TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER

DEPARTMENT: PLANNING & COMMUNITY ENVIRONMENT

DATE: AUGUST 9, 2004

CMR: 380:04

SUBJECT: ZONING ORDINANCE UPDATE – ADOPTION OF A NEW AUTOMOBILE DEALERSHIP (AD) COMBINING DISTRICT WHICH WOULD CREATE AN OVERLAY ZONE PROVIDING FOR FLEXIBLE DEVELOPMENT STANDARDS FOR AUTO DEALERSHIPS, INCLUDING AUTO DISPLAY AREAS, FLEET STORAGE, LANDSCAPING AND SCREENING AND FULL SERVICE OPERATION. ADOPTION OF AN ORDINANCE APPROVING THE AD OVERLAY ZONE WHERE EXISTING AUTO DEALERSHIPS SELLING NEW AND PRE-OWNED AUTOS CURRENTLY EXIST IN THE CITY, LOCATED AT: 4180 EL CAMINO REAL (PENINSULA FORD), 4190 EL CAMINO REAL (CARLESEN VOLVO), 3290 PARK BLVD. (PARK AVENUE MOTORS), 762 SAN ANTONIO ROAD (HENGHEOLD MOTORS), AND 3045 PARK BLVD. (STANFORD EUROPEAN). ADOPTION OF ORDINANCES AMENDING THE THREE PLANNED COMMUNITY SITES TO ALLOW THE AUTO DEALERSHIP FLEXIBLE DEVELOPMENT STANDARDS FOR EXISTING AUTOMOBILE DEALERSHIPS SELLING NEW AUTOMOBILES LOCATED AT 1730 EMBARCADERO ROAD (CARLESEN MOTOR CARS, PC 2554), 1766 EMBARCADERO ROAD (ANDERSON HONDA, PC 3350), AND 690 SAN ANTONIO ROAD (MAGNUSSEN’S DODGE AND TOYOTA, PC 2592).

RECOMMENDATION

Staff and the Planning and Transportation Commission recommend Council approval of the following:

1. Zoning ordinance amendment establishing Chapter 18.65 of Title 18 (Zoning Ordinance) for the purpose of creating the initial auto dealership overlay zone (Combining District) in the Service Commercial District (CS), General Manufacturing (GM) and General
2. Manufacturing Combining District (GM (B)) to allow for additional site and design standards for automobile dealerships selling new, pre-owned and used automobiles (Attachment A).

3. Auto dealership overlay zone where existing auto dealerships selling new and pre-owned autos currently exist in the City, located at: 4180 El Camino Real (Peninsula Ford), 4190 El Camino Real (Carlsen Volvo), 3290 Park Blvd. (Park Avenue Motors), 762 San Antonio Road (Hengehold Motors), and 3045 Park Blvd. (Stanford European) (Attachment B).

4. Amendments to three Planned Community sites to allow additional site and design standards for existing automobile dealerships selling new automobiles located at 1730 Embarcadero Road (Carlsen Motor Cars, PC 2554), 1766 Embarcadero Road (Anderson Honda PC 3350), and 690 San Antonio Road (Magnussen’s Dodge and Toyota, PC 2592) (Attachment C).

5. Direction to staff, through the Zoning Ordinance Update (ZOU), to develop a final Auto Sales Dealership overlay Combining District in addition to the initial flexible development standards to include the following; 1) analyze and prepare “performance standards” for specific areas of the city including El Camino Real, San Antonio Road, Embarcadero Road and future sites having freeway visibility, 2) standards for noise and lighting, 3) standards for auto dealership’s signage and auto display, and 4) environmental standards addressing auto dealers full service operation and auto storage.

6. Direction to staff to work with auto dealerships and other stakeholders to develop a strategy for a long term auto dealership retention and recruitment program, including the identification of potential new areas for multiple dealer development, potential resources to implement the long-term strategy, and a timeline for implementation.

**BACKGROUND**
On July 28, 2003 a Colleagues Memo presented the conclusions of the Ad Hoc Committee on the City’s Economic Base. The purpose of the committee was: 1) to assess and evaluate economic trends that affect the City’s financial bottom line and 2) to see what actions can be taken to assist and retain businesses.

The Committee recommended a strategy to enhance the City’s economic base, particularly its auto-related uses. Based on the over 40 business outreach visits that were completed by staff and Council members and a review of economic data, a action plan was developed. The action plan is Attachment D.

The primary goals of the plan are:
• Retain valued Palo Alto businesses
• Enhance the City’s economic base by sharing information with board and commission members, the community-at-large, neighborhoods, and civic groups about the need for enhancing the City’s economic base
• Streamline processes where appropriate that undercut vibrant economic activity
• Retain retail dollars in the community
• Target key projects to avoid overly lengthy processing times
• Retain auto dealers in Palo Alto
• Identify economic development “best practice” for implementation in Palo Alto, as appropriate

Economic Development and Planning staff coordinated with the Ad Hoc Committee to develop an overall auto dealership retention and recruitment plan. This plan identified potential short and long term goals to address auto dealerships and their unique use as a commercial land use in the zoning ordinance.

The long-term strategy would be to develop a retention and recruitment program for existing and new auto dealerships. This involves developing a zoning specific to auto dealerships as well as strategies to create a synergy for auto dealerships and strengthen their competitive advantage utilizing location, visibility, full service operation, and stronger connections with auto manufacturers.

While the long-term retention and recruitment strategy is being developed, the Committee and staff identified a short-term strategy for the retention of existing auto dealerships. Over the past two years Palo Alto has lost auto dealerships to other cities in the immediate Bay Area. The Zoning Ordinance Update (ZOU) therefore identified the best short-term strategy was the implementation of an auto dealership overlay zone with initial flexible development standards specific to auto dealerships.

**DISCUSSION**

Economic Development and Planning staff conducted several meetings with the existing auto dealerships to identify what tools within the zoning ordinance could best address their needs at their existing locations. Three main land use tools for improving their businesses were identified. The first is visibility; lacking the ideal visibility and access from a freeway, the dealerships identified that enhancing their existing location’s visibility would be a positive step.

The second is the ability to maintain a full service operation. This includes sales of new and pre-owned automobiles, and having the storage capacity to deliver an auto to a customer in a timely matter. Full service also includes the ability to
service customers with repair and warranty maintenance, auto detailing, and other customer service such as on-site car rental. Most new car auto dealerships service a broader segment of the community than just the customer purchasing their automobiles.

The third main element was being able to demonstrate and maintain a strong corporate or manufacturer’s identity. This included being able to display corporate logos through signage and auto display. The need to demonstrate to their manufacturer that the individual dealerships have the tools to be competitive in auto sales and services was a major component to retaining business relationships.

Dealers also expressed a desire for permit streamlining and having a single City staff contact that is familiar with their type of business.

Based on the discussions with the auto dealerships and researching what other cities have implemented through zoning ordinances, staff developed a short-term retention strategy through the Zoning Ordinance Update (ZOU).

The first component was to implement a “Auto Dealership Overlay Zone” that could be placed on existing dealerships. As a Combining District in the ZOU, this would retain the underlying Commercial Service (CS) or General Manufacturing (GM) zoning districts while addressing the unique business needs for auto dealerships. The overlay zone was also identified to be a good initial step in showing that a long-term retention and recruitment strategy was a City goal. This would address some of the immediate needs for existing dealerships, as well as create a land use method where the City could continue to develop specific standards as well as apply the overlay to new auto dealership sites when the opportunity arises.

The second component of the short-term strategy was to implement initial flexible development standards within the overlay that specifically address existing auto dealerships. These flexible development standards include enhancing interior showroom space, parking and vehicle storage, and automobile display. The standards also include minor modifications, such as a landscaping buffer, to existing commercial development regulations to address the existing dealership site constraints. Signage is also an important component for dealership visibility and identity, but staff determined that additional time and research was necessary in order to develop specific recommendations.

The recognition and coordination with auto dealership uses within Palo Alto through the development of an overlay zone is a positive first step in the retention strategy. Staff also views the proposals as minor modifications to existing commercial standards that would enhance the dealership’s ability to be
competitive with other dealerships in the immediate Bay Area. Staff recommended that the overlay zone only be applied to auto dealerships having new and pre-owned automobile sales. Pre-owned automobiles are defined as autos that have the manufacturers sponsorship and warranty program.

In that there also exists Planned Community Zones (PC) with auto dealership uses, the application of the recommended flexible development standards would have to be completed amending their respective PC zone rather than the application of the overlay zone.

BOARD AND COMMISSION REVIEW AND RECOMMENDATION

At its meeting of June 16, 2004 the Planning and Transportation Commission (PTC) reviewed the staff recommendation for a new auto dealership overlay zone, flexible development standards, and initiation of the overlay zone in the CS, GM districts, and PC zone amendments, (Attachment E, June 16 staff report and Commission minutes). After Commission review and substantial discussion with staff at the meeting, the PTC voted to continue the item until additional background information and clarification of the proposed standards were brought back to the Commission. In addition to needing more background information, the Commission was concerned about how the overlay zone and development standards would be applied to existing and new auto dealership sites. Specific concerns included allowances for showroom space, auto display pads, consistency with the Baylands Guidelines, and how the overlay zone would work given the geographic diversity of dealerships within Palo Alto. The PTC also requested that a long-term strategy be developed in conjunction with these initial short-term steps. Two members of the community, including a representative from the Chamber of Commerce, spoke in favor of the staff recommendations.

At its meeting of June 30, 2004, staff provided additional background information, with clarification and modification of the flexible development standards. The staff report also included discussion and recommendations for initiating a long-term retention and recruitment strategy (Attachment F, June 30 staff report and Commission minutes). After reviewing the additional information and staff recommendations, the PTC voted to recommend that the City Council approve the five recommendations stated above. This consisted of a new initial auto dealership overlay zone that will continue to be developed, application of the flexible development standards on the existing dealership sites, and development of a long-term retention and recruitment strategy. The PTC recommendation included changes to the staff recommendations, as follows:

- That the Auto Dealership Overlay Zone be applicable to used auto sales as well as new and pre-owned auto dealerships. The PTC believed that this economic incentive should be open to all automobile sales in Palo Alto.
There is one used automobile sales dealer in Palo Alto. It is not included in the application of the overlay at this time. However, based on the PTC recommendation, the Ordinance has been amended to provide for its application to existing and new and used auto dealerships in the future. Staff’s reason for not initially including used auto dealerships was twofold. First, including sales tax, new auto sales dealerships typically provide a full service operation and therefore, serve a larger community. Secondly, while application to one existing used auto sales operation would have minimal affect, as a long-term recruitment land use policy, staff is concerned on the future implications of attracting used auto dealerships.

- The Commission recommended that the auto dealerships be allowed an additional 0.2 Floor Area Ratio (FAR) that could only be developed for interior showroom space and that the showroom space would have a maximum height of 20 feet. In the CS and GM districts, this would allow an increase in FAR from 0.4 to 0.6. The PCs are site specific for each FAR.

Staff recommended that, as an incentive for auto dealerships to retain or develop showroom space, the area exclusively devoted to first floor interior showroom area be exempt from the maximum FAR requirements, regardless of size. Existing CS and GM building height would be applicable. The PTC was concerned that this exemption was too open-ended and could be subject to abuse.

Staff believes that the new or expanded showroom area would not need a defined maximum square foot area or FAR because it can only be used for the display of automobiles (no sales office or retail uses could be included). Therefore, since it would not be allowed to be converted to any other use without it counting toward the maximum building FAR, the auto dealerships would only build enough showroom space that was economically feasible for them to display automobiles.

Staff also reiterated that all new improvements for showroom areas would also be subject to Architectural Review Board review and recommendation, and therefore, the height and design for showroom areas would best be addressed through that process rather than having a building height standard that is specific for the showroom area.

- The PTC recommended minor text revisions to the new Chapter 18.65 of the Zoning Ordinance for the auto dealership overlay. Staff has incorporated these revisions into the ordinance presented in Attachment A.
Two representatives from the Chamber of Commerce spoke in favor of the staff recommendations at the June 30, 2004 PTC meeting.

At its meeting of July 28, 2004 (Attachment G, July 28 staff report and Commission minutes), the Commission voted to recommend that the City Council approve the application of the Auto Dealership overlay zone to the five existing auto dealerships located in the CS and GM (B) zoning districts. The PTC also recommended that the City Council approve amendments to the PC zoned sites for the three existing auto dealerships. The Commission requested one additional revision to the proposed Auto Dealership (AD) Combining District. It recommended that Section 18.65.070 (Special Requirements), paragraphs (a)(1) and (a)(2), include text that references the purpose of the eight foot decorative wall is to mitigate both noise and visual impacts on adjacent residential uses. Staff concurs with this text revision. Staff clarified that the changes for signage, lighting, and noise were not being proposed at this time because staff needed more time to complete additional research and coordination with the dealerships and neighborhoods before revisions can be proposed.

The Commission asked if the raised auto display platforms could be installed to allow for moving or rotating platforms. Staff responded that this would not be permitted, however, some moderate up lighting may be allowed. The Commission inquired about the level of coordination that staff has had with the auto dealerships over the overlay and flexible development standards. Staff responded that, recently, the Director of Planning and the City Manager’s Economic Development Manager had conducted individual meetings with the auto dealers. Staff stated that the dealerships have expressed support for the new auto dealership overlay proposed in the Zoning Ordinance Update. There was no public testimony at the July 28 PTC meeting.

**RESOURCE IMPACT**
The most recent sales tax figures (Calendar year 2003) indicate that revenue from local auto related uses contributed $2,108,201 annually to the local economy. This represents 12.2% of the total sales tax revenue. Auto dealers are located on approximately 16 acres of land (excluding the former Stanford Nissan dealer located at 3001 El Camino Real and the Corporate Motors site). This generates approximately $131,762 in average sales tax revenue per acre.

**POLICY IMPLICATIONS**
Recommendations of this staff report are consistent with the overall land use and economic goals of the Comprehensive Plan and specifically Goal B-3 and B-5 that pertain to business development. This report also implements the goals of the City’s Enhancing the City’s Economic Base Action Plan.
ENVIRONMENTAL REVIEW
Environmental Review for adoption of the new Auto Dealership Chapter 18.65 are exempt from the provisions of the California Environmental Quality Act (CEQA), per section 15061 of the CEQA Guidelines, because it can be seen with certainty that there is no possibility that the project would have a significant effect on the environment.

ATTACHMENTS
Attachment A: Zoning Ordinance Amendment – Auto Dealership Combining District
Attachment B: Auto Dealership Overlay Zone for five sites
Attachment C: Amendments to three PC zones
Attachment D: Enhancing the City’s Economic Base Action Plan
Attachment E: June 16 Staff Report and Commission minutes
Attachment F: June 30 Staff Report and Commission minutes
Attachment G: July 28 Staff Report and Commission minutes

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