They are based on the prototypes that we looked at. So…

Commissioner Rosenblum: Is this per unit like a single (interrupted)

Ms. Srivastava: No. The single family detached I don't know if I can look up the exact number is a 30 unit project and I think the single family attached is smaller. It's 10 units. And the condominium is 35 units I was so they're all different. They're all different sizes. And I only did this to be able to show you what we look at as variables when you do a financial feasibility analysis and kind of what the theoretical approach is. And so the blue line is showing you if you sold those all of those units those single family detached units what is the total revenue, the total cash that on the revenue side. And the orange bar is showing you what's the total development cost which includes the cost of construction, the cost of other permits and fees the City already has in place, and other types of soft costs and financing and developer profit. And now the reason I wanted to show you this graphic was just to show you that there's a big spread between those two that is intended to cover the price of purchasing the land as well as any other types of fees that you may impose. So that's really the room that you have to work with or as a developer.

When we've spoken to developers about how they think about impact fees they've said we factor it into the cost of the land. So if a jurisdiction were to raise their impact fees it would affect how much the land is valued at for a specific developer. So they would either the landowner would be able to sell that property and see it as a fair price or they would not. So when we do those graphics and we show you those land value thresholds that's really what we're trying to show is what is a reasonable amount that landowner can be expected to let go of his land for?

Commissioner Rosenblum: Ok, good. Thank you so much.

Chair Fine: Thank you. Vice-Chair.

Vice-Chair Gardias: Thank you. By the way on this on the same graph that we just discussed there is no value and costs for non-residential units. So I don't know if there is another slide for that, but it was…

Ms. Srivastava: We did we did not do the analysis for commercial. That's correct.

Vice-Chair Gardias: Just you know if I may just ask couple of questions because it's interesting graph, but I was wondering how many units of each type are being developed? I would probably expect that that provide the benefit of that of the fee to the to the BMR Fund that probably it would just shed some light on this how much money each category is making today to the City. So you may maybe you can just provide the answer about the commercial units or maybe you can just update this graph with the office units or commercial units so when it goes to the Council there will be a better visibility. But I just want to go to the to your analysis so when I look at this I have similar feeling that my colleague Commissioner Rosenblum has that it's not very convincing. It doesn't tell me truly what is the rational decision here? It just doesn't give me any pros and cons and it just looks like we can just go with any fee between the blue bar and the gray bar if I'm interpreting this correctly and we'll be fine. So we can just maximize the fee to pretty much any way we want.

Ms. Srivastava: May I answer?

Vice-Chair Gardias: Of course.

Ms. Srivastava: Ok, well I think that the issue in Palo Alto that's probably unique to this City is that the values of particularly for for sale homes are so high for new products that the financial feasibility… these fees I think Hilary said very well don't make or break a project. The imposition of these particular impact fees and so we did these analyses and I think they don't tell you what fees you should set these impact fees at because our analysis is showing you that those impact fees don't really move the needle that much in terms of whether or not a development can be profitable.

On the apartments there is some policy guidance I think when you look at the results of the analysis because you can see that the maximum feasible fee, I'm sorry the maximum Nexus fee that we calculated that you that really captures the full impact would not be financially feasible to implement. And so we have recommended a fee that is significantly lower than that in order to not jeopardize the ability for development to move forward. So I think that that is where there is a little bit more sensitivity to these impact fees because the cost and revenue structure of an apartment project is significantly different.

Vice-Chair Gardias: I understand, but so when the last time when we when we had this review with you we were of course looking for the optimal value of those fees so we can generate we can increase the amounts that flows into that fund as much as possible. But also there was some other element that I was expecting and I hope that your presentation would provide and I'm sorry just to say it, but it doesn't provide this answer that would be rational disregarding any maximization of the of the inflow of the of the dollars. I was looking for a rationale to justify this or any other price. And I just need to say that it really doesn't provide this guidance to me at least. I don't know what my colleagues would be saying, but you know so for this reason I would be really hesitant to recommend to the Council this or any other fee because I have no really basis, scientific basis, just to make this judgment.

I was expecting that you would provide some sort of like if you remember we had on the Econ 101 tax utility graphs that was showing us how much of the increase or decrease in the tax because this is just a tax, right? What would increase or decrease revenue to the to the Treasury coffers. So that's the same, that's the same exercise as tax utility curve. So that's just talking about general view of this analysis and I hope that you will be… so again I will repeat this what I said, right? So I will be really hesitant to recommend this to the Council. This will be my stand when we're going to take a vote. We'll go go through the ordinance, but in terms of just me justifying and just providing a vote for this I just don't have any basis, sorry.

But there's a couple of other items that I would like to discuss with you. So there is in terms of the I would like to make this comment that in terms of the although there is a room as your graphs show to pretty much to decrease those fees or to increase those fees and then just listening to Director Gitelman that saying that it's not significant value in the overall expenditure for developers there is always in the financial analysis there is a idea of an increment that may at some point of time may stop some development or some expense because that slight increment it just happens at any time and then pretty much burdens the whole organization that would be developers organization or some other housing organization. So I totally disagree with the suggestion that from the percentage value it's it may not have an impact because there is a knowing financial analysis sometimes the small increase in the total expenditure it just causes that developer may jump from the one category of the expenses into a larger category of the expenses and that small incremental value may make a difference. Just to give you a picture, say that developer’s budget is below $10 million and he operates below $10 million line. If that fee is going to just increase his cost to $10.2 million that's going to be totally different category. Thank you.

Ms. Gitelman: Yeah, I just wanted to acknowledge that this is a difficult policy area for any governing body or commission to weigh in on. And I think the Finance Committee of the Council struggled with this as well. We've done these Nexus studies that provide bookends for you. I mean they at one end they have the existing fees. You know we currently have fees not for rental housing, but for commercial uses. And we have the in lieu, we have the in lieu fees and the inclusionary program for for sale units. So that's one end of the bookend. On on the other end of the bookend the Nexus study identifies the maximum justifiable fee based on the impact that's been identified. And then below that the maximum feasible fee that we think we could justify based on the economics of developing these projects. And then the recommendation of the Finance Committee was somewhere between the maximum feasible and the existing fee in most cases.

And that is as you say it's a policy call. It's not, there's no silver bullet. There's no like one answer. And so this is something where you know we take public input, our thoughts and our understanding of the development process and development cycle into consideration. And if you feel like the fees are that we're recommending are maybe too high given the risk and reward that many developers pursue you might want to recommend something on the lower end of the scale, but we hope that you'll consider making a recommendation somewhere on the spectrum between the two bookends. I think it would be really helpful for the Council at least to hear what the Council's thoughts, what the Commission's thoughts are on this.

Chair Fine: Commissioner Waldfogel.

Commissioner Waldfogel: Thank you. Also I just want to thank staff for coming back with yet another session on this and more information. I agree that it would be great to get valid supply and demand curves for this, but I think that's a lot to ask for and was it thirty days? I think it would take more than just examining a couple of data points to produce that so maybe sometime in the future.

I mean I'm generally comfortable with the format I haven't heard any evidence that we are at a knee in a supply curve with this pricing and that will shatter production of any of these forms. And I assume that we're smart enough that if we did do that and we figured out that causation was the fee and not the business cycle that we would step in and correct that. I would caution us not to just overreact to business cycle though because I think that some developers will point to the fee as the reason why they're not developing even though it there's just no demand at that point in the in a secular business cycle.

Just one suggestion and then there are couple things I'd just like to take people's temperature on relative. I mean one suggestion is if we're looking at 55 year terms to align with tax credits we might just want to simplify the language and just use 55 year terms across the board. I just think it's having to having applicants to document that they're using one form of financing or another may just be a level of complexity and compliance that we don't want to deal with, but that's more in your court then ours. A couple things I just like to take temperature on, one is as we think about fees on housing we've exempted I think first and second units from this and I understand the politics of exempting first and second units, but I'm not completely convinced it's a fair choice to impose a fee on say every townhouse development, but not to impose a similar fee on somebody just building a single house. Clearly there's not inclusionary option for a single house so if the hypothesis for the fee is that it's a substitute for an inclusionary unit then perhaps that argument doesn't hold water, but if we think it's feasible I'd just like to take people's temperature on that question.

And then before I get to response on that the second one is when I think of commercial non-office I wonder if we need some discretion somewhere in the process, Director or Council discretion? Because I mean just throw out some hypotheticals; suppose somebody came in and said I want to build a bowling alley, right? Just to throw out a crazy one that the community might sort of enjoy. That's something where I could imagine that that a fee might actually turn it from economical to non-economical. So I don't know whether there's possibly an exemption for some of those uses or if somebody came in and said I want to build a medium sized supermarket I mean up to you know up to our code limits. Again, I'm not sure that the fee that the retail fee that makes sense for a high end computer store is the same fee that makes sense for a supermarket. So I just like to see some discretion if that's a possible thing to supply and I just like to take people's temperature before we get… So that's all I've got.

Chair Fine: Commissioner Tanaka.

Commissioner Tanaka: So yeah also thank you for your further analysis on this. I'm actually with my fellow Commissioners on this. I was actually hoping for more than we got here. And I realize that it's hard to do a precise supply/demand analysis, but I have to agree with what was said before that this is not very complete in my mind. And I think that without that analysis we are basically just guessing. And I don't think guessing is good. I think we should we should do it based off of more thought than has been done so far.

In regards to the most recent comment I think that is something we should talk about more. I think that's those are some innovative ideas and we should consider and consider whether we should do that because it could help shape what we want in the community. So I'm actually open to discussing that more and I'm not sure if I'm completely sold on it, but I think if implemented right it might make sense. So that's all I had. Thank you.

Chair Fine: Alright, thank you. I've got a couple questions. And then let's kind of tack towards the ordinance itself, maybe take a quick break before that. So I agree with my fellow Commissioners that I think we didn't get quite what we asked for in terms of this elasticity analysis. As Commissioner Tanaka said we are kind of just throwing a dart and seeing where it lands in between two bookends, which doesn't seem smart and it's a bit of a warning sign to me that we're three times we're just tripling our fee and going far above what other cities have.

A couple questions, so Commissioner Waldfogel I think you were just asking about impact fees for single family units detached, is that correct?

Commissioner Waldfogel: Yes, including single units (interrupted)

Chair Fine: Ok. Does anyone else do that around here or across the country?

Ms. Gitelman: I can't speak to right around here, but I know that other jurisdictions do charge impact fees. I've worked in a jurisdiction where most of the new housing stock was big homes for wealthy people and we did charge an impact fee for the first unit if it was a net new home. So we would never charge it for a replacement unit, but for a net new home we did charge that impact fee.

Chair Fine: Ok, so I would say that is actually worth exploring. On Commissioner Waldfogel's other point about discretion for commercial non-office uses I'm interested in that. I think that's probably a whole other discussion and that it's going to get into what's included what's exempt. Maybe we can use some boilerplate that the City already has in terms of its retail ordinance and things like that, but I think it's an interesting pass to go down.

A few of the questions; which other cities are currently charging impact fees for rental around here? Do we know of any?

Ms. Srivastava: Many of your immediately neighbors are. Well and close by neighbors: Redwood City, Mountain View, San Jose, Cupertino. They're actually all listed in the report.

Chair Fine: Can you tell me the page numbers?

Ms. Srivastava: Let me see if I can find a page… And you're interested particularly in rental, correct?

Chair Fine: Yeah.

Ms. Srivastava: Sunnyvale also. I can point you to page…

Chair Fine: Is it on Page 235? Is that it?

Ms. Srivastava: Page 170 of your packet. There's a table called Comparison with Impact Fees and In Lieu Fees in Neighboring Jurisdictions, Figure 712. And if you'll kind of look at towards the middle of the table there's a header called Impact Fees and you've got Cupertino, Daly City, East [unintelligible]. And on the far right side apartments and those are the fees that are being charged in those jurisdictions.

Chair Fine: Ok, and so we're looking at $50 a square foot in most of these other cities are on $25.

Ms. Srivastava: The exception would be San Francisco and San Carlos and East Palo Alto which are a little bit closer.

Chair Fine: Different. Ok, one other thing we haven't talked about that's in the ordinance is we talked a little bit about it last time so I want to ask my fellow Commissioners what do you all think about changing the in lieu fees from a percentage to a square foot basis? I know part so I'm going to ask you why Commissioner Rosenblum. I know part of staff's motivation there was to kind of line these all up so they're measuring the same way and so you can essentially cost it out before the project goes through. Is that why you're in agreement with it? Others? Yes, yes. Ok.

And then there was one comment I believe from the Housing Corporation or from SV@Home about the feasibility test being too stringent. Could you just expand on those like what are the feasibility tests? What would your discretion be for those?

Ms. Gitelman: That's the point we talked about earlier that there is this provision when it comes to the ownership units that when our project is three or more units and they are required to provide inclusionary units you can only pay the fee instead if it's infeasible to provide the units onsite. And that was really kind of at the City Council's direction. I think the City Council was interested in setting a clear bright line and kind of a high bar because of the desire to get moderate income housing and units onsite dispersed throughout the City as Mr. Borock indicated, but that can be found on packet Page 224. If you wanted to look at those two sections it's at the top of that page, Numbers 1 and Number 2 is where that feasibility test is located.

I did while I had the microphone want to respond to Commissioner Waldfogel's suggestion about we might have a non-residential use that where we want to waive the fees. There is a provision in the exemption section, so that's one packet Page 218. Basically it lists all of the things that are exempt from this and the very last one is any nonresidential project otherwise determined to be exempt pursuant to City Council resolution. So if there was this great nonresidential thing that we really wanted the Council could adopt a resolution and exempt from the fee.

Chair Fine: Ok.

Commissioner Waldfogel: Thank you. I didn't make it all the way to M.

Chair Fine: And then so Director Gitelman in your opinion are these feasibility tests overly stringent? I mean will this really make it hard for developers to pay the in lieu fees and will they really be pushed towards the onsite?

Ms. Gitelman: That is the intention. Yes, I think with this test it will be hard for someone to justify paying the fee instead of providing the units.

Chair Fine: Ok. So then I'd like to call out to my Commissioners that will essentially segment what we're spending our affordable on generally towards the higher spectrum of affordability, less though to low incomes. That's a policy choice, but I see a thumbs down from one Commissioner.

I think we should take maybe a five minute break. Just for a short little clearing of the mind and then we can get back to the actual ordinance and go through a few of the items [atop].

The Commissioner took a break.

Chair Fine: I'd like to make a [reposal] as we do consider moving this ordinance forward or tabling it however we do, the Vice-Chair had a good suggestion that roughly we can think of this in two ways. One is look at the impact fees and make recommendations around the fees themselves and the other is around the ordinance itself. So let's actually start with the ordinance. Is that good? Yeah, we'll discuss it. I'm not making a Motion quite yet, but just as a reminder as I highlighted in the beginning the executive summary on Page 1 and 2 really does have the major changes. And the areas that I think we have some questions on so far, let me type these out as I do them, so one is the 99 year deed versus 55 years. Two is the feasibility requirements. I'm not sure it's for tonight, but one was the possibility of charging impact fees for single unit single family homes. There were some questions last round about a new impact fee for market rental and ours is going to be $50.

Ms. Gitelman: I'm sorry, a new fee for?

Chair Fine: Sorry, the institute a new impact fee for market rental housing.

Ms. Gitelman: I am sorry I still didn't hear you. For new rental housing?

Chair Fine: Yes.

Ms. Gitelman: Oh yeah.

Chair Fine: Yeah, yeah. And so currently we don't have it. This is and this ordinance will include it. So those are the four I've got. Are there other major parts of the ordinance you all would like to flag and if so please hit your lights. Vice-Chair.

Vice-Chair Gardias: Thank you. So I would like to highlight a different item that we have not spoken about yet and once I'm going to raise it I'm sure that you're going to say that Vice-Chair you voted for this two years ago and of course I would agree, but also my response would be that the time when we were just going through the Housing Elements the issue, the significance of three units was not discussed at the time. And now it's just clear to me and I would like to just raise some doubts about this. So in the ordinance we just talked throughout the document about three units as being a subject of the of either fee or 15 versus 25 percent of the of dedication of the inclusionary units given 15 or 25 percent rates. So I would like to ask you a question what is the significance of the three units from your perspective? And I would like to offer you my perspective so if you don't mind just me asking you a question. What is the significance throughout our regulations, Palo Alto regulations, of the three units?

Ms. Gitelman: Well again I think that this is a policy issue. When the Housing Element was being prepared everyone understood the current requirement kicks in at five units and above. And there was a desire to get more inclusionary units and so the suggestion was made and incorporated into the Housing Element to modify that policy and get to three or more. Jon is pointing out that our definition of multifamily housing in Palo Alto is also three or more projects with three or more units.

Vice-Chair Gardias: Thank you. So let me just allow me to offer my perspective on this. So I know from the license regulations that for example, a non-licensed professional in the State of California can design a building with four separate units and doesn't that individual doesn't have to have a license. That's the licensure law in the State of California. So there is certain exclusion of those units to pretty much allow folks that are not professional just to do develop housing with four units at the lesser cost. That's the intent of this law. So that's one perspective that I am aware of. There is some other thought that I would like to offer you and with the intention of returning to the five and above units because I believe that first of all we can it's really hard to designate one of the four units based on the 15 and 25 percent inclusionary units a percentage out of the three units. It doesn't pretty much calculate, right? You cannot just make one inclusionary units out of three having 15 percent and 25 percent the threshold. So that's number one. So I think that we should just go with go back to the number five units subject of the inclusionary unit requirement.

Also there is another reason to keep four units and below not a subject of this requirement. There is number of the small property owners specifically along El Camino that we may impair with this law for development of their properties and by imposing another burden upon themselves. And then when you talk to those owners they have two strategies either just to maintain their businesses and their properties at the current shape or being bought by another big developer. I talked to some of them and I couldn't find anyone that would be thinking about developing his own property, adding stories for rental or for sale giving the small size of his lot. So that's another reason for keeping those four and below as we had in the last ordinance.

Ms. Gitelman: So I just wanted to clarify one point is that when we have this ordinance reduces the trigger from five to three. If there is a development that is taking three units obviously given our 15 percent requirement those units will not be onsite, but because the ordinance reduces the trigger to three units they will then have to pay the fee.

Vice-Chair Gardias: Yes. And I totally understand this, right? But I just think that we should have certain interest in the retaining a number of the property owners that have been with this City for many years. They have certain interest in the City. Their families live here. They may have businesses, small businesses that they support and those giving our interest in retaining retail and some other service space we would like to keep those because of their small scale they are more flexible than larger corporations in maintaining those, that service area.

Chair Fine: Commissioner Tanaka.

Commissioner Tanaka: Yeah, I was wondering if staff could point me to where you guys have like the different costs of construction for residential and commercial? Is it somewhere in this book somewhere? Do you guys know?

Ms. Gitelman: Yeah, we'll look up what we have on costs in the Nexus study. I know it's going to be slightly older data that we used to evaluate the prototypes.

Ms. Srivastava: There's cost data and all of the development costs for single family detached and attached are on Page 166 and 167. Well, yeah, 166 in 167 of your packets and then the costs for… yeah. So 100, I'm sorry, 166 shows single family detached and single family attached. And there's a page break problem here so on Page 167 you'll see the costs for condominium and apartments. There are they have different costs because they are different product types.

Commissioner Tanaka: Ok. [Unintelligible] 167 now can you tell me what is the cost per square foot for construction?

Ms. Srivastava: So the development costs for a single family detached the direct costs or construction costs would be $155 dollars per square foot for single family detached.

Commissioner Tanaka: So ok, hold on. So let me make sure this makes sense. So the construction costs is $155 dollars, right? Per square foot, is that right?

Ms. Srivastava: That's just for building costs, yes.

Commissioner Tanaka: Ok and this is going the proposal like say for instance on Slide 4 for a market rate single family attached is $50, right? That's the proposed (interrupted)

Ms. Srivastava: That's right.

Commissioner Tanaka: Ok, so basically the what you're saying here is that the recommended fee is roughly 30 percent of the construction cost. Is that what you're saying?

Ms. Srivastava: For the single family detached.

Commissioner Tanaka: Is that my, is that a correct understanding?

Ms. Srivastava: That's correct; however, that doesn't include a lot of other development costs.

Commissioner Tanaka: No, I understand. I'm just trying to get a feel.

Ms. Srivastava: And land. Yes. Yes.

Commissioner Tanaka: Ok. So the construction cost essentially is increased by a third. Do you know what it is for the other types of products so to speak? In terms of what percentage of the construction costs it is?

Ms. Srivastava: I believe that there is actually a table that shows you that. Let me see if I can pull that up. It might be in the executive summary. We actually look at it as a percentage of total development costs.

Commissioner Tanaka: Ok. I'm just trying to get a just to keep it simple like in terms of construction (interrupted)

Ms. Srivastava: Yeah.

Commissioner Tanaka: Like how many dollars per square foot and how much is the impact fee of that?

Ms. Srivastava: Right. I'm just the numbers that I have that are in front of me are as a percentage of total development costs.

Commissioner Tanaka: Ok.

Ms. Srivastava: So it's not the same as total construction costs. I just found the one for commercial. I'm trying to find one for residential (interrupted)

Commissioner Tanaka: So a really simplistic way of looking at this then is what would cost $150 per square foot to build suddenly becomes about $200 per square foot. That's another way of thinking about it. Is that a correct way of thinking about it?

Ms. Murillo-Garcia: I'm sorry, could you repeat that?

Commissioner Tanaka: So what would cost $150 dollars to build per square foot now becomes $200 per square foot with this increase, correct?

Ms. Srivastava: It would be more than that because (interrupted)

Commissioner Tanaka: More than that. Ok.

Ms. Srivastava: Because there are other costs including soft costs and land costs. So I understand your question, I just don't have that calculation exactly the way that you've posed it.

Commissioner Tanaka: Ok, ok.

Ms. Gitelman: So Commissioner Tanaka if you look at that same chart so packet Page 166 you'll see that the total direct construction cost is $155 for single family detached, but the total development cost is $272 per square foot. So it's quite a significant difference and that doesn't include the land cost which isn't calculated on a per unit basis so or a square foot basis. So that's why we can't give you the total.

Ms. Srivastava: I think generally speaking our total development costs for at least for the multifamily housing were over $500 per square foot when you factor in land and everything. So that would be 10 percent for the multifamily housing.

Commissioner Tanaka: Yeah, but I the one thing I was just thinking about is it correct to think about it in terms of land value or is it correct to think about it in terms of when you're actually starting the build? Because isn't this paid not when the land's acquired, but when you're actually developing. These are impact fees, right? So isn't the correct perspective to have is [unintelligible] you're actually constructing verses when you're buying the land? Because your perspective is saying when I acquire the land that's when the fee should be tacked on, but is that the right way of thinking about it? Because these are development impact fees, these aren't land acquisition impact fees, right?

Ms. Srivastava: I think it depends on the timing of when (interrupted)

Ms. Gitelman: Yeah, it depends on the timing of when you buy the land obviously and I think Sujata did a good job of addressing this issue in the memo we provided. It's packet Page 349 and it talks about the effect of housing impact fees on housing prices. And it really talks about that it's land cost. It's the seller who is selling a parcel for housing development who is going to get less for their parcel if the impact fees raise the cost of construction. I'm paraphrasing that horribly, but (interrupted)

Ms. Srivastava: Right. There are two ways to look at it either a developer makes less profit or a developer is not going to build a project that they are not going to make money off of presumably, right? They're profit motivated individuals. So what happens is that it gets capitalized into the value of the land. That's traditional economic theory and there are I did cite some studies if you do want to do some research on what the impact has been of implementing impact fees on housing production and on housing prices, but what they found was that in many jurisdictions the adoption of either an inclusionary housing program or new impact fees didn't actually have a negative effect on housing production. There were other factors such as local land use policies or regulations that delay development or that create other types of development hurdles that had a greater impact on whether or not housing was built. So without having done that supply/demand analysis what we did do was we drew upon some literature.

The other analysis that was done was a study was commissioned after the end of inclusionary housing policies for rental housing and it showed that eliminating the inclusionary requirement on rental housing did not result in reduced rents. So the imposition of inclusionary housing doesn't necessarily result in increased housing prices or increased rents and removing inclusionary requirements also didn't seem to have a downward pressure on rents. So just wanted to provide a little bit of that context as well.

Commissioner Tanaka: I guess what I'm just trying to understand is what the right perspective is whether you think about it as the total cost of the project or you think about it as like a development fee, right? And you think about it as you're developing and what percentage of development cost is it? I'm not a developer so I don't really have that perspective. That's why I'm asking staff for this perspective because the lay person might think that you would think about it when you're actually constructing and you think about a percentage of your construction cost. And if your construction cost is $150 and suddenly goes up to $200 that might make you think a couple times about whether you're going to do it or not.

How about for hotels? The hotels are one of the big revenue generators in Palo Alto. So what is the do you guys know what the construction cost is of hotels per square foot?

Ms. Murillo-Garcia: That can be found on packet Page 89.

Ms. Srivastava: So Commissioner Tanaka was your question about development costs or hotel?

Commissioner Tanaka: No. I want to know what is the construction cost of hotel per square foot?

Ms. Srivastava: For construction cost for a hotel for our analysis this actually just shows the total per room cost at $150,000 per room.

Commissioner Tanaka: So what's the per square foot cost? Because we're this is a impact fee per square foot, right? So we've got to look at things per square foot otherwise you can't do the math.

Ms. Srivastava: So if you see it's actually on Page 85 of your packet, Figure 64 [or 6-4?] direct costs for building and onsite improvements are $200 per square foot on hotels plus the cost of parking. So we look at parking costs separately.

Commissioner Tanaka: Ok. It's about $200. So this is in a sense going from $200 to $230, right? That’s another way of thinking about it.

Ms. Srivastava: Although not exactly because you do already have an existing (interrupted)

Commissioner Tanaka: That’s true.

Ms. Srivastava: Commercial linkage fee of $20.

Commissioner Tanaka: That's true. So it’s like 10 percent or a $10 increase. Ok. Yeah, I think I still think doing a supply/demand analysis makes the most sense here. And I for me I think it's good to think about it from the development point of view versus acquiring the land point of view because I think that's I'm not sure that's the perspective that people have when they actually develop. Because like for instance a lot of commercial properties they don't even buy the land, it's just a ground lease and the land never changes value per se or never changes hands. So I think it might be wise to actually look at from that perspective as well. You look confused.

Ms. Gitelman: No, I'm I respect your opinion that there's a supply/demand relationship here that we're not explaining and I guess all I can say is we didn't have the data to do that kind of analysis and I just I don't think there is one answer here. I think there is a range of possible fees that we could set. We don't know exactly what the impacts and revenue generation will be, but we're hoping that you will make a recommendation that you think is a good kind of middle ground between the bookends we've articulated and then if you're insecure that it might have unintended consequences recommend in the ordinance how we can make sure to monitor and adjust as needed over time.

Chair Fine: So I think we all appreciate that. I think whatever we do tonight it seems like this Commission is going to be pushing for this elasticity analysis we've asked for, but I'd like to suggest a few ways of looking at it if it is a very difficult thing to analyze. One, we could look at recent cities which have raised their fees and kind of map those out based on the number of square footage by different types. So if San Carlos for instance doubled their hotel impact fee and hotel building dropped like we would see that. And I know that's not all else being equal, but at least give an idea there. And so I would just float to my fellow Commissioners whatever we do tonight it seems like that’s going to be part of this analysis. Commissioner Rosenblum.

Commissioner Rosenblum: Yeah, I want to move to a couple suggestions and then see what staff thinks of these suggestions and then maybe this hopefully my fellow Commissioners might see this as a basis for action on it. So the first is there's a lot of consternation around well what if this just decimates development and therefore decides the Housing Fund. So the first is could we stagger the fee year over year? In the memo that was submitted by Pilar which I find quite a good document in general there's suggestion of doing this on a yearly basis. It feels like development pipeline projects take longer than that and so I wanted to get staff’s recantation that if there is a staggered, if the point of staggering is to see what happens so you raise the impact fee by five percent per period do you have a sense for what a good period the City is for understanding if the impact fees are having a chilling effect on development or not? Based on your experience in planning is it something where well year by year you're not to learn anything, but if you if you raised it every three years then you’d have enough data to say well that hasn't really had a chilling effect whatsoever. Let's go with the next rationing of five percent. Do you have an opinion of the [peer to city].

Ms. Gitelman: Well let me let me step back for minute. I mean there are so many factors that determine kind of how much development is going to happen and the fees we charge are part of that, but the cost of financing, land cost, market conditions, rents you can charge, I mean there are so many other things. Oh and legislative changes around parking requirements and the height limits, I mean there's so many ways that (interrupted)

Commissioner Rosenblum: Yeah, all due respect I'm trying to find a way out of us saying we're trapped because we're just guessing.

Ms. Gitelman: Yeah.

Commissioner Rosenblum: And so I think what we're trying to say well if our concern is that we've completely misunderstood the market and therefore there's a slower curve. What I'm asking for input on I understand it's just… I understand that you're saying there isn't an answer for that either. And so in this case I'm trying to throw everyone a lifeline to say if there is a rationing is the periodicity logical to be per year or based on your experience having worked in longer planning cycles is a year too short?

Ms. Gitelman: I completely understand your point. Typically we would phase fees in with an annual increases and I've what I've had experience doing is annual increases taking over two or three years to get to the total increase. I think Pilar's suggestion that you look at the effectiveness and impacts of the fees in a kind of three to five year window is probably good because it'll take some real analysis to determine if there's been a downturn in the economy and we aren't seeing as many units as we did in the past or as much money in the fund. It'll take some analysis to determine what the cause of that was and what role the fees played in that or didn't. See what I mean?

Ms. Srivastava: And also I would think that most development projects take at least about three to five years from the time that they've been conceived of to when they're actually built. That's typical for most Bay Area communities. So you'd want to give it some time to actually see the real market performance.

Commissioner Rosenblum: I think that the relevant feedback mechanism though isn't the construction of the building itself, it's the application. So you'll get feedback. So you've raised fees and then someone has to go and propose a project and then they put in an application. And so based on a drop in applications you would be able to say well it seems like we've had a downturn that has not affected it versus the time it takes to actually construct it. So based on your experience, what is the delay between there's a whole process before an application goes in. People have to arrange financing. They have to do a concept plan and I'm not a builder so I don't know this. Is this something that you have experience with? So based on building pipeline time periods how long is the average between concept and financing to application going in? Is that a short period like i.e. generally within one year or is it a long period i.e. generally multiple years?

Ms. Gitelman: Well it's generally multiple years and people will have a concept and they'll go through the planning entitlement phase which in Palo Alto can take a year or more and then they'll line up their financing, pull building permits, and start construction. So it is a multi-year process.

Commissioner Rosenblum: Ok. So my first proposal would be then that that this does get ratcheted. It feels like the proposal that is in the memo is short, meaning three to five years and what you said normally you would raise it to the max to the proposed maximum within a couple years. That feels very short because the planning cycles in buildings are probably quite long and so if your whole purpose is to see if this had a negative impact you wouldn't get that feedback. I don't know what the periodicity should be, but that's something that I would say when this goes forward I would like to see some analysis to say this is the right period of ramp, but the three year to full ramp seems low. Seems short.

Then the second issue is around what we're trying to incentivize. And I think there's also concern around are we trying to incentivize more in lieu fees or in this case more onsite units and then what that addresses. And we did a quick during the break we looked at the proportion of RHNA commitments that the City has met and it's abysmal in the middle, for low income for very low it's also abysmal, but less abysmal, and for moderate it's also abysmal, but also less abysmal. So we fulfilled something like 23 percent of our commitment on very low, 3 percent of our commitment on low, and 20 percent of our commitment on moderate. So it's all quite poor, but in the middle it's decimated. And so the second piece is to the extent that we’re shifting at least based on the statement that was made in the beginning of this where I think is aligned with the statement that Pilar has made around depth of affordability that there should be concurrent with this ordinance some way to make units be affordable to households earning 50 or 60 percent of the area median income seems to address this missing middle area. And so that was the second area that I felt maybe some discomfort up here and so the proposal would be to look at the depth of affordability as stated by Pilar as a as something to put within this ordinance.

And then my final area is around the mix of fees. So I think what people are trying to address in Palo Alto in general is lack of housing. And extreme area of that is lack of affordable housing, but we have a lack of housing; we have a lack of market rate housing, we have a lack of BMR housing. And so the final thing I would say is to the extent that we're monkeying with fees I have no problem raising the fees for commercial developments over time and seeing what happens, but I would suggest that concurrently we lower fees for residential developments and see what happens. So in particular you seem to have in your analysis the most profitable unit within residential would be single family units at least based on that bar chart that you showed by far and yet we need smaller units in Palo Alto. And so I would suggest that we zone for what we want. And so if we want more housing then we should be lowering impact fees on housing, but specifically on multi-family or smaller units, rentals and do that concurrent to raising fees on a commercial.

So those are my three areas. So again the speed with which we ramp, so ramp and then figure out the speed. Number two is work on the affordability depth. And number three is consider lowering the fees on housing while raising the fees on commercial.

Chair Fine: Other comments or Motions on this?

Ms. Gitelman: I just wanted to say you know acknowledge those comments. I think those are insightful suggestions that could be part of a recommendation. The phase in, the objective that if someone is building units instead of paying fees in those alternative mechanisms that are laid out in the ordinance that we try and get the hit the sweet spot the low income units that we're not getting any other way. And then the third point about lowering the impact fees on residential I just want to make sure we're clear that currently we have no impact fees on rental housing. So it's at zero. We can't lower it. On for sale housing we have the inclusionary requirement and I didn't know whether you were suggesting that we lower that or we keep that for for sale housing.

Commissioner Rosenblum: Yeah the recommendation includes fees for rental, yeah?

Chair Fine: $50.

Ms. Gitelman: Yeah, currently we don't charge a fee for rental and we're proposing to charge a $50 per square foot fee. It would be a new fee.

Commissioner Rosenblum: Yeah, so it's a good point. I was I was anchoring on that. So my proposal would be that we continue to charge zero for rental and for any other residential I also want to see this get lowered over time. Now it's a the total amount of linkage fees so there are other fees as well, the total amount of linkage fees on any housing I'd like to see go down while the commercial goes up. So if our hypothesis is that this will increase the total amount of housing funds available then we should be able to see an offset. Meaning we should be able to get more if our guess or if our hypothesis is correct that total development won't go down then it should be able to be offset and it would be more attractive for developers to be developing housing versus commercial. So any rate if this is where we're going then I'd like to see the funds come from commercial versus from residential.

Chair Fine: Commissioner Waldfogel.

Commissioner Waldfogel: Sorry, just a quick clarification question. I broadly support what you're recommending, but if a developer were to release a building as rental and then subsequently convert to condo would the impact fee be charged at the conversion?

Ms. Gitelman: There's an in lieu I mean I'm sorry inclusionary requirement when a building converts to condo of 25 percent and I could find it in the ordinance or maybe Cara can help me.

Commissioner Waldfogel: Yeah, I just want to make sure that we're not creating a loophole here if we go down this track.

Ms. Silver: It’s on Page 219 Section 16.650303.

Ms. Gitelman: There it is. So it says that for projects that convert existing rental housing to condominiums or that remove existing rental housing 25 percent of the dwelling units in the project shall be made affordable at sale price to very low, low, and moderate income households.

Commissioner Waldfogel: So that's actually a higher threshold if the developer releases his rental and then subsequently converts than if they release as condo. Is our intent? So it looks like under this ordinance let's say you build a building with 40 units and Scenario 1 is that you release them all as for sale units then you’re subject to the $50 square foot under the staff proposal, but if I walk down this and that's actually it's $50 a foot whether it's rental or condo in the staff proposal. In your proposal if we were to have a lower fee of something for condo units, but no fee for rental units and then subsequently those rentals were converted to condo the at the point of conversion there would be a 25 percent fee, 25 percent of those units would be subject to I'm sorry. Yeah, "shall be made available at affordable sales prices." So that's a higher fee at a downstream conversion then at an initial release. I just want to be clear that that's what we're talking about and I'm not sure that's what we want, but that's what's in front of us.

Commissioner Rosenblum: Yeah, I don't know if you want me to respond to that? I haven't thought that through. It doesn't seem bad to me, but it doesn't I haven't really thought through this.

Chair Fine: I would say the question is if we want to keep them rentals then yes we make this 25 percent higher than the at sale. I don't know that's actually again a policy decision. If we are removing this 50 foot per square foot thing we could just say and explore the possibility of equalizing this 25 percent.

Ms. Gitelman: If I can interject Chair Fine? I think you're right. This is a policy question. This actually comes from the Housing Element. The Housing Element has a policy that includes this provision and I have to guess that it was put in because we wanted to discourage rental housing from converting to condominiums.

Commissioner Waldfogel: Yeah and there's also the question of what existing means in this language whether existing whether if something that's built subsequent to the development of this of this ordinance I mean does existing mean at the point when the ordinance was passed or existing at the point of conversion?

Ms. Gitelman: My attorney says at the point of conversion.

Commissioner Waldfogel: Thank you. It's wonderful to have an attorney.

Chair Fine: Commissioner Tanaka.

Commissioner Tanaka: Yeah, so I appreciate Commissioner Rosenblum's ideas. I think the one thing that I've heard from most of the Commissioners here so far though is that so far the analysis hasn't been very thorough. At least certainly not to thoroughness that we expected, at least the majority of us expected. And what I wonder is it's our duty as Planning Commissioners to make sure that we give solid recommendations to City Council, right? That's our duty. And I wonder whether we're doing our duty if we just try to kind of wing it here or whether we should really take the time to make sure that we're giving a solid recommendation. That we've done our analysis, that staff has had time to do their homework so that when we make a recommendation it's based on because a lot of the decisions are not as staff mentioned aren't things that we could figure out. It's not like a website you could just edit every second or so, right, and figure out what works. These are like decisions that take a long time to see what the effect are and so it's really hard to test and learn and we if we hadn't spent the time to do some basic homework I'm concerned about whether the quality of our recommendation. So I just wanted to throw it out there and get maybe other Commissioner's feedback.

Chair Fine: Commissioner Rosenblum.

Commissioner Rosenblum: Yeah, I want to address that quickly and then I think I'd like to try to make a Motion, but my opinion is actually most that the analysis has been pretty solid and there's been a lot. And specifically the Nexus study is around the return on capital. And I think that it's a or there's a number of variables that go in. It's pretty transparent, but to me that's a great piece of analysis.

The only piece of analysis to me that's missing and it's a big one is when you raise fees by this much does the market for development normally collapse? And so I would like to see some, you have a whole list of cities that introduced development impact fees and linkage fees and what year. And so I think that at the very least saying what happened, just pulling the number of development permits by year in the five years following their adoption of a new fee structure. And I recognize that's not the same as actually statistically valid supply curve, but it would be something where we can look and say oh, most of these cities actually it doesn't seem to make that big of a difference. And I know the response will be well, you don't know what even happened that the following year. It may have had an economic downturn or it doesn't tell the whole story, but the very least we're going to start to look at what happens when you introduce fees.

So I just wanted to [unintelligible] because I think staff did great. Like this report is very good and our understanding or at least my understanding of what the incentives are in development, but where it doesn't really help me is it's not just a Palo Alto market, it's a regional market for development. And so what happens when one city dramatically raises its fees? And so most of my qualms would be addressed by graduated schedule and I think that then I don't have a lot of fear. Like I feel like we can retract if things seem to be going off the rails. So I just want to look at my fellow Commissioners, do we feel like we can start to build at least a series of recommendations or do we still want to have more questions and discussion?

Chair Fine: I think we do have a pretty good consensus on the idea of staggering, on elasticity data, looking at the depth of affordability. The two that I'm not so clear on yet, actually there's three, so one is the deed restrictions whether it's 99 or 55. Two is whether we're charging the $50 per square foot for rental. And then the last one and that we haven't touched on yet is the feasibility requirements for onsite and whether they are too onerous. So I think I think we have some consensus on two or three of items. There are two or three we still need to get through. I think one of the easy ones hopefully is the deed restrictions. It seems like you know we could leave it to the Director's discretion or we can just change it to 55, recommend a change to 55.

Commissioner Rosenblum: Yeah so with the Chair's permission maybe I could try to knock out a couple of the ones that seem less controversial.

Chair Fine: And then we can add to it.

Commissioner Rosenblum: And then get down to the ones that we want to discuss further.

Chair Fine: Please.

MOTION #1

Commissioner Rosenblum: OK, so the first recommendation or Motion is that we recommend that the fee schedule be phased in from the current level. Well, let me just… a fee schedule for commercial be phased in from or I'm sorry for non-residential be phased in from the current level to the Finance Committee direction level over and I'm going to throw a number out here, over a five year period in equal amounts. Anyone want to second?

Chair Fine: I'll second that. But let's actually put a couple of these together and then we'll...

Commissioner Rosenblum: So actually I'd like to just get this one out the way first.

Chair Fine: Ok.

Commissioner Rosenblum: I think it's going to get increasingly controversial.

SECOND, AMENDMENT #1

Chair Fine: Sure. Well, I would second that. I'm going to… are we just going to do this ad hoc I guess? Yeah. I'll add one about asking for increased analysis of the elasticity of these impact fees. Whether it is what we just described in terms of looking at the cities that have raised their fees and just a basic analysis of what the downstream effects have been. Do we have a second for that?

SECOND

Vice-Chair Gardias: I second it.

Chair Fine: Ok. Commissioner Tanaka.

Commissioner Tanaka: Just a point of order. So we have a Motion on the floor so you can't make, you can't…

Vice-Chair Gardias: If you don't mind I just I'd like to propose I mean there is a proposal from Commissioner Rosenblum and in regards to this I'd like to just repeat his intention just to keep this as a separate Motion and then just decouple it from the Motion, potential Motion on the on the ordinance. It would just help us to agree.

Chair Fine: So you're saying if we've got a Motion and a second let's vote on this little piece? Ok. So let's vote on this piece that we recommend the fee schedule for nonresidential phased in from current level to the Finance Committee recommendations over a five year period in equal amounts. Do you wish to speak to your Motion?

Commissioner Rosenblum: No. No further comments on the Motion.

Chair Fine: Ok, I was the seconder. I don't wish to speak for it. Any objections? Commissioner Tanaka.

Commissioner Tanaka: Do you can we make comments?

Chair Fine: Yeah, yeah. Please.

FRIENDLY AMENDMENT #1

Commissioner Tanaka: Ok, so I think in general it makes sense, but the one thing that I'm always concerned about is when like from the dais we're trying to make a policy on the fly. And we're throwing out five years, but it could have been three years. It could have been two years. It could have and so I wonder whether this should really be something that staff can sit there and think about, right, and come back with a recommendation versus us trying to like figure it out right now? Because we don't we're absolutely winging it right now, right?

And so I was wondering whether we could do like a friendly amendment so I'll make a, I'll propose a friendly amendment that what we do is we instruct staff to come back to us with a proposal that's well thought out and researched that we could evaluate and then recommend versus us in 10 minutes trying to figure out what the phasing should be. So I want to offer that as a friendly amendment.

Commissioner Rosenblum: So the quick response to it the reason I did five years is arbitrary, but I would accept the family amendment with a the condition that their recommendation is no less than five years. My fear is that they come back with the recommendation as stated that these are normally in two to three years and I think development pipelines are a lot longer than that. And so I have a fear that we're going to adopt this and it doesn't the whole reason we're doing this graduated schedule is to avoid this kind of development apocalypse where no one wants to develop and then we don't have housing fees and then we're in a pickle. And I think that if you just phase this in very quickly that that is essentially the same as doing it all at once. I don't think you have any advantage. I picked five years as an arbitrary date, but long enough that I'm pretty sure we'll start to get feedback. And so it's not entirely arbitrary and so I don't know if you wanted to on a friendly amendment basis have a min, but I think that might need a minimum.

Commissioner Tanaka: The point of my friendly amendment is really to give staff time to make the recommendation back to us. When they looked at the different options it might be five years, it might be seven years, it might be three years, it might be whatever, but just something where they can rationally have the time. Because we're asking them on the spot to say because they got a comment in which they we just got on our dais I don't know, 20 minutes ago. And so and so it's a little bit unreasonable to expect staff to have a really well thought out plan. So I guess my point is I'm fine with having a minimum of five years, but my main point is I want staff to actually have a chance to think about it and then make a considered recommendation back to us so they have time to do their homework.

FRIENDLY AMENDMENT #1 ACCEPTED

Commissioner Rosenblum: Yeah, so I accept the friendly amendment. So I'll restate as I understand it which is that we recommend that nonresidential impact fees be raised from current level to Finance Committee recommended level over a period that shall be recommended by staff at the next meeting.

Ms. Gitelman: Chair Fine if I can interject? I just want to be perfectly open about this. I think this is a policy call. You're sending us off to do analysis that we can't do. We can tell you what our experience is; I think I've already done that. We can tell you what the stakeholders think the period should be and you have a comment to that effect, but there's no analysis that we can do that will give you the answer to this question. It is really, it's really up to the policymakers. And I think the Council would benefit from your recommendation. They might benefit from a staff recommendation, but there's no one answer that we're going to be able to give you. And I would urge you to just make a recommendation on this tonight without referring it back to us on this question.

Chair Fine: Vice-Chair.

Vice-Chair Gardias: If I may in the same spirit that colleague Tanaka was speaking about so that despite of our recommendations say that we are going to go with the proposal of Commissioner Rosenblum, but that fee schedule it would be still a subject of a change given as some discovery that we may have down the road. Is this right?

Ms. Gitelman: I think the suggestion is to phase it in over five years so that if we see something go amiss or awry we could make adjustments.

Vice-Chair Gardias: Exactly, yes. And then that discovery would come back to this Commission because we would have annual analysis as we were talking about and then this annual analysis would be submitted to this Commission. We would look at that those analysis and those would be providing us with the impact on the BMR stock in the City or number of the submitted projects.

Ms. Gitelman: Well I think the Commission always has the ability to hold a discussion on housing production and related issues in the City. Truthfully fees are set by the City Council so I'm not sure that the question of whether the fee should be changed or the progression over five years should be stopped would come to the Commission, but you could always ask us to agendize a discussion of unit production and we provide you the annual report that we do every April and we discuss whether we thought the fees were having any impact.

Vice-Chair Gardias: Well the reasons that I inquire about this, right, is because that we would have a clear path toward raising or adjusting the rates. Five years it's a long period of time, but it may just put us on some trajectory that we may not want just let's say that recession is going to kick in next year and we will be on the path toward raising the interest, I'm sorry. Not the interest rates, but the fees which would be pretty much inappropriate giving this imaginary condition of possible recession. So for this reason there would have to be a change to stop raising those fees, right, immediately if we see the signal from the market that it's collapsing because of the outside reasons or because of the internal reasons.

Ms. Gitelman: And I'm agreeing that the Commission would be obviously interested in that issue, what's happening in the marketplace. You would ask us to provide you with data on housing production. We would come and have a discussion and you could make a recommendation to the Council that we stop the phase in order or to make some other changes to our entitlement process.

Chair Fine: Commissioner Waldfogel.

FRIENDLY AMENDMENT #2

Commissioner Waldfogel: Thank you. I just want to point out that could you go back to Slide 3 in the presentation because this is what we're discussing right now. So we're talking… if you look at the categories the phasing here is retail, restaurant, other. The five year phasing is $0 dollars per year. So that's easy to calculate. The hotel phasing is what is that? Two bucks a year, a little less. The office phasing is the one that matters; however, we have to realize that this is a marketplace where office is renting for $10 a foot per month triple net and so I mean sort of having this argument about whether we're looking at five year phasing or three year phasing against those kind of rents just seems that really doesn't factor into rate of return for any kind of office project that's taking place in this environment in my opinion. So and I support some idea phasing, but I'd actually like to see I mean what I would suggest is maybe jumping up to the $35 proposal in year one and then phasing off of that so that we at least get something going.

Because I think we've seen from the Nexus study and from other data that staff have presented that this is not going to send office development into a tailspin. I mean the general economy might do that. I mean demand may drop. And if demand drops then no one will develop anyhow regardless of the fee and we shouldn't change the fee if there's no demand. You know that would be kind of silly, but it just seems to me that we're leaving money on the table. And as a reformed sometimes running sales organization guy I hate leaving money on the table and it just feels like we're leaving a lot of money on the table if we phase this in that slowly without taking anything that we can sooner because we're just talking about this one category. So I don't know. Would you accept a friendly amendment to at least jump it up to the February [two sixteen] proposal in year one and then phase it off of that so that we at least get a little bit going and don't leave as much on the table?

FRIENDLY AMENDMENT #2 REJECTED

Commissioner Rosenblum: No, I don't. I don't I just disagree with your analysis that we've been shown that these fees will have no impact on the development of office. And so I agree that we're talking a fairly narrow thing. It's really office R&D and we're talking about five years to get up there. So in year one would be 1/5th of this so it'd be you get up to $28 versus your $35. In terms of money left on the table the whole point is that we don't know if the if adding these impact fees will lower or raise the total amount we raise.

Commissioner Waldfogel: But the point is conversely we don't know that they will that this will have any impact. I mean it could be that raising it to $100 has zero impact. I mean we we're in this state of it's not quite blissful ignorance because we've been presented a lot of data, but I don't think there's I don't think we've seen any evidence. I mean all that we have is kind of Reagan era anecdotal economic thoughts that when you raise prices people buy less of something, but that's kind of unsophisticated economic analysis. I mean it really depends on the shape of the supply and demand curves and you have the demand curve is just driven by the economy and by the availability of venture capital and supply curve is driven by willingness to develop.

Commissioner Rosenblum: Yeah, so all due respect because we don't know the supply curve I disagree with the assertion that we're leaving money on the table. We don't know which way the money goes. And so I reject the friendly amendment.

Chair Fine: Commissioner Tanaka.

Commissioner Tanaka: It's I think moot because it got rejected, but anyways I guess one thought I had I don't want to send us on too many different threads is one of the items on the table is also whether we should really get that sensitivity analysis that we've asked for last time and we all kind of really want this time as well. So, but anyways I think maybe we could talk it out later, but that's something that is something that because I think a lot of us feel strongly about wanting to have that. So if that's the case I think even though staff has mentioned that they want us to make on the fly decision right now it may, it works I think this current Motion as currently amended. Probably means that we could also do this and save the analysis as well.

Chair Fine: So I think that would be the second item, but we are planning to make a set of recommendations and so it seems like we've come to some agreement about the phasing in of the fee schedule over no less than five years in equal amounts.

Ms. Gitelman: I think the… I think the Motion on the table was Commissioner Tanaka's though that we that you wouldn't make a recommendation, you would ask us to do some additional analysis on this issue which as I indicate I'm not sure we can do.

Commissioner Rosenblum: I'm comfortable with that. You despite your pushback and I respect the pushback, but I think that this is the most arbitrary piece which is that I recognize that it's difficult to come back with a recommendation, but I'd still like to support this. Meaning City staff has a lot more information that hasn't been presented over the length of time that it will take to see the effect of a rise in fees and based on your considered opinion I think that would be, it would be useful to say we think that the phases that it should be phased in for N years because this is normally how long it takes to bring projects through to application and to have some logic for the phasing. Because I could have picked you know 10 years or 5 years. Commissioner Waldfogel made an argument to say well, let's take one chunk of it off the table at least one year and the only reason I'm uncomfortable with any of those is I just want to have the time period that seems like we'll get a feedback loop. And so I am asking for your input even though I know it's difficult. And so I think that the Motion is with Commissioner Tanaka's friendly amendment is that for nonresidential that we begin a graduated schedule from existing fee to the Finance Committee recommended fees over a period as that will be determined after the recommendation of staff, but that we work on a graduated basis and that we are going to decide the time period after seeing recommendations from staff.

Ms. Gitelman: You know you of course can make this recommendation and decide that you're going to send it back to us to do something that I'm telling you we really can't do other than give you our opinion which we've tried to do here tonight, but (interrupted)

Commissioner Rosenblum: You haven't given any opinion tonight on the length.

Ms. Gitelman: Well I've indicated that in my experience fees are usually phased in over one or two years. I think you've heard that it takes multiple years to get a project through the entitlement phase in Palo Alto although I don't really understand how that relates to the phase in period that you're suggesting other than that you don't want someone to experience a change in the middle of their process. And I think this is a policy call. I mean it's like do you want to raise the fees quickly and get more money sooner or do you want to take have a longer period so you can evaluate the potential impacts over time? And either one is ok.

Chair Fine: Vice-Chair.

FRIENDLY AMENDMENT #3

Vice-Chair Gardias: So I'd like to just offer friendly amendment actually two. So the first one would be similar to this what my colleague was proposing and I understand was rejected by the Motion person. The friendly amendment would be that we would raise the fee in the [stepwise moat] as proposed by Commissioner Rosenblum subject of revision after the annual review by staff with Planning and Transportation Commission (PTC). So that's the first Motion [Note-friendly amendment].

FRIENDLY AMENDMENT #3 ACCEPTED

Commissioner Rosenblum: Yeah, I accept that. That it will be subject to annual review.

FRIENDLY AMENDMENT #4

Vice-Chair Gardias: Thank you. The second the second item is that I'd like to propose a friendly amendment to include in this step wise to start a market to impose fees on the market on the rental housing at the level of the adjacent municipalities and then start increase from that level.

FRIENDLY AMENDMENT #4 REJECTED

Commissioner Rosenblum: So we're still just talking about nonresidential for this Motion. And so I want to keep that, I'm trying to keep that clean. So if this is a friendly amendment then no. Let's do that as a separate, let's get through this one first.

Vice-Chair Gardias: Ok. I put it on the shelf.

Commissioner Rosenblum: Ok.

Vice-Chair Gardias: For the time being.

Commissioner Rosenblum: So I just would like to ask the Chair for advice because I do accept the friendly amendment from the Commissioner Tanaka; however, staff has said they just can't provide that. And so at this stage I would say probably if we withdraw the friendly amendment and change it to Council, we ask Council to ask staff to give a reasonable time period for phase in of I would say a minimum of five years, but that would be maybe a way around this. But I think from my perspective I don't love just picking an arbitrary number. I would like Council to consider a number that makes sense for a given the length of time it takes to plan and put an application (interrupted)

Chair Fine: So I think if Council doesn't like the number we give them they'll change it. I think it is helpful for us to give some number and from what I'm hearing from Director Gitelman it's one or two years, from some of these folks who wrote in it's up to about three years, so to me the sweet spot seems two or three years. If we want to be safe maybe we do three years? Or we just choose five.

Commissioner Rosenblum: Again, I just to speak to my Motion because I didn't really do it the first time because I didn't think that this would be that controversial. I think when people talk about phasing in of policies and you talk about one to two years to phase in a policy correct me if I'm wrong, but that's like an average policy. It's not talking about impact fees for commercial developments specifically, right? This is just when you have a policy phase in that you generally would do it over a couple of years.

Ms. Gitelman: Well for example we raised our development not our impact fees, but our fees for service planning fees this year and we phased some of them in over two years.

Commissioner Rosenblum: Yeah. Ok, so that's a direct comparable. So my whole purpose in doing this, the only reason why we're trying to do this because we don't have a supply curve and so if we're trying to say we're trying to protect affordable housing fees, but we're unsure how to do that because we don't know what the impact of these new fee structure would be the way to get comfortable is say well it's going to take some time and therefore we can pull back at any time. If we do this over a period of one to two years then it's the same as doing it all at once to me. We're going to learn nothing new after year one. And by year two we're already at full fee and then it's the horse has left the barn. And so if we are picking a number I would ask to withdraw the friendly amendment and I would go back to my original five years. If we're picking a number and letting Council decide if that's too long or too short.

Chair Fine: Ok. Commissioner Tanaka.

Commissioner Tanaka: Ok, so what I think you also have the option to reject the friendly amendment and actually now that I think about it is I don't think the seconder of the Motion actually accepted it either. So in terms of protocol (interrupted)

FRIENDLY AMENDMENT #1 REJECTED

Commissioner Rosenblum: So I would just reject the friendly amendment and go back to my original Motion so then if there are no more friendly moments it is (interrupted)

Commissioner Tanaka: Actually can I? So I guess one thing I wanted to ask staff and it's something which I asked last time and I don't know if you guys were able to do more homework, but have you guys been able to ask or talk with developers about what they thought about this and what the feedback was?

Ms. Gitelman: Well we obviously we heard from nonprofit affordable housing developers. You heard from Palo Alto Housing Corporation this evening and we had a stakeholder meeting, but it was prior to your last meeting and included in the staff report a summary of some of the input we got from that meeting and then there was some subsequent correspondence that you got at your last meeting. Since your last meeting we haven't had any additional discussions.

Chair Fine: Ok, so at the moment we have a Motion on the floor to recommend a fee schedule for nonresidential be phased in from current levels to Finance Committee recommendations over a period no less than five years. Are we still keeping the subject to annual review? Yes. Vice-Chair.

FRIENDLY AMENDMENT #5

Vice-Chair Gardias: Just for clarity, so you accepted? Ok, thank you. I'd like to just have another friendly amendment. We're talking about commercial only, right? So the friendly amendment would be to lower, let me just restate it, to remove fees for known restaurant retail. Currently they are you keep them flat. They are at $20.37 per square foot. There isn't that I'm proposing this because it would be would go along the spirit of preserving retail in the City. I mean not preserving, developing in this sense. Because I think that we if there is anything being developed it's just a restaurant space. So if we get any development of the retail that pretty much that's the reason just to for giving them an opening.

FRIENDLY AMENDMENT #5 REJECTED

Commissioner Rosenblum: I agree with the logic. I haven't thought about it and I'm not sure how to accept it because I literally have given it zero thought, but I know that I agree with logic. I can't accept it though simply because I haven't really thought much about this. I apologize.

Vice-Chair Gardias: Yeah, I haven't thought about this much as well to be honest, but it was reconciling with the conversations that we had on the retail. So I understand my colleague's comment. So what I would propose that and I don't have any other arguments, we don't have analysis for this, right? Because there may be multiple questions so let's revisit this subject. I'm going to take it off the table right now, but let's keep in mind when we hopefully going to meet in some period of time we can revisit the subject how retail is being impacted by the current fees and if we can just provide the opening for more retail non-restaurant retail development if we pretty much zero out those fees. Thank you.

Chair Fine: Ok, yeah. Any other comments on this one or should we vote? Commissioner Tanaka.

Commissioner Tanaka: I think the problem though is with the current Motion on the table it would because I think Vice-Chair actually has a really good point about retail. I also haven't thought about it. I just heard about it a minute ago. I don't think any of us had a chance to think about it, but I think this is another reason why this should go back to staff and the staff actually thinks about it and tells us the pros and cons of why we should or should not do this, but I in general I support the Vice-Chair's idea. It's actually quite, it's a good one.

Chair Fine: I think we're all probably going to think it's a good one actually.

Vice-Chair Gardias: If I may just add, right? This is just for the record, right? Not that we're going to just do anything today, but this there may be different areas that we would consider in the future because surely we would not like to subsidize the Stanford Shopping Center or any retail area in the Stanford Research Park. This would be mainly around the commercial centers of Palo Alto and Mayfield as we pretty much this would not go beyond the boundaries to the big guys, but it would be to pretty much protect the retail or develop retail within the interest of the Palo Alto citizens. Thank you.

Ms. Silver: Yes. Thank you, Chair. So I did want to point out that the existing ordinance does have an existing small retail exemption, so exemption for retail under 1,500 square feet already. So that may serve some of the need.

Chair Fine: Ok. Commissioner Waldfogel.

Commissioner Waldfogel: Thank you. I think there are a lot of really good ideas that are coming out here although I really don't want to design the fee structure on the fly because without having some kind of spreadsheet that even with a static model that looks at revenue production I think we could easily zero it out. And I also don't think that we have to be careful not to zero out fees say for high end computer stores versus say shoe stores or something like that. So we really have to consider the situation.

And I just want to say I mean I'll support the Motion as it's presented. I think five years is too long, but I think that the Council will step in with their wisdom on what the right phase in period is and I just think I would like to just make progress and push something along.

VOTE

Chair Fine: Ok. We can have more Motions after this one. Let's vote to recommend the fee schedule for nonresidential be phased in from current levels to Finance Committee recommendations over a period of no less than five years in equal amounts subject to annual view. All those in favor? All those against? One. Ok.

MOTION #1 PASSED (4-1-1, Commissioner Tanaka opposed, Commissioner Alcheck absent)

Jonathan Lait, Assistant Director: Oh, I'm sorry, Chair?

Chair Fine: Yeah.

Mr. Lait: Just in the past you've given the dissenting vote an opportunity to speak.

Chair Fine: Sure. Sorry. Thank you for reminding me. Commissioner Tanaka.

Commissioner Tanaka: I think it's I kind of said it earlier, but I think we're winging it, right? I think there's we've got some good ideas even on this current recommendation around retail and it's really hard for us to kind of do this on the fly. These are ideas that we're thinking about it and I think that we should try to make because these are some pretty big decisions and I think it's for us it's important to make quality decisions or quality recommendations to Council. So I just feel that in general actually I think it's probably not the Motion's not headed in the wrong direction, but I think that just in the process of the Motion there's been some ideas that could've made it better. And I think you've got to imagine our Council is super busy, right? They're doing a lot of other things and it's really our job to do this kind of screening for them to make sure that we do the hard work. I know it's hard for us to do that and staff it's hard for them to get all the stuff, but I think it's really important for us to get our stuff together so that when it goes to Council is fully vetted. Because if we kind of wing it and then expect Council do it they're even, they have even less time than us. So that's why I think that we should really do homework better.

Chair Fine: Thank you, Commissioner Tanaka. So the other issues I have on the plate that we're going to talk about is the length of the deed, the feasibility requirements, and the elasticity curve data roughly and residential, yep. So let's actually start with the residential side maybe that's kind of connected to this. Can we go to the slide with the residential fees please?

And so the question here was given the City's jobs/housing balance do we want to recommend increased fees in these residential uses? The new one of course being market rate rental housing here it currently is at none and we're going up to $50 a square foot. So happy to entertain discussion or Motions here.

MOTION #2

Commissioner Rosenblum: So I'd like to make just one discrete Motion which is that market rental housing remain at zero and it we'll take on the others as a package in a moment. Any second on that Motion? And to speak to the Motion just quickly I think this is the kind of housing we need. So if we are trying to first if the goals of this are to impact housing affordability in number of ways then penalizing the development of rental housing seems backwards.

Commissioner Waldfogel: I would support some number smaller than $50, but bigger than $0. And the reason for that is that when I reflect on some of the projects that I've seen in the year that I've been on this Commission we've seen things like four bedroom market rate rental housing that doesn't really solve the problem and where it's to some extent it's just designed to skirt around the fee structure. So I mean I think that it again we could have a more nuanced fee structure. I don't think this is the time or place to design it, but I think that something smaller than the other categories would be acceptable $10, $20, but I think $0 probably sends the wrong signal since we're not being clear enough what we want to capture in that intent. I mean if we were saying we want to capture small units, units under you know 800 or 1,000 square feet. I think that would be somewhat clearer, but again I just don't want to design that on the fly tonight.

Chair Fine: Vice-Chair.

Vice-Chair Gardias: I was going to ask the same question that Commission Rosenblum just asked.

Chair Fine: So I see a few lights. Commissioner Tanaka.

Commissioner Tanaka: So one that though that I had actually it was suggested by Commissioner Waldfogel is what if we were to because there's a lot of really great ideas that we've all the talking about, what if we were to assemble kind of a subcommittee of the Commission to actually look at this in depth, kind of hash through a lot of issues, work with staff so that we could get some really good progress, and then have a very solid recommendation for Council? So anyways, but there's a Motion which I'm not sure had seconded yet, but that's something which I'd like to also throw that out there.

Chair Fine: Vice-Chair.

Vice-Chair Gardias: So just from the formal perspective, we don't have a second?

Chair Fine: We do not yet.

MOTION #3

Vice-Chair Gardias: On this Motion so and I'm not willing to provide one. So if that means that we don't have a Motion so I'd like to just propose another Motion. For the same for the same line item to introduce a fee on the market rates rental housing at the level of adjacent municipality which is Mountain View at the rate of $15 per square foot.

SECOND

Chair Fine: So the Motion of the floor is to introduce a fee for market rate rental housing at level of adjacent municipalities around $15 per square foot. Before a second that let me look at the table. I'll second that. Do you wish to speak to your Motion?

Vice-Chair Gardias: Yes, so the reason behind this is pretty much that understanding the intention that Commissioner Rosenblum provided I just think that there are some other reasons here that we would be pretty much leaving ourselves out of the rental market by just being noncompetitive because of different reasons. And then because everybody else around us has the rental fee I think that we also because of the market forces we should include one as a starting rate for eventual adjustment or some other increases as provided by the Finance Committee.

Ms. Gitelman: If I can just ask a clarifying question? We're looking at the table in the report it looks like Mountain View's fee for apartments is $17 a square foot and Redwood City's is $20. So I'm just wondering if the Commission wants to choose one of those or (interrupted)

Ms. Murillo-Garcia: Yeah so that it's on packet Page 235. So they were updated since the Nexus study. There was a supplemental memo provided in I believe April and that's in the packet.

Chair Fine: Mountain View $17. Redwood City $20.

Vice-Chair Fine: So in this case I would revise it to $17 as a pretty much introductory rate. Starting this year.

Chair Fine: So although I am willing to support this. I think there is a good point made by my colleagues here that we're kind of choosing numbers just based on our adjacent municipalities and given that we weren't quite ready to look at restaurant non-retail we may want a subcommittee on these things to essentially look at these different chunks that we think we've got some consensus on the nonresidential side of things, but in terms of market rate rental housing and non-restaurant retail it sounds like we're interested in exploring them more and that may be a good place for a subcommittee for this Commission.

Vice-Chair Gardias: Yeah, I totally agree. I mean not only those two, right? We would just be interested in all of them, right?

FRIENDLY AMENDMENT #1 TO MOTION #3

Chair Fine: Ok, so I'm going to make a friendly amendment then to explore the introduction of a market rate rental housing impact fee via subcommittee. And let's while we're at it do restaurant nonretail. That was the one you proposed earlier (interrupted)

FRIENDLY AMENDMENT #1 FAILED

Vice-Chair Gardias: No, no, no. I would not accept retail and restaurant at this moment because there may be this may be subject of a larger discussion. So I think it would be, hold a second. Let me just take it back. The study should also look at the retail excluding restaurant fee. So in terms of the research work yes I totally agree.

Chair Fine: So will the subcommittee include the?

Vice-Chair Gardias: Subcommittee research.

Chair Fine: Yes?

Vice-Chair Gardias: Yes.

Chair Fine: Will include both.

Vice-Chair Gardias: Would include both.

Chair Fine: Ok.

Ms. Gitelman: Commissioner Fine [Note-Chair] if I can just interject? I'm I think we're getting the picture that the Commission does not want to make a recommendation to the Council this evening, but we do have resource constraints. I mean you're looking at a staff team that's really overburdened with a lot of work going on. So I think we can support a meeting of a subcommittee, but if this is a long research project and multiple meetings of the committee I think we're going to have a real problem giving you the kind of support that I think you're looking for.

Chair Fine: Ok. I appreciate that. I just think we all feel this is not something to rush and you know us painting numbers is a little dangerous given the impact of these impact fees. Can you explain to me if there is any urgency within the City to pass these? I know there was a target date for Council, but…

Ms. Gitelman: Yeah, well the Housing Element indicated that we would do this within the first year or two of the Housing Element I think. I mean so we are overdue for this. We've been promising to get this to Council for a year and it took longer than we thought at the Finance Committee and we had to provide them with some updated information and then your this Commission asked for updated information at the last meeting. So I mean we're already overdue and it's understandable if you want to take a little more time with this, but I think we would like to move efficiently maybe one meeting of a subcommittee offline and get this back to the Commission in short order would be good.

Chair Fine: We agree to that? Ok, I think you've got a consensus here from all of us.

Ms. Gitelman: Ok and I just to be honest there's not a lot of additional analysis we're going to be able to do. We can of course bring to the subcommittee our professional judgment and experience and have a further discussion of many of these issues.

Chair Fine: Ok, thank you. So the Motion here that we've got is to form a subcommittee to explore the fees on the residential impact fees and on the retail non-restaurant. One meeting subcommittee. All right, should we vote on that? Or do you want to speak to it or on it?

FRIENDLY AMENDMENT #2 TO MOTION #3

Commissioner Tanaka: While we're at it I know staff feels like they cannot do anything [unintelligible] analysis, but I think Commissioner Rosenblum has a really basic thing to do which is look at neighboring cities. So maybe this is the subcommittee can also help get that going as well so that when you come back to us again we're not like so where is the sensitivity analysis or we have something, At least some data, something that something's better than nothing at this point. So I'd like to make that a friendly amendment that we that's another thing the subcommittee could work on is getting some sort of and maybe [unintelligible] calling [unintelligible] analysis is too much. Maybe look at what happened when the fees went up at other cities. We don't have to call it [unintelligible] analysis because that's maybe too bold of a goal, but let's look at what happened.

FRIENDLY AMENDMENT #2 REJECTED

Vice-Chair Gardias: So if you don't mind I would not accept it based on the same on this just to pretty much align this work with the other work that staff would be doing. I think that this is a valid request, but just not to piecemeal ourselves I would ask you just to have this request aligned with the request that we had to the staff and just provide those analysis to us on the annual basis.

FRIENDLY AMENDMENT #3 TO MOTION #3

Chair Fine: Ok. I'm going to make one friendly amendment that the subcommittee come back to this Commission with a clear recommendation; so data behind it, analysis, reasoning, but a clear recommendation that hopefully the Commission can just run with.

FRIENDLY AMENDMENT #3 ACCEPTED

Vice-Chair Gardias: Accept.

VOTE

Chair Fine: Ok. Any other comments? Alright, let's vote on this one. So we are recommending we're going to form a subcommittee to explore the fees for residential and retail non-restaurant, a one meeting subcommittee to come back with a clear recommendation for this Commission on those two items. All those in favor? Thank you very much.

MOTION PASSED (5-0-1, Commissioner Alcheck absent)

Ms. Silver: So chair will that subcommittee appointed by the Chair or do you want to have a discussion of who should be on the subcommittee?

Chair Fine: Does anyone want to volunteer? Commissioner Rosenblum, Commissioner Waldfogel, is that satisfactory to us? Ok, thank you.

So the items that I still see on my list and please remind me if we have more, there's the deed restriction, there's the feasibility requirements, and there's the elasticity curve analysis. So I'm just going to take one of these. The deed restrictions currently as it stands we're recommending 99 years, but at the Director's discretion they can be lowered to 55 years for low income housing tax credits. Is that correct?

Ms. Gitelman: Yes, I think that's what Cara suggested we add.

Chair Fine: Ok. And why did we choose 99 years? I'm just…

Ms. Gitelman: I think we were going for the longest duration of affordability that we could.

MOTION #4, SECOND

Chair Fine: Ok. So in order to promote the use of low income housing tax credits where appropriate I'll make the Motion that we recommend 55 years instead of 99. Do we have a second? Seconded by Commissioner Waldfogel. I'm not going to speak to it. Would you like to?

Ms. Gitelman: Chair Fine? Could I ask a clarifying question?

Chair Fine: Sure.

Ms. Gitelman: So is your intention that even the inclusionary units that are created in for sale projects would only be restricted for 55 years or just that any units created as an offsite as an alternative?

Chair Fine: So the deed restricted ones are, so the onsite ones are unlikely to garner low income housing tax credits anyways, right?

Ms. Gitelman: That's right.

Chair Fine: And given a rough building span of 50 years approximately I'm not sure it matters. See I would say both.

Ms. Gitelman: Ok.

Chair Fine: Commissioner Waldfogel.

Commissioner Waldfogel: Yeah and just to something I don't know about these programs is whether anyone ever refinances into those programs. Is this something that we have to think about subsequent to the I mean are we setting it to 55 categorically? So that even a refinance would qualify?

Ms. Gitelman: I'm not sure I understand the question. I think the Chair's Motion is that the 55 year duration would apply whether it's an ownership unit that's built through the inclusionary program or a rental unit that's built as part of an alternative (interrupted)

Commissioner Waldfogel: Ok, so we're setting that across the board then at 55?

Ms. Gitelman: I think that's the Motion.

Commissioner Waldfogel: Yeah, ok. That's I'm good with that.

Chair Fine: I see a light from Commissioner Tanaka.

Commissioner Tanaka: Well my thought is since we formed a subcommittee why don't we just have all these other items go to the subcommittee, have them hash out and figure out the nuances? And maybe what we could use our time here to do is bring up other issues that we're concerned about, want more exploration, and that way the subcommittee could work on those items as well.

Chair Fine: So I think subcommittees are going to be helpful and I think in the past when it was on this item though I think it's a pretty clear line where we're saying we want to be 55 so projects can get low income tax low income housing tax credits. If we want those available for projects here we need to make this change or they need to done at the Director's discretion. So I'm I wouldn't support a subcommittee on this one, but I think there could be others actually because I mean like what are we going to choose 54 or 56? It's like 55 is what gets us what we want and preserves the housing as long as possible. Is that fair?

Ms. Gitelman: I'm not sure what you're asking. I mean 55 is what was requested because that's the maximum you can get and qualify for the tax credits.

Chair Fine: Right, right, right. So we wouldn't do 56 here in Palo Alto.

Ms. Gitelman: No.

Chair Fine: And there's no point in us doing 54 really because then we're losing a year of affordability.

Ms. Gitelman: Right.

Chair Fine: So 55 is pretty much the number. It's that or (interrupted)

Ms. Gitelman: I think the two choices are you do 99 for the inclusionary program and 55 for rental housing that's created in lieu of bank fees or you do 55 for both.

Chair Fine: So right now it's 55 for both? So should we vote on this?

Commissioner Tanaka: Chair can you restate the whole Motion just so that it's all clear?

VOTE

Chair Fine: Sure. So we're changing the deed restrictions for both types for inclusionary and for in lieu fees to a 55 year deed restriction. As it stands in the ordinance it said 99. And the reason we're doing this is because of the need to garner low income housing tax credits. Good?

Alright, all those in favor? Five and O. Thank you.

MOTION #4 PASSED (5-0-1, Commissioner Alcheck absent)

Chair Fine: So the next items I've still got here are the feasibility requirements to produce to pay in lieu fees instead of building it onsite and a increased analysis on elasticity curve. If somebody wants to cue those up? Comments, questions, Motions. Vice-Chair.

Vice-Chair Gardias: Just giving the amount of the ask that we impose on the staff I would suggest that this is part of the annual review that's going to occur after at the first review of those fees. The request for the elasticity analysis would not be, we would not be asking staff to provide soon. We would provide to, we would ask staff to provide us at the time of the first annual review of the changed fees.

Chair Fine: I think the feeling and others should speak up was that before we choose those targets of you know whether it's $50 or $60 we wanted to see that sensitivity analysis. I think that was a feeling it may actually behoove us to look at each year again. I don't know if that's too onerous for staff, but (interrupted)

Ms. Gitelman: Chair Fine if I can interject? I mean you did make this request at your last meeting and we've provided you what we and our consultant can on the subject. I don't know that we can give you what you're looking for. There would just be too many assumptions involved in doing that kind of analysis and we just think it gets, it would not be fruitful and I'm hearing from our consultant that she can't do it.

Chair Fine: Ok.

Ms. Gitelman: So I think alternatively what you've suggested that we poll other jurisdictions who have raised their fees to see if they've noticed any change in their applications coming in as a result of those fees and we can make some phone calls and see if we can glean anything from them, but happy to do that, but that's short of the analysis I think that you're looking for.

Chair Fine: I think personally I think I would be a start. Commissioner Rosenblum.

Commissioner Rosenblum: Yeah. My recommendation would be it's not we'll stop calling it a supply elasticity analysis because I think that is a term of art and probably is beyond what is achievable. In terms of what I would like as part of this new subcommittee in terms of the data support it is a polling of jurisdictions that raised their impact fees and then a time series of say the five years before and after. So for example, if you know a city X., Mountain View, adopted a new 25 raise their impact fee for rental housing by $25 just making up these numbers in 2010 then I would want a time series of the number of rental unit applications that came on between 2005 and 2015. And on the Palo Alto City website I know not all cities are like Palo Alto, but we have an open data portal and it has a number of applications by type by year. And so I've downloaded that. I don't know how many cities have that available. I'm, well… yeah I literally you know better than I do so if it doesn't exist, but it would be strange that it doesn't exist because that is one of the functions of government is to get building approvals so or permits.

And so that is one of those numbers I'm sure every jurisdiction does have to have. And so that's the minimum I'm just asking for is what was the raise of the fee in a time series that brackets that raise five years before five years after. So and then I think Commissioner Waldfogel and I will be more effective when we meet to discuss where we think a level should be. We'll at least be able to have points of comparison. Is that acceptable?

<u>Ms. Gitelman</u>: Well we can certainly contact the other jurisdictions and try and see if they have the data available, can make that data available to us. I just don't know whether it's going to be available or not. I also don't know whether you can draw causality conclusion from that that's meaningful at all frankly. And maybe we'll get the data you'll see whether you can or you can't.

<u>Commissioner Rosenblum</u>: So I don't know if we're making a Motion on this, but I would be my ask is that staff prepare a reasonable sampling of jurisdictions that have raised their impact fees in the last 20 years and provide a time series of relevant building starts. So if the impact fee was about rental housing then it's about rental housing permits five years before and five years after as a time series. Is that or is this not something to bring to a Motion? I… it's a request. I don't know if it's something that we want to make as a formal Motion.

<u>Commissioner Waldfogel</u>: [Unintelligible] that the Census has some building permit data. They do, they do have some building permit data, but it may not be quite the granularity that we want. It's county level.

<u>Ms. Gitelman</u>: And just to clarify we're talking about the residential side here, right? The residential rental or are you talking about other fees as well?

<u>Commissioner Rosenblum</u>: So it would be the type of development versus the type of fee. So if a fee was adopted that affects office buildings in Mountain View then I'd like to look at office buildings before and after. If it was [unintelligible] so similar to what we're doing we're having a table of fees that we're adopting. So I want a match between the type of fee and the type of permit.

<u>Ms. Silver</u>: So in my experience with when cities do increase their impact fees they don't tend to increase individual fees. There's they generally hire a consultant, they look at all their fees. So we're probably talking about 10 different impact fees going up at the same time and it's going to be difficult to draw conclusions on which one of these impact fee increases caused something. So that's obviously something for the committee to consider, but I want to have that expectation going in. Also I don't think we're going to find many cities that where that the impact fees have gone up as significantly. You'll see something from a $1.37 a square foot to you know $2.47 and maybe proportionately it's 100 percent increase or a 50 percent increase, but it's just not going to have the type of impact on the development costs that could be helpful.

<u>Commissioner Rosenblum</u>: Yeah I appreciate both points. It's a second point that concerns me. Like if no one else does this, no one else just takes their fees and triples them in a year and so I mean this by itself should be a big red flag to us and so this is part of if there is an impact even from fairly minor fees then that would be another big red flag to me that it's not that you can

charge every you want within the limits of the studied return on capital and that it will all be somewhat indifferent to a builder. But I appreciate the point which is we may not get out of this what we want and it may still be inconclusive because no one compares to Palo Alto in terms of the proposed raising of fees like the steepness of what we're proposing to do. It maybe that no one does this.

Ms. Gitelman: And there are just so many variables. I mean the one area where we might be able to glean something is the rental housing fee because no jurisdiction has been able to charge a fee on rental housing and some jurisdictions have instituted them in the last couple years. So and they've gone from so 0 to 17 or 0 to 20 and so that might be a fruitful investigation although we'll only be looking at the two years since they did it or the one year and a half since the jurisdictions have done it.

Commissioner Waldfogel: Well it may also turn out that land price increases are a good proxy for this because the land prices have gone up substantially over the last couple of years and we can look at whether that's had an effect on starts. I mean it's effectively the same thing.

Chair Fine: It's close.

Vice-Chair Gardias: Yeah, but just sorry to interject, but I'm afraid that those analysis that we may misdirect staff on to do some analysis that will be pretty much meaningless. I was hoping and that's how I read Commissioner Rosenblum's intention just to increase the fees in the stepwise Motion that pretty much this will just test market to us, will give us the readout of the market and will also allow us to provide to conduct those analysis. And for this reason when I spoke before I just talked that let's just ask the staff to do this after we raise the fees then this analysis would be on our municipality and then they would be meaningful in this way.

Chair Fine: Commissioner Tanaka.

Commissioner Tanaka: Yeah, actually I had my light for another item so.

Chair Fine: Ok. So…

Commissioner Tanaka: But I did want to say one thing though is that if Commissioner Rosenblum did want to make a Motion on that I would second it.

MOTION #5

Commissioner Rosenblum: Yeah, I would like support on this. I think Commissioner Waldfogel and I are going to spend our time trying to figure this out. And so to the extent that staff can make an attempt to poll a basket of jurisdictions to extent that time series is available I think we would appreciate having the additional input even though we recognize that it may not be decisive. But it's a big question in my mind to the extent that other jurisdictions have done fee increases to understand what the what happens. I also by the way agree with Commissioner Waldfogel. There may be another better data set which is just land prices in general as a impact on development and we can look into that our own, but I would appreciate that staff probably has connections with other jurisdictions that we don't have because we're not in this business. So the Motion would be to ask for a bundle of cities with the with a time series of permits.

SECOND

Chair Fine: All right. I think we've discussed on this one. So that's I'll second that. So the Motion is that staff prepares a reasonable polling of jurisdictions that have raised fees over the past 20 years earlier, we'll see. And include time series data for relevant development types. That data will be provided to the subcommittee. All those in favor (interrupted)

Ms. Gitelman: I'm sorry you said 20 years? Is that what you said?

Commissioner Rosenblum: [Unintelligible] last 20 years. Doesn't have to be comprehensive, just saying that [unintelligible] more than 20 years old is irrelevant.

Ms. Gitelman: I'm sorry, can we get some clarification on this? This is turning into an enormous analysis. I mean we have in the report all of the recent all of the jurisdictions that what their current fees are. Many of them were just set or adjusted in the last couple years. And so I think we could easily poll Mountain View and Redwood City going back the last few years to find out how they changed their fees and what their applications were for office space and for rental housing, but to go back 20 years (Interrupted)

Commissioner Rosenblum: The ask was not that it's a comprehensive basket. The ask is that there's a reasonably representative basket and that anything within the last 20 years to me would be fair game so that if there were a relatively steep increase that took place 10 years ago in that that I would be interested in. I'm doing this for your benefit actually to say that a relatively large increase within the last N years would still be of interest. It addresses the issue of things that just happened last year are going to be harder to draw conclusions from. So I'm saying look at anything that's happened in the in the recent past.

Ms. Gitelman: We're happy to ask our peers in other jurisdictions. I don't know what it will yield, but we'll ask.

Commissioner Waldfogel: Can I just? I'm not sure we need a Motion for this. I mean I think that we can really rely on staff to support the effort and you know, but let's just be reasonable.

[Commissioners off microphone agreeing]

Chair Fine: Alright so then the last thing I've got on my list unless you all have something else is the feasibility requirements which from what it sounds like will make it harder to produce in lieu fees and will incentivize development onsite. So I'm going to clear lights. Any thoughts? This in my opinion this gets to Commissioner Rosenblum's point that we haven't done great at producing affordable housing in general, but this change will definitely shift it towards more moderate spectrum of affordable housing since that's more reasonable to be built onsite. Is that purposeful in this ordinance? I don't know.

Commissioner Rosenblum: Yeah as a discussion point the ordinance says it is purposeful, right? That the City has a policy of wanting to produce more onsite units so I think that is purposeful. And again I would I be happy to also make a recommendation back as part of the subcommittee that the two issues we take on is fee structure and the kind of balance of in lieu verses inclusionary. I think is the second issue that I'm not sure I've had the depth to really say it's the right balance or not.

Chair Fine: Other comments? So we're just giving that task to the subcommittee then and we don't necessarily need a Motion here?

Commissioner Rosenblum: I want to ask Commissioner Waldfogel if he's comfortable with that as an expansion of (interrupted)

Commissioner Waldfogel: Yeah, absolutely. I mean we may need a little bit of stakeholder discussion to sort that out, but as long as we do that I think we're good.

Chair Fine: All right. Any other? Vice-Chair.

MOTION #6

Vice-Chair Gardias: Yeah so I would like to propose a Motion on the item that I spoke before. It is pretty much to change from the below three units to retain the language that we had in the current municipal code of five units and above. I already provided the reason.

Chair Fine: Is there a second there? Could you restate your reason?

Vice-Chair Gardias: So the reason was that pretty much so there are two reasons. One reason is that building four units is recognized by some of the laws that I'm familiar with and I named one which is allowing non-licensed individuals to design and build housing that has up to four units. And this so that's one reason. The second reason is just to take burden of those property owners that have small lots and then allow them to expand within the on lots that they currently own and I think that there is number of the individuals that haven't expanded for years and I'd be happy to support their abilities to expand their property with adding units because I think that they provide certain value to this municipality. And one of the example was that pretty much some of those owners they have retail space that is flexible to variety of different economic factors.

Chair Fine: So are you talking about somebody who owns a parcel and well what does it have to do with the fact about the licensure? That's where I'm not sure.

Vice-Chair Gardias: So it's a the State law allows individuals, State law with this way allows for individuals building up to four residential units to do this at the lower cost because it doesn't impose regulations upon them.

Chair Fine: Ok, I got you now. So you're saying essentially this allows a little bit of flexibility if you're a land owner builder and you're doing yourself to build those four units without paying the impact fee.

Vice-Chair Gardias: Yes you do this cheaper pretty much.

Chair Fine: Ok. So that I think actually is a good thing in a way, but the balance there is that I think the City's purpose here in lowering from five to three is we don't want developers shooting for four so they avoid the inclusionary impacts. And frankly I'm not sure how many folks here in Palo Alto are doing what you're saying, building the four units. It's probably pretty rare, right? I don't know unless you know of examples, but…

Vice-Chair Gardias: Yeah I don't know specific examples, but when I was talking about I just I cited some conversations that I had with some owners of small properties and they were just giving me the options that from their perspective they could either develop their properties on their own, but that would be very hard giving variety of different constraints or be pretty much be bought. So many of them are just waiting for the opportunity to be bought by the larger developer that would have that has capability capacity to develop this property on the larger scale. So for this reason I would like to just give them opportunity to keep developing their properties if that would give them some opening to do so.

MOTION #6 FAILED

Chair Fine: Any seconds for that? Ok. So are there any other issues folks would like to send to our subcommittee or back to staff here?

Ms. Gitelman: Chair Fine if I can interject? There was one issue that came up in the course of the discussion that I thought was really great which was Commissioner Rosenblum’s suggestion that when we get to the section of the ordinance about alternative methods to comply if someone wants to build units instead of paying the fees that we focus those opportunities on the low income range. And so that's a good recommendation that we could take to the Council in your recommendation about the fee ordinance if you wanted to pursue that further.

Chair Fine: Can you go a little (interrupted)

Ms. Gitelman: Yeah, ok so the way the ordinance is drafted it requires onsite units for the for sale part so the inclusionary program and it requires payment of fees for rental and then it provides and payment of fees for the commercial and mixed use and it provides alternate mechanism so if an office project didn't want to pay the fee they could build units off site. And if a rental project didn't want to pay the fee they could build units onsite or off site. And so there are a bunch of alternatives in the ordinance and we could specify or you could recommend that those alternatives focus on the production of low income housing. Because it's where the gap is.

Chair Fine: Yeah, ok. I get you.

Commissioner Rosenblum: Yeah this is what's referred to in the memo submitted by SV@Home as depth of affordability. And this is addressing the donut problem. Yeah. And so this one again her recommendation is that requiring a portion of the units to be affordable to households earning 50 or 60 percent of the area median income. So she's trying to address that. This one the reason I didn't bring it up again as Motion is that I'm not sure I understand the policy lever. I know that it's I know this is an issue but I'm not sure I know what to recommend exactly. So what the tool is. I don't know if my colleagues do and I don't know if staff does. So what exactly is the recommendation here?

Ms. Gitelman: Well maybe Cara can help, but I think that it would be useful if the Commission could say to the Council that in setting the fee structure for these alternative provisions and the level of affordability required if you're going to provide units instead of paying the fee that our priority is in the low income category. And we can when we come back we can bring you maybe a recommended Motion on that.

Commissioner Rosenblum: Ok I would appreciate that. Yeah. And so the language here for my colleagues would be at the stage that the Commission recommends that units formed as a result of these impact fees be steered towards disproportionately towards low income so versus very low and moderate. So fill in the gap where we've only hit three percent of our goal.

Chair Fine: Commissioner Waldfogel.

Commissioner Waldfogel: I'm sorry I just have a question because do we need to do more here than to just send basically send the money to Palo Alto Housing and offer them their discretion? I mean they seem to be the appointed agency to do (interrupted)

Commissioner Rosenblum: No there's an actual reason why they do it. They're not doing this out of like there's a there are policy levers here in terms of where you get tax credits and where incentives are. So that's what I'm saying that I don't know what the specific recommendation is in order to reverse that incentive. There's an incentive issue at play.

Ms. Gitelman: Yeah. As I understand it there's a gap. The low income housing producers are getting tax credits for very low income units and the in lieu program is generating moderate units so there's a gap between those two. The inclusionary I'm sorry is getting moderate units and the low income housing producers are getting tax credits for very low and so there's a gap at the low income level. And so you would be saying that any alternatives to paying the fee should focus on meeting that need.

Commissioner Waldfogel: Yeah it’s well, it seems like a good goal. I'm not just not quite sure how to achieve it based on this discussion. We need to dig a little deeper because I don't want to send something toward something that just doesn't that for market reasons can't exist. So we need to sort that out.

Ms. Gitelman: Yeah.

Chair Fine: Ok. So I mean this is something I would empower you on the subcommittee to look at also. Vice-Chair.

Vice-Chair Gardias: So I mean there is a language in the this is the Paragraph 16.6530 that pretty much talks about the structure of the fees distribution and then there are it says specifically that it just gives certain percentages or parts towards certain household earnings. So that's the example of this of the market that we would be that we would have to address by making potentially changes to this ordinance.

Chair Fine: So I guess this can be the part that the subcommittee focuses on?

Commissioner Rosenblum: Yes, we'll take that on. So it said as far as I know we're looking at three issues which is the propose fees, the incentive alignment between in lieu versus inclusionary, and then this how to direct these funds towards addressing low income disproportionate to very low and moderate.

Chair Fine: Agreed. Vice-Chair.

Vice-Chair Gardias: Yes that was exactly what I was trying to address by pointing to the specific paragraph. There is one comment that I would like to make a because and I because I just want to make sure that when our colleagues emerge from the discussion and provide their recommendation they value they evaluate the potential they evaluate the units that we truly want to subsidize. And I heard some comments here about different the size of the units that we would be subsidizing and giving our discussions about the small units in Palo Alto I would like to just make the statement that I'm not really sure if that is that this should be the true objective of our analysis. There reason is that Palo Alto has a specific corrector and micro units or very small units are not in the nature of this of this City. So I just wanted to make this comment that if you're going to just provide make your analysis please just take a look at the units that are being currently offered on the market as opposed to those that we eventually would like to have because I'm not really sure if that discussion is truly a resolved. Thank you.

Chair Fine: Ok so it looks like we've reached agreement on two substantive things. So one is the fee schedule for nonresidential phased in over five years. The other is changing the deed restrictions to 55 from 99. But then our continuation of this item will be for the subcommittee to explore these three items to find a clear recommendation on the fees for residential and retail non-restaurant, alternatives that focus on the low income donut hole, and then also to explore the fee structure plus the balance of inclusionary versus in lieu housing fees. Any other comments or should we close this item for that for tonight and then those two subcommittee members who are so graciously giving their time are Commission Rosenblum and Commissioner Waldfogel. Thank you both. Hopefully when you guys come back we'll be able to look at it quickly and say great let's pass on the Council. Any other comments on this item tonight? I'm sorry we're not finishing it tonight. All right let's finish this item and then I think we have just one more tonight.

Ms. Gitleman: Thank you, Commissioners.

Chair Fine: Thank you.

Commission Action: Motion to form a sub-committee consisting of Commissioners Rosenblum and Asher. Motion approved 5-0-1, Commissioner Alcheck absent

Study Session

Public Comment is Permitted. Five (5) minutes per speaker.

Approval of Minutes

Public Comment is Permitted. Five (5) minutes per speaker.

2. August 10, 2016

MOTION

Chair Fine: So the last item is the approval of minutes from August 10th. Do we have a Motion? Ok, I'll move that we approve the minutes of August 10th. Do have (interrupted)

SECOND

Commissioner Rosenblum: Second.

VOTE

Chair Fine: Thank you. All those in favor? Ok, all in favor. Thank you so much.

MOTION PASSED (5-0-1, Commissioner Alcheck absent)

> **Commission Action:** Motion by Chair Fine, seconded by Commissioner Rosenblum to approve the August 10, 2016 Minutes. Motion passed 5-0-1 with Commissioner Alcheck absent

Committee Reports

Chair Fine: I don't have any committee reports. Citizen Advisory Committee (CAC) has not met for a few weeks now, not since our last meeting although Council did discuss the scenarios on Monday night. All right thank you all so much. This meeting is adjourned 9:18.

Commissioner Member Questions, Comments or Announcements

Adjournment: 9:18 pm

Palo Alto Planning & Transportation Commission

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Chair Adrian Fine
Vice Chair Przemek Gardias
Commissioner Michael Alcheck
Commissioner Kate Downing
Commissioner Eric Rosenblum
Commissioner Greg Tanaka
Commissioner Asher Waldfogel

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Write to us. Email the PTC at: Planning.Commission@CityofPaloAlto.org. Letters can be delivered to the Planning & Community Environment Department, 5th floor, City Hall, 250 Hamilton Avenue, Palo Alto, CA 94301. Comments received by 2:00 PM the Tuesday preceding the meeting date will be included in the agenda packet. Comments received afterward through 2:00 PM the day of the meeting will be presented to the Commission at the dais.

Material related to an item on this agenda submitted to the PTC after distribution of the agenda packet is available for public inspection at the address above.

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Attachment G

STRATEGICECONOMICS

DRAFT MEMORANDUM

Date:	April 18, 2016
To:	Eloiza Murillo-Garcia, City of Palo Alto
From:	Sujata Srivastava, Strategic Economics
Project:	Palo Alto Housing Impact Fee and Commercial Linkage Fee Nexus Studies (1401c)
Subject:	Supplementary Memorandum Report

INTRODUCTION

The City of Palo Alto is interested in adopting a new affordable housing impact fee on new residential development, and updating its commercial linkage fees on hotel and office/R&D/medical office development. The purpose of these fees is to mitigate the impact associated with new development on the need for affordable housing from new worker households. In February 2016, Strategic Economics completed draft nexus study reports for the commercial linkage fees and housing impact fees. This memorandum report is a supplement to the nexus studies, providing updated information and analysis including:

- Existing city fees and permits for housing and commercial development prototypes in Palo Alto;
- An updated table on existing linkage fees and housing impact fees in other jurisdictions; and
- A comparison of the potential housing impact fees with Palo Alto's existing below market rate (BMR) housing policy for ownership units.

EXISTING CITY FEES AND PERMITS

The City of Palo Alto has existing building permit and development impact fees on both residential and commercial development. **Figure 1** compares the total existing permits and fees for the office/R&D/medical office development prototype with the residential prototypes. As shown, current city fees and permits for the office/R&D/medical office prototype, including the existing commercial linkage fees, are higher than for the residential prototypes.

If the recommended linkage fees and housing impact fees for each prototype are applied, the total combined city fees and permits by prototype would be highest for single-family detached units ($13.3 million), followed by the office/R&D/medical office prototype ($7.2 million). Under the recommended housing impact fee scenarios, the total fees and permits for single-family detached, condominiums, and apartment prototypes would be much lower, ranging from $1.4 million to $2.2 million.

COMMERCIAL LINKAGE FEES AND HOUSING IMPACT FEES IN OTHER BAY AREA JURISDICTIONS

A number of Bay Area jurisdictions have commercial linkage fees and/or housing impact fees in place. **Figure 2** summarizes the current commercial linkage fees in cities in San Mateo County and Santa Clara County as of May 2016. **Figure 3** shows current housing impact fees in Bay Area cities by housing type, as of May 2016.

COMPARISON WITH BELOW MARKET RATE HOUSING POLICY

For ownership units, Palo Alto has an existing Below Market Rate (BMR) Program requiring that 15 percent of the units in market-rate developments consisting of five or more housing units be sold at below-market rate prices.[1] Two-thirds of the BMR units are to be affordable to households earning between 80 percent and 100 percent of the area median income (AMI) for Santa Clara County; one-third of the BMR units must be affordable to households earning between 100 and 120 percent of AMI. City policy generally requires that the BMR units be provided on-site, and that the BMR units are comparable to the market-rate units. In some cases, developers have the option of paying an in-lieu fee of between 7.5 and ten percent of the sales price or fair market value, whichever is greater. When the BMR percentage results in a fractional unit, the developer has the option of paying the in-lieu fee on the fractional unit.

Figure 4 compares the cost of the housing impact fees for ownership products to the cost of either providing the inclusionary units on site or paying the in lieu fees. As shown, if a developer pays the in-lieu fees for the inclusionary units, the cost is between $17,000 and $40,000 per market-rate unit, depending on the prototype. However, under most circumstances, developers in Palo Alto build units onsite rather than paying the in lieu fees. The calculated cost to the developer of providing units onsite - known as the “foregone revenues” – is measured as the total gap between market-rate and affordable prices for the affordable units. The foregone revenues for providing units onsite are $460,000 per market-rate unit on single-family detached units; $307,000 per market-rate unit for single-family detached units, and $160,000 per market-rate unit for apartment units. The maximum and recommended housing impact fees per unit for all the housing prototypes are lower than the foregone revenues per market-rate unit if a developer were to build the required affordable units onsite. The housing impact fees at the maximum and recommended levels are significantly higher than the in lieu fees per market rate unit if a developer does not build the inclusionary units onsite.

[1] The inclusionary requirement increases to 20 percent for larger projects on five-acre and larger parcels.

Figure 1: Existing Palo Alto Fees and Permits by Prototype

Total Fees by Prototype	Office/R&D/ Medical Office	Single-Family Detached	Single-Family Attached	Condo	Apartment
Prototype Size (Square Feet) [1]	100,000	90,000	21,000	73,500	68,000
Existing City Fees and Permits [2]	$3,745,450	$4,764,246	$1,387,773	$2,213,657	$2,143,169
Commercial Linkage Fees/Housing Impact Fee Scenarios					
Current Linkage Fees/ Housing Impact Fees	$1,985,000	$0	$0	$0	$0
Maximum Feasible Fee Scenario	$6,000,000	$9,990,000	$1,890,000	$5,512,500	$5,780,000
Recommended Fee Scenario (Nexus Study)	$3,500,000	$8,550,000	$1,050,000	$3,675,000	$3,400,000
Total Combined City Fees and Permits by Scenario					
With Current Linkage Fees/ Housing Impact Fees	$5,730,450	$4,764,246	$1,387,773	$2,213,657	$2,143,169
Maximum Feasible Fee Scenario	$9,745,450	$14,754,246	$3,277,773	$7,726,157	$7,923,169
Recommended Fee Scenario (Nexus Study)	$7,245,450	$13,314,246	$2,437,773	$5,888,657	$5,543,169

[1] The Office/R&D/Medical Office prototype is expressed in gross square feet, while the residential prototypes are expressed in net square feet.

[2] Estimate of Existing City Fees and Permits excludes the existing commercial linkage fee of $19.85 per square foot.

Sources: City of Palo Alto, 2015; Strategic Economics, May 2016.

Figure 2: Commercial Linkage Fees in San Mateo County and Santa Clara County Cities

City	Hotel	Office/R&D/ Medical Office	Date Adopted/ Updated
Cupertino	$10	$20	2015
Mountain View (a)	$2.50	$25	2015
Oakland (b)	N/A	$5.44	2015
Redwood City (c)	$5	$20	2015
San Francisco (d)	$18	$16-$24	2015
Sunnyvale	$7.50	$15 (e)	2015
Menlo Park (f)	$8.45	$15.57	2015

Notes:

(a) New gross floor area under 25,000 SF pays 50 percent of full fee.

(b) Oakland's fee applies to office and warehouse/distribution development over 25,000 SF.

(c) The fee applies to projects adding more than 5,000 SF of new commercial space. The fee is reduced by 25% if all construction workers are paid prevailing wages.

(d) The fee for R&D is $16.01 and the fee for office is $24.03. The fee for a small enterprise is $18.89.

(e) The fee on the first 25,000 SF is discounted by 50 percent.

(f) The linkage fees are applied to commercial developments of 10,000 SF or more that do not include on-site affordable units.

Sources: City staff and websites; Nonprofit Housing Association of Northern California, 2015; Vernazza Wolfe Associates, Inc. & Strategic Economics, May 2016.

Figure 3: Housing Impact Fees in Bay Area Cities

	Single Family Detached	Single Family Attached	Condominiums	Apartments	Date Adopted/ Updated
Berkeley	N/A	N/A	N/A	$31/SF (a)	2016
Cupertino	$15/SF	$16.50/SF (b)	$20/SF	$25/SF	2015
Daly City	$14/SF	$18/SF (c)	$22/SF	$25/SF	2014
East Palo Alto	$22/SF	$22/SF	$22-$44/SF (d)	$22/SF	2014
Emeryville	N/A	N/A	N/A	$33/SF (e)	2015
Mountain View	N/A	N/A	N/A	$17/SF	2015
Oakland (f)	$8,000-$23,000	$8,000-$20,000	$12,000-$22,000	$12,000-$22,000	2016 (proposed)
Redwood City (g)	$25/SF	$25/SF	$20/SF	$20/SF	2015
San Carlos (h)	$23.54-$43.54/SF	$20.59-$42.20/SF	$20.59-$42.20/SF	$23.54-$43.54/SF	2010
San Jose	N/A	N/A	N/A	$17/SF (i)	2014
Sunnyvale	N/A	N/A	N/A	$17/SF (j)	2015

Notes:

(a) Berkeley's affordable housing impact fee is $28,000 per unit. The per square foot fee is estimated based on the prototype unit size.

(b) This fee applies to small lot single family and townhomes.

(c) This fee applies to townhomes.

(d) Fee ranges from $22 per square foot for for-sale housing without structured parking to $44 per square foot for housing with structured parking.

(e) Emeryville's affordable housing impact fee is $28,000 per unit. The per square foot fee is estimated based on the prototype unit size.

(f) Oakland's affordable housing impact fee for residential development are proposed only, with implementation beginning in 2018.

(g) The fee applies to projects over 4 units, and is reduced by 25% if all construction workers are paid at prevailing wage.

(h) Fees shown as ranges. Actual fees charged depend on project size.

(i) Fee goes into effect in 2016. Developments approved before July 2016 are exempt with a longer exemption for downtown development.

(j) Smaller projects with between 4 and 7 units pay 50 percent of this fee.

Sources: City websites; Nonprofit Housing Association of Northern California; Vernazza Wolfe Associates, Inc. and Strategic Economics, 2016.

Figure 4: Cost Comparison of Inclusionary Policy and Housing Impact Fees

	Single-Family Detached	Single-Family Attached	Condominium
Prototype Description			
Number of Units in Prototype	20	10	35
Estimated Sales Price Market-Rate Unit	$3,043,000	$1,666,000	$1,390,000
Average Unit Size (square feet)	3,000	2,100	2,100
Inclusionary Requirement			
Percentage Inclusionary Requirement	15%	15%	15%
Number of Market-Rate Units	17	8	30
Number of Inclusionary Units Required	3.00	1.50	5.25
Number of Affordable Units Required (rounded)	3	2	5
Fractional Units[1]	-	-	0.25
Cost to Developer if In-Lieu Fees are Paid			
Total In-Lieu Fees	$684,675	$249,900	$521,250
In-Lieu Fee Revenues per Market-Rate Unit	$40,275	$31,238	$17,375
Cost to Developer if Units Provided on Site			
Estimated Sales Price for Affordable Units[2]	$436,929	$436,929	$436,929
Foregone Revenue per Affordable Unit[3]	$2,606,071	$1,229,071	$953,071
Total Foregone Revenues	$7,818,213	$2,458,142	$4,765,355
Total In Lieu Fees for Fractional Units	$0	$0	$26,063
Foregone and In Lieu Fee Revenues per Market-Rate Unit	$459,895	$307,268	$159,714
Cost to Developer if Housing Impact Fees are Paid			
Maximum Impact Fee per Market-Rate Unit (Maximum Justified Fee per Nexus Study)	$333,501	$189,037	$158,519
Recommended Impact Fee per Market-Rate Unit	$285,000	$105,000	$105,000

[1] If the BMR percentage results in a fractional unit, the developer has the option of paying the in-lieu fee on the fractional unit.

[2] The affordable unit price is assumed to be affordable to a 5-person household at 110% Area Median Income in Santa Clara County.

[3] The foregone revenue per unit calculation is calculated as the difference between the market-rate sales price and the affordable sales price.

Sources: City of Palo Alto, 2015; Vernazza Wolfe Associates, Inc. and Strategic Economics, 2016.

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Number of Affordable Units Required (rounded)	3	2	5
Fractional Units[1]	-	-	0.25
Cost to Developer if In-Lieu Fees are Paid			
Total In-Lieu Fees	$4,564,500	$1,249,500	$3,648,750
In-Lieu Fee Revenues per Market-Rate Unit	$228,225	$124,950	$104,250
Cost to Developer if Units Provided on Site			
Estimated Sales Price for Affordable Units[2]	$436,929	$436,929	$436,929
Foregone Revenue per Affordable Unit[3]	$2,606,071	$1,229,071	$953,071
Total Foregone Revenues	$7,818,213	$2,458,142	$4,765,355
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Cost to Developer if Housing Impact Fees are Paid			
Maximum Impact Fee per Market-Rate Unit (Maximum Justified Fee per Nexus Study)	$333,501	$189,037	$158,519
Recommended Impact Fee per Market-Rate Unit (Finance Committee Recommendation)	$150,000	$105,000	$105,000
Recommended Impact Fee per Market-Rate Unit (PTC Recommendation)	$285,000	$105,000	$105,000

[1] If the BMR percentage results in a fractional unit, the developer has the option of paying the in-lieu fee on the fractional unit.

[2] The affordable unit price is assumed to be affordable to a 5-person household at 110% Area Median Income in Santa Clara County.

[3] The foregone revenue per unit calculation is calculated as the difference between the market-rate sales price and the affordable sales price.

Sources: City of Palo Alto, November 2016; Vernazza Wolfe Associates, Inc. and Strategic Economics, 2016.