

BUSINESS AND ECONOMICS

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VISION: Palo Alto's business environment will be dynamic and vital. Businesses will have access to a wide array of support services and will enjoy positive relationships with Palo Alto residents, officials and City staff. The diverse character of Palo Alto will remain, so that the City's livable neighborhoods are protected and enhanced, while its business districts remain competitive and attractive. The local economy will thrive, a diverse array of goods and services will be provided to Palo Alto consumers, and the City's historic, mutually beneficial relationship with Stanford University supported. Most development will occur within Palo Alto's business employment districts and will be consistent with the role and character designated for those districts by this Plan.

INTRODUCTION

The Business and Economics Element addresses economic development policy issues. It is not a State-required Comprehensive Plan element. Instead, it is an optional element, but its contents are equally important to those in the mandatory elements. This Element, informed by local economic conditions and forecasts, focuses on the role of local businesses in the community and provides mechanisms for the City to support innovation, entrepreneurship and local-serving retail and professional services. Its goals emphasize a thriving economy, compatibility and interdependence with residential neighborhoods, fiscal health, a culture of innovation and business diversity, flexibility and predictability in City regulations, as well as attractive, vibrant business centers and business employment districts. Implementation of this Element will take place over time and will utilize available planning and regulatory tools, such as the Zoning Ordinance, Coordinated Area Plans and design review and ongoing outreach by the City to businesses.



Land use topics relevant to the design of retail centers (Goal B-5) and business employment districts (Goal B-6) are discussed in the Land Use and Community Design Element. Transportation-related topics, such as employee commutes, the impact of commute-related congestion on residents and adequate parking, are addressed in the Transportation Element.

ECONOMIC CONTEXT

EMPLOYMENT

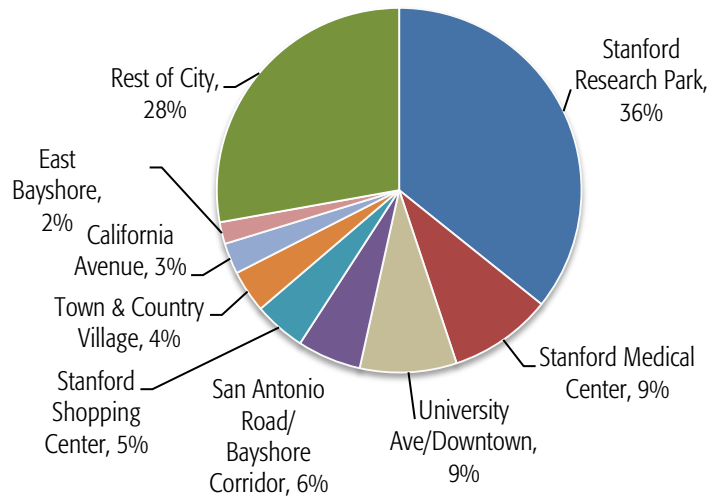
Since 2010, in the aftermath of the Great Recession, the Silicon Valley region has experienced nearly a 20 percent increase in the number of jobs. During the same period of time, the unemployment rate has decreased to record lows. These trends are consistent with broader employment trends in both California and the Bay Area.

The City is recognized as a hub of innovation and entrepreneurship, with employers concentrated in the education, medical, software, technology, biotechnology, financial, professional, and government services industries. Major employers in Palo Alto include Stanford University, Stanford Health Care, Lucile Packard Children's Hospital, the Department of Veteran's Affairs, VMware, SAP, Space Systems/Loral, Hewlett-Packard and the Palo Alto Medical Foundation. Each of these companies, institutions or agencies employs more than 2,000 persons. The top three employers, who are all affiliated with Stanford University, also include employees who work just outside of the city limits, in the part of unincorporated Santa Clara County that is within Palo Alto's sphere of influence (SOI).

As shown in Figure B-1, jobs are located throughout Palo Alto, primarily in the four Business Employment Districts, two Regional Centers, and three Multi-Neighborhood Centers identified in the Land Use and Community Design Element. The pie chart is based on approximately 95,000 jobs within the City limits. Stanford Research Park contains the largest concentration employees—36 percent—while the University Avenue/ Downtown Area and Stanford University Medical Center are other important employment areas, each hosting nine percent of the City's employees. However, over a quarter of workers are dispersed outside of the Employment Districts and Centers.

Successful businesses and employers are an integral part of a thriving, complete community. Local businesses offer many positives, including offering goods and

Figure B-1: City Employment Distribution



Source: Association of Bay Area Governments and City of Palo Alto, 2016.

services to residents and providing revenues that support the high quality of Palo Alto’s services. However, Palo Alto has an unusually high concentration of jobs, with approximately three times as many jobs (over 100,000) as employed residents (about 36,000). This indicates an exceptionally strong local economy, but it has also brought negative side effects over the past decade. Due to the high number of jobs relative to a low number of employed residents, many workers must commute to Palo Alto, resulting in traffic congestion, air pollution and parking constraints. The understandable desire of workers to live close to their jobs has driven up the price of housing dramatically. The resulting high cost of living prevents restaurants, hotels and others in the service industry from finding sufficient employees. Similarly, commercial rents have risen precipitously in response to the demand for a Palo Alto address, driving a conversion of retail spaces to office uses and pricing out smaller stores and professional services. The City recognizes the importance of providing affordable housing and efficient transit opportunities for employees of all types of businesses, as addressed in the Land Use and Community Design, Transportation and Housing Elements of this Plan.

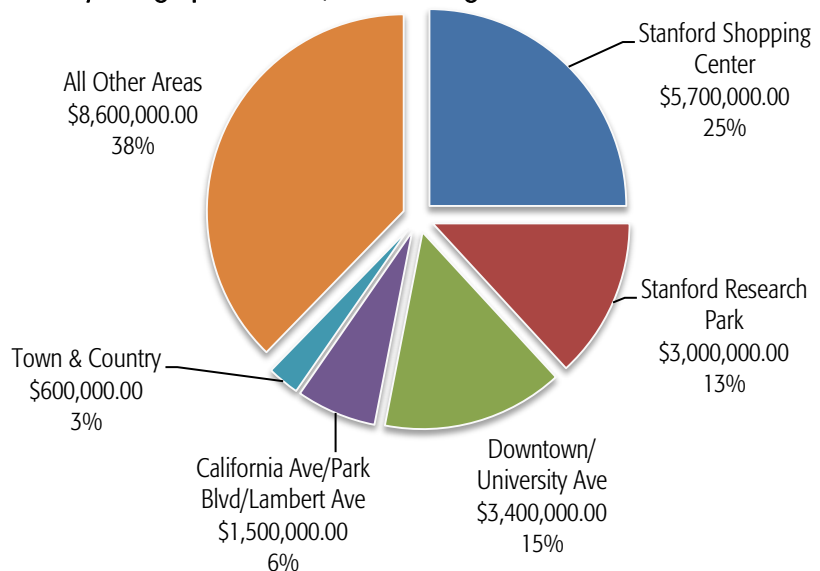
RETAIL

Palo Alto is home to a wide array of retail opportunities, from Stanford Shopping Center, to University Avenue, to small neighborhood-oriented shopping centers.



Currently, retail sales tax provides approximately 5.3 percent of general fund revenues to the City. Figure B-2 shows the revenue the City received in 2015 from sales tax (tax imposed on purchases of all goods in the state) and use tax (tax imposed on all purchases of goods from out-of-state vendors). Of the approximately \$23 million in revenue, over half was generated by Stanford Shopping Center, Stanford Research Park and Downtown/University Avenue combined. The significant contribution of Stanford Research Park reflects the fact that retail sales tax includes taxes on business-to-business sales.

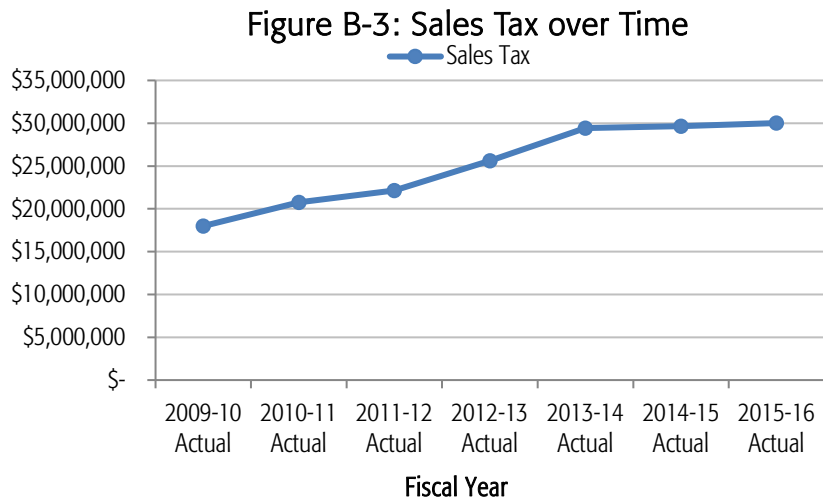
Figure B-2: Sales and Use Tax Revenue Received by the City by Geographical Area, Year Ending December 2015



Source: City of Palo Alto Office of the City Auditor. Sales Tax Digest Summary, Fourth Quarter Sales (October – December 2015).

While total sales tax revenue, including state and county pool allocations, in the City has increased significantly since 2009, the rate of increase has slowed in the past few years, as shown in Figure B-3. Recent economic studies have shown that retail spending is attributable not only to local residents, but also to local employees, local businesses and visitors who come to the city for shopping and leisure, including University students. However, small, independent and locally-serving retailers in Palo Alto are currently experiencing challenges due to high rents, competition from online

retailers, including in recruiting and retaining employees, as well as increasing healthcare costs.



Source: City of Palo Alto Open Data Portal. <http://data.cityofpaloalto.org/home>, accessed March 2017.

PLANNING CONTEXT

THRIVING ECONOMY

The City’s fiscal health and livability depend on maintaining a diverse community of businesses that are supported by residents, visitors, and workers. The City recognizes the need for all types of goods and services in the community, including by utilizing public-private partnerships and supporting non-profit agencies. Additionally, developing and maintaining advanced communications infrastructure is crucial to ensuring the City continues to be a viable location for new and established technology businesses.

INTERDEPENDENCE

A thriving business environment in Palo Alto is one that complements and supports the city’s residential neighborhoods and natural environment. The City can help cultivate interdependence between commercial centers and surrounding neighborhoods through policies that maintain the natural environment while minimizing potential impacts on neighborhoods such as traffic and parking.

FISCAL HEALTH

Palo Alto's continued fiscal health is crucial to providing the range and quality of infrastructure, services, amenities and maintenance that residents expect. The key indicator of the fiscal health of any agency or organization is a balanced ratio of revenues to expenses. As shown in Figure B-4, the City's total revenue stream has increased steadily over the last seven fiscal years (FY), from approximately \$478 million in FY 2009-2010 to about \$580 million in FY 2015-2016. This revenue comes from diverse sources, from the sale of utilities such as electricity, gas, water and fiber optics, to the receipt of sales and property taxes. Figure B-5 illustrates total City expenses over the same time period and shows that costs associated with salaries and benefits, utility purchases, contract services and other expenses have also risen, from about \$526 million in FY 2009-2010 to about \$629 million in FY 2015-2016. However, as illustrated in Figure B-5, Palo Alto's total revenue has consistently outpaced its expenses, by an average of approximately \$23 million per fiscal year.



CULTURE OF INNOVATION AND BUSINESS DIVERSITY

Palo Alto is a center of innovation within the technology sector. The City plays a key role in supporting business growth, including community-serving businesses and arts-based businesses, and utilizes metrics to track progress towards citywide economic goals. Partnerships and paired research efforts with Stanford University have consistently advanced across business sectors.

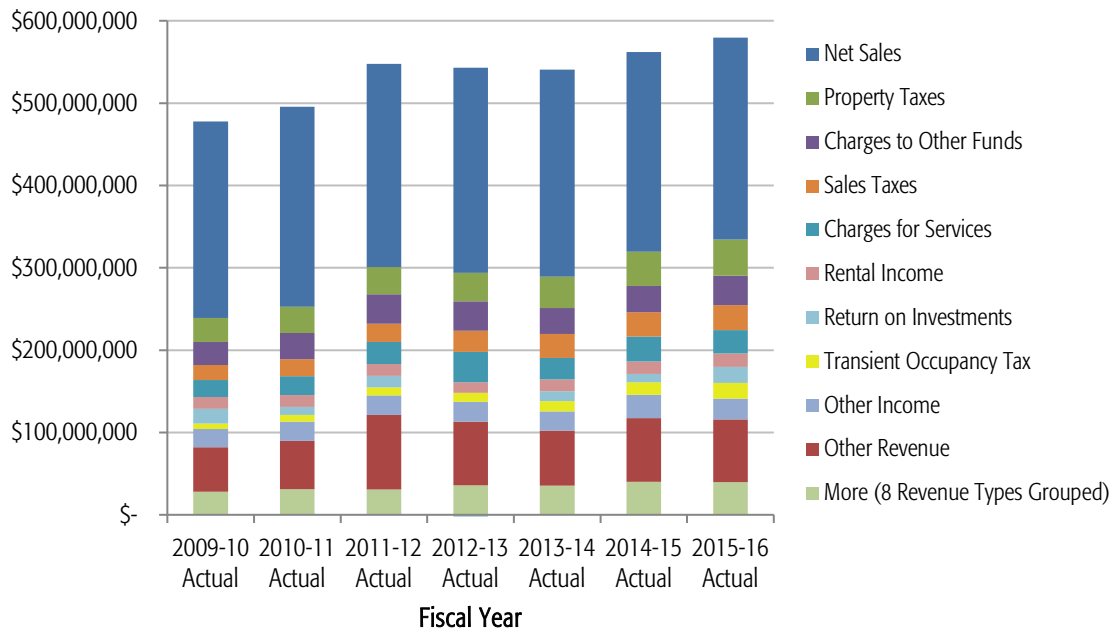
FLEXIBILITY AND PREDICTABILITY

The City can support a healthy businesses environment by providing regulations and operating procedures that provide business owners and neighbors with predictability and certainty through changing economic cycles, while maintaining efficiency and adaptability as market conditions change. This could involve streamlining administrative and regulatory processes, and simplifying design guidelines for new development. The City can act as a facilitator between residents and businesses in these processes to help ensure that neighbors, as well as employers, understand requirements and know what to expect.

RETAIL CENTERS

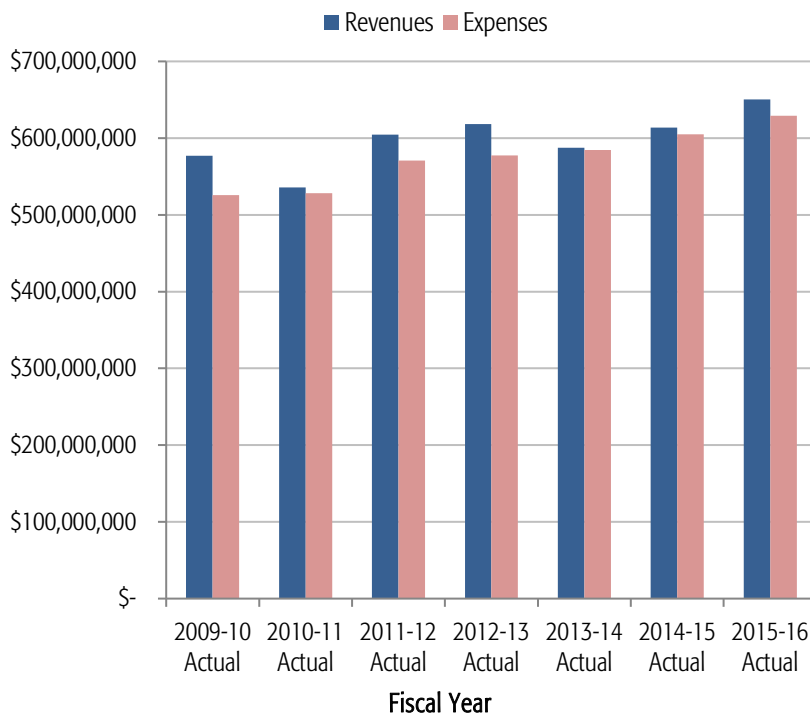
Palo Alto's robust retail economy is focused in retail centers, including both regional retail draws such as University Avenue/Downtown and Stanford Shopping Center, corridors such as California Avenue and El Camino Real and smaller shopping

Figure B-4: Revenues over Time



Source: City of Palo Alto Open Data Portal, <http://data.cityofpaloalto.org/home>, accessed March 2017.

Figure B-5: Revenues and Expenses over Time



Source: City of Palo Alto Open Data Portal, <http://data.cityofpaloalto.org/home>, accessed March 2017.

centers like Edgewood Plaza. Regional retail centers employ large numbers of people, attract shoppers from well beyond Palo Alto's boundaries, generate high sales tax revenues and offer the broadest mix of goods and services. Multi-neighborhood Centers serve a much smaller area, typically the city or several neighborhoods within the city. Neighborhood Centers are the smallest unit; although their economic contributions are less substantial, they are vital to Palo Alto residents and are very much a part of community life. This Element provides policies and program to encourage the continued vibrancy of all Retail Centers, while recognizing that each Retail Center should maintain its distinctive character.

BUSINESS EMPLOYMENT DISTRICTS

As described in the Land Use and Community Design Element, there are three Business Employment Districts in Palo Alto: Stanford Research Park, Stanford Medical Center and East Bayshore and San Antonio Road/Bayshore Corridor. These districts provide thousands of local jobs, establish a customer base for many other Palo Alto businesses and generate tax revenues for the city. Because each plays a central role in maintaining the fiscal health of the City, it is important to support their long-term viability and ability to respond to changing global economic conditions.

STANFORD RESEARCH PARK

As noted above, over one-third of the jobs in Palo Alto are located in Stanford Research Park. Over the coming decades, the Research Park will continue to evolve, but is likely to remain a major employment center. Working closely with Stanford University and the hundreds of employers in the Research Park will help the Research Park remain competitive with others in the Bay Area and nation, while also providing opportunities to address issues of shared concern, such as easing commute-related congestion.

Reinvestment along El Camino Real will not only benefit Research Park employees, but will also help the City increase vitality and enhance the physical appearance of El Camino Real. Providing housing and services like restaurants within walking distance of the Research Park also helps fulfill the City's goal of reducing auto dependence.

STANFORD UNIVERSITY MEDICAL CENTER

Stanford University Medical Center (SUMC), including the Stanford University School of Medicine, the Stanford University Clinic, Stanford University Hospital and Lucile Salter Packard Children's Hospital, currently employs approximately 10,000 people

and is one of the largest concentrations of health care services in the Bay Area. The City approved a Development Agreement with SUMC in 2011 which will continue for 30 years, throughout the life of this Comprehensive Plan. The Development Agreement covers the construction of a new Stanford Hospital and clinics buildings, an expansion of the Lucile Packard Children's Hospital, construction of new School of Medicine buildings, renovation of the existing Hoover Pavilion, construction of a new medical office building and parking garage at Hoover Pavilion, roadway improvements along Welch Road and Durand Way and SUMC design guidelines. Growth associated with the agreement is expected to increase employment at SUMC by approximately 2,500 jobs. The City Council reviews SUMC's compliance with the terms of the Agreement on an annual basis.

EAST BAYSHORE AND SAN ANTONIO ROAD/BAYSHORE CORRIDOR

The East Bayshore and San Antonio Road areas serve a special economic role. Its relatively low-cost space provides opportunities for a variety of service industries and start-up businesses that could not feasibly locate in the higher cost areas.

GOALS, POLICIES AND PROGRAMS

THRIVING ECONOMY

GOAL B-1 Businesses in Palo Alto that contribute to economic vitality enhance the city's physical environment, promote municipal revenues and provide needed local services.

POLICY B-1.1 Encourage new businesses that meet the City's business, economic, or municipal services requirements, as articulated in this Plan and the City's other Economic Development Policies, to locate in Palo Alto.

Program B1.1.1 Implement and periodically amend an Economic Development Policy to guide business development in the City in a manner consistent with Policy L-1.10.



POLICY B-1.2 Promote Palo Alto's image as a business-friendly community. Assume an active role in fostering businesses, including small start-ups, entrepreneurs, and innovative businesses.

POLICY B-1.3 Engage with all stakeholders in the community, including businesses of all sizes, local retailers, the public, and City decision-makers in order to understand the challenges businesses and employers face.

POLICY B-1.4 Attract businesses that innovate in the areas of mobility and sustainability, and encourage these businesses to employ local residents.

POLICY B-1.5 Consider the use of public private partnerships as a means of revitalizing selected areas where beneficial to achieving the City's goals.

POLICY B-1.6 Encourage the private sector to participate in partnerships with community groups and nonprofit or public agency building owners and developers to provide space for community-serving non-profits.

POLICY B-1.7 Encourage businesses of all kinds to advance Palo Alto's commitment to fiscal and environmental sustainability.

COMPATIBILITY AND INTERDEPENDENCE

GOAL B-2 A thriving business environment that complements and is compatible with Palo Alto's residential neighborhoods and natural environment.

POLICY B-2.1 Support a strong interdependence between existing commercial centers and surrounding neighborhoods as a way of encouraging economic vitality.

- POLICY B-2.2** Recognize that employers, businesses and neighborhoods share many values and concerns, including traffic and parking issues and preserving Palo Alto’s livability, and need to work together with a priority on neighborhood quality of life.
- POLICY B-2.3** Consider a variety of planning and regulatory tools, including growth limits, to ensure change is compatible with the needs of Palo Alto neighborhoods.
- POLICY B-2.4** Recognize that Palo Alto’s natural environment and features are economic assets to the City.

FISCAL RESPONSIBILITY

GOAL B-3 Careful management of City revenues and expenditures so that the fiscal health of the City is ensured and services are delivered efficiently and equitably.

- POLICY B-3.1** Promote a comprehensive approach to fiscal sustainability that includes careful monitoring of revenues and expenditures; efficient City operations; land use, business and employment strategies; and real accounting of unfunded pension liability and unfunded benefit costs.
- POLICY B-3.2** Support a diverse range of businesses that generate revenue and enhance the City’s fiscal sustainability.
- Program B3.2.1 Continue to refine tools, such as the Business Registry, as data sources on existing businesses, including the type of business, number of employees, size, location, and other metrics to track the diversity of Palo Alto businesses.
- POLICY B-3.3** Develop strategies for promoting businesses and employers that generate revenues that will support a full range of high-quality City services, including retain and attract revenue-generating businesses.

CULTURE OF INNOVATION AND BUSINESS DIVERSITY

GOAL B-4 The stimulation of diverse commercial, retail and professional service business opportunities through supportive business policies and a culture of innovation.

- POLICY B-4.1** Nurture and support Palo Alto’s image as a global center of emerging technology by fostering innovation, supporting the established technology sector and attracting new businesses.
- POLICY B-4.2** Attract and support small businesses, start-ups, non-profit organizations, and professional services, which are vital to a diverse and innovative economy.
- POLICY B-4.3** Promote the growth of small businesses and start-ups.
- POLICY B-4.4** Recognize that Stanford Research Park contains a concentration of some of the City’s largest employers, and seek to maintain a mix of office and research and development uses.

POLICY B-4.5 Maintain distinct business districts as a means of retaining local services and diversifying the City's economic base.

POLICY B-4.6 Encourage and support the operation of small, independent retail businesses and locally-serving professional services.

Program B4.6.1 Work with local merchants to encourage Palo Alto residents, workers, and visitors to buy, and seek professional services, in Palo Alto.

POLICY B-4.7 Explore opportunities to provide spaces for arts and entertainment activities and other creative and visitor uses.

EFFICIENCY AND PREDICTABILITY

GOAL B-5 City regulations and operating procedures that provide certainty, predictability and efficiency and help businesses adapt to changing market conditions.

POLICY B-5.1 Maintain a healthy business climate, which provides for predictability and efficiency for those seeking City approvals. Encourage streamlining of City administrative and regulatory processes wherever possible. Reduce inefficiencies, overlap, and time delays associated with these processes.



Program B5.1.1 Regularly evaluate ways to improve coordination of the City's environmental review, permitting, and inspection processes.

Program B5.1.2 Improve design guidelines to reduce ambiguity and more clearly articulate compatibility principles to the business community and to the public.

Program B5.1.3 Simplify the design review process for small-scale changes to previously approved site plans and buildings.

Program B5.1.4 Revise zoning and other regulations as needed to encourage the revitalization of aging retail structures and areas. Encourage the preservation of space to accommodate small, independent retail businesses and professional services.

POLICY B-5.2 Continue to provide "one stop" service at the Development Center and to consolidate inspections to the extent feasible.

POLICY B-5.3 Focus on economic development to attract and retain local serving businesses; assist businesses to navigate City procedures and requirements; and facilitate communication between residents and businesses.

RETAIL CENTERS

GOAL B-6 Attractive, vibrant retail centers, each with a mix of uses and a distinctive character.

REGIONAL CENTERS

University Avenue/Downtown

POLICY B-6.1 Support and enhance the University Avenue/ Downtown area as a vital mixed use area prioritizing retail, personal service, small office, start-ups, restaurant, residential and arts and entertainment uses. Recognize the importance of an appropriate retail mix, including small local businesses, to the continued vitality of Downtown.

Program B6.1.1 Actively work with Downtown businesses, professional associations and the Palo Alto Chamber of Commerce to retain successful retail businesses that contribute to the City's goals for Downtown.

South of Forest Mixed Use Area (SOFA)

POLICY B-6.2 Maintain uses in the South of Forest Area (SOFA) that complement the Downtown business district and serve the needs of nearby neighborhoods.

Stanford Shopping Center

POLICY B-6.3 Work with appropriate stakeholders, leaseholders, and Stanford University to ensure that the Stanford Shopping Center is sustained as a distinctive, economically competitive and high quality regional shopping center.



MULTI-NEIGHBORHOOD CENTERS

California Avenue

POLICY B-6.4 Foster the establishment of businesses and commercial services in the California Avenue business district that serve the adjacent neighborhoods, as well as Stanford Research Park.

El Camino Real

POLICY B-6.5 Strengthen the commercial viability of businesses along the El Camino Real corridor by, for example, encouraging the development of well-designed retail, professional services and housing.

Town and Country Village

POLICY B-6.6 Retain Town and County Village as an attractive, local-serving retail center.

BUSINESS EMPLOYMENT DISTRICTS

GOAL B-7 Thriving business employment districts at Stanford Research Park, Stanford Medical Center, East Bayshore/San Antonio Road Area and Bayshore Corridor that complement the City's business and neighborhood centers.

STANFORD RESEARCH PARK

POLICY B-7.1 Support the positive relationship between the local business community and Stanford University faculty, alumni, and administrators.

POLICY B-7.2 Facilitate the ability of Stanford University and Research Park businesses to respond to changing market conditions that support the long-term viability of the Research Park.

Program B7.2.1 Review policies and regulations guiding development at Stanford Research Park and revise them as needed to allow improved responsiveness to changing market conditions in a manner consistent with Policy L-1.10.

Program B7.2.2 Study the feasibility of a "transfer of development rights" (TDR) program and other measures that would provide greater development flexibility within Stanford Research Park without creating significant adverse traffic impacts or increasing the allowable floor area.

POLICY B-7.3 Encourage investment and activity along El Camino Real and within Stanford Research Park that complements the Research Park and adjacent neighborhoods and enhances their physical appearance.

POLICY B-7.4 Identify opportunities along the El Camino Real and within Stanford Research Park where commercial services serving Research Park employees and visitors might be created.

POLICY B-7.5 Encourage incubator businesses in Stanford Research Park.

STANFORD MEDICAL CENTER

POLICY B-7.6 Support the approved buildout of the SUMC and assist Stanford Medical Center in responding to changes in the delivery of health care services. Work with the Center to plan for changing facility needs within the context of City of Palo Alto planning goals and policies, as well as the goals and policies of other relevant jurisdictions.

EAST BAYSHORE AND SAN ANTONIO ROAD/BAYSHORE CORRIDOR

POLICY B-7.7 Seek to balance increases in costs for business space with the need for rehabilitation and replacement of outdated space in the San Antonio Road and East Bayshore areas.