



CITY OF  
**PALO  
ALTO**

## Retail Committee Staff Report

Report Type: **ACTION ITEMS**  
Lead Department: **City Manager**

Meeting Date: **May 15, 2024**

Report #:2405-3007

### TITLE

Late Packet: Receive and accept report regarding near- and medium-term initiatives that focus on enhancing retail and hotel uses

### RECOMMENDATION

Recommend that the City Council accept report on near- and medium-term initiatives that focus on enhancing retail and hotel

### BACKGROUND

In Fiscal Year 2022, the City Council directed the hiring of an Economic Development Coordinator to support the City's economic development function and issuance of an RFP for the creation of a comprehensive economic development strategy<sup>1</sup>. This position was staffed in Fall 2022 and a consultant (Streetsense) was selected to create the economic development strategy concurrent to that staffing. The City Council unanimously accepted the Comprehensive Economic Development Strategy on August 14, 2023<sup>2</sup>.

The City Council approved the report to guide and inform City priorities, initiatives, projects and support outcomes in support of economic vitality. The strategy consisted of three guiding principles, 10 recommendations, and 28 specific actions. Recognizing the resources available, City Council discussed the prioritization of Streetsense's recommendations and directed staff to return for a discussion of near-and medium-term initiatives that would focus on enhancing retail and hotel uses.

This was partially addressed through the development of the 2024 objectives for City Council's Economic Development and Transition priority, which was unanimously approved by the City Council on March 11, 2024<sup>3</sup>. This report will further address which Streetsense recommendations

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<sup>1</sup> <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/citycouncil-agendas-minutes/2021/09-september/20210913/20210913pccsm-amended-linked-finalcouncil-qa.pdf>

<sup>2</sup> <https://cityofpaloalto.primegov.com/Public/CompiledDocument?meetingTemplateId=13009&compileOutputType=1>

<sup>3</sup> <https://cityofpaloalto.primegov.com/Public/CompiledDocument?meetingTemplateId=13514&compileOutputType=1>

and actions are currently being worked on throughout the organization and the anticipated timeline for addressing remaining recommendations and actions.

## **ANALYSIS**

The Economic Development Strategy report has been used to organize much of the work of the City's Economic Development function. The report contributed to the development of many of the objectives within the 2024 City Council Priority of Economic Development and Transition (ED&T) and has informed additional work throughout the organization.

Table 1 below illustrates the interconnectedness of actions from the Economic Development Strategy with ongoing organizational efforts. For detailed information on each action and its alignment with existing work, please refer to Attachment A of this report. Table 1 illustrates that more than 85% of the actions recommended in the Economic Development Strategy are currently underway either through the objectives within the ED&T workplan or through other work currently underway throughout the organization.

*Table 1. Number of Economic Development Strategy Actions by Group*

<b>Group</b>	<b># of Actions</b>
A) Economic Development and Transition Priority Workplan	7
B) Other work currently underway throughout the organization	17
C) Not being actively pursued	4

The City continues to scale its economic development and transition efforts, and this report will highlight some of the work underway that most closely aligns with Council's interest in near- and medium-term initiatives that focus on enhancing retail and hotel uses throughout town. It will examine work underway with the Planning and Transportation Commission (PTC) pertaining to potential zoning changes and work the City is preparing to embark upon regarding hotel stays.

### PTC Retail Ad Hoc and Commission discussion of Zoning Changes

Perhaps most relevant to the discussion of near- and medium-term initiatives that focus on enhancing retail and hotel uses throughout town is the discussion of the City's regulatory and zoning framework.

This year's ED&T workplan includes the Objective #12:

- Conduct business stakeholder outreach and present to Council recommendations for a citywide retail zoning strategy and receive direction for zoning ordinance implementation (k)

which aligns with many of the actions in the Streetsense report under guiding principle #3:

- “Adopt policies that reflect changing market conditions by easing the regulatory burden for businesses, removing outdated restrictions that create hurdles to tenancy, and focus retail and retail-like uses in places where they are market supported.”

The Planning and Development Services Department and Economic Development staff has been working closely with PTC on a report to look at potential options for reforming and refining the City’s regulatory framework. This is the culmination of an effort that began in 2022 with Michael Baker International (MBI) providing consultant support and producing a Palo Alto Retail Study report. This work has been the focus of a retail *ad hoc* of the PTC that has met multiple times since February 2024. On May 8, 2024 the Planning and Transportation Commission discussed and reviewed MBI’s report and their feedback and recommendations will be brought to the City Council later this year.

The PTC retail *ad hoc* grouped its proposals into categories, which included:

- Simplify Rules
- Reduce Uncertainty
- Relax Restrictions
- Beyond zoning

These four categories were discussed with the PTC on April 24, 2024. The MBI Retail Study report has seven main groups of strategies which are:

1. Conduct a comprehensive zoning cleanup of a mature, complex code
2. Create streamlined and predictable approval processes
3. Limit the Retail Preservation ordinance
4. Allow non-retail uses on ground floor with limitations
5. Repeal office conversion and construction limitations
6. Relax formula retail
7. Ease the parking regulations

Staff will incorporate feedback from PTC’s discussion of this item on May 8, 2024 into a report to the City Council later this year. The full report to the PTC can be found on the Planning and Transportation Commission’s [website](#), specifically the [agenda for the May 8, 2024 meeting](#). Ultimately, the Planning and Transportation Commission serves an advisory role to the City Council.

As the City Council discusses this topic, it may choose to segment, phase, or otherwise prioritize the recommendations it wishes to further pursue. The timeline for implementing the recommendations will vary and scale somewhat as some of them may be more straightforward than others. The PTC retail *ad hoc* has previously discussed the idea of pursuing ‘quick wins’ parallel to some of the longer-term work items. If this frame is supported by the full PTC it will be included when the report is brought to the City Council.

### Work to enhance hotel stays

Economic Development staff has had numerous conversations with hoteliers operating in town. While there has been recovery from the historic lows seen during COVID-19, the recovery has slowed somewhat. As noted in the FY 2025 operating budget, the average occupancy rate for the first seven months of FY 2024 was 10.9% higher at 75% than the same period in FY 2023, but the average room rate declined by 6.8% to \$238/night. As discussed in the Streetsense report, further growth in the City's hotels occupancy could be achieved if hotels were able to increase weekend stays.

The Chamber of Commerce has begun the process of exploring a partnership with the San Mateo County Convention and Visitors Bureau ('San Francisco Peninsula') to discuss destination marketing efforts and ways to potentially increase weekend stays. These conversations are in the very early stages and the City will ensure that all hoteliers in town are involved in the conversation as it develops and continues.

In addition to the efforts underway by the Chamber of Commerce, the City is also exploring how to scale its resources dedicated to hoteliers in town. The challenges of the hotel industry are somewhat distinct from other sectors and Palo Alto's hotels are more reliant on business travelers than other jurisdictions. To ensure growth opportunities for hoteliers are addressed, the City will be exploring consultant resources to focus on this topic. The consultant tasks are anticipated to include stakeholder interviews, convening focus groups, researching similar jurisdictions, and developing actionable strategies for the City to implement. Staff will continue to provide updates on this topic as appropriate.

### **FISCAL/RESOURCE IMPACT**

No additional funding is needed at this time for the actions described in this report. As described, the City Council directed that an Economic Development Coordinator be hired in 2022 to help manage the City's economic development efforts. Subsequently, the City Council approved the hiring of an administrative assistant (economic development specialist) as part of the FY 2024 budget, which was recently filled. These two positions represent the central staff dedicated to the Economic Development function that work in concert and cooperation with other staff throughout the organization.

Economic Development staff coordinates efforts from the Economic Development and Transition Workplan, participates in City initiatives like the Bicycle and Pedestrian Transportation Plan, organizes regular check-ins with the City's business districts, and partners with stakeholders like the Chamber of Commerce to enhance economic vitality. This staff also provides a high-level of customer support to local businesses, serving as both an initial point of contact and an additional resource for businesses navigating routine city processes and individual one-off issues.

In addition to these two full-time positions, there are additional project-specific staffing resources to bolster the City's efforts on parklets and longer-term work on the Downtown University Avenue Streetscape Project as well as the visioning for California Avenue as a car-free street. Those latter two projects will have additional costs that will be refined through their respective processes and discussed as appropriate. Other elements of the City's Economic Development and Transition efforts may result in changes to revenues, which will be incorporated into future projections and budgets as appropriate.

#### **STAKEHOLDER ENGAGEMENT**

Economic Development staff has met frequently with business stakeholders on the topics described in this report and will continue to do so. Stakeholder engagement takes place through individual conversations, monthly meetings with members of business districts, regular conversations with the Chamber of Commerce, and outreach through various media channels.

#### **NEXT STEPS**

Following discussion of this item with the Retail Committee, it will be agendaized for the City Council as appropriate.

#### **ENVIRONMENTAL REVIEW**

Receipt and acceptance of this report is not a project under CEQA.

#### **ATTACHMENTS**

Attachment A: Comprehensive Economic Development Strategy

#### **APPROVED BY:**

Ed Shikada, City Manager