TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER DEPARTMENT: PLANNING & COMMUNITY ENVIRONMENT

DATE: OCTOBER 18, 2004 CMR: 446:04

SUBJECT: 2300 EAST BAYS HORE ROAD: APPLICATION BY HOOVER ASSOCIATES ON BEHALF OF RICHARD PEERY FOR SITE AND DESIGN REVIEW OF A NEW 73,932 SQUARE FOOT OFFICE BUILDING WITH AT GRADE PARKING AND RELATED SITE IMPROVEMENTS LOCATED ON A 5.66-ACRE SITE WITHIN THE LM(D)(3) LIMITED INDUSTRIAL SITE COMBINING ZONE DISTRICT. DRAFT INITIAL STUDY RECOMMENDING THE PREPARATION OF A MITIGATED NEGATIVE DECLARATION. FILE NUMBERS: 03-D-04, 03-EIA-17.

RECOMMENDATION
Although the Architectural Review Board (ARB) recommends denial, staff and the Planning and Transportation Commission (Commission) recommend the City Council: (1) approve the Mitigated Negative Declaration (Attachment L) for the 2300 East Bayshore project, with a finding that the project will not result in significant environmental impacts; and (2) approve the Site and Design Review application to allow the construction of a new office building in the LM(D)(3) Limited Industrial Combining District based on the findings in the draft Record of Land Use Action (Attachment A).

BACKGROUND
The project is described in Attachment C to this report, submitted by the applicant, and in plans provided to Council.

The current project application includes the demolition of five commercial buildings totaling 41,654 square feet of floor area. The 7,440 square foot restaurant, formerly Scott’s Seafood, has been vacant since March 1, 2002. The four office buildings, totaling 32,840 square feet, have been vacant since October 1, 2000. The requested 73,932 square foot building is a scaled down version of the
previous Planned Community (PC) application denied by Council in December 2002. Significant plan changes include a reduced building size and the deletion of underground parking.

On March 31, 2003, the Council adopted an MND in conjunction with approving the applicant’s request to rezone the restaurant parcel from a PC to LM(D)(3) and assign a Research/Office Park land use designation. The rezoning allowed the applicant to submit an office building project meeting the development standards of the LM(D)(3) district. The MND for the rezoning application noted that any future project meeting the LM(D)(3) standards would be subject to a separate environmental review in accordance with the California Environmental Quality Act (CEQA).

The project and potential impacts are summarized in the Initial Study Mitigated Negative Declaration (MND) provided as Attachment L. The MND is preceded by written comments (Attachments I and J) submitted during the January 2004 public review period, and comments submitted after the public review period (Attachment K). Staff’s responses to comments are provided as Attachment M. Transportation Division staff have accepted the applicant’s 2002 TIA as complete and adequate. Copies of this TIA are provided only to Council, but the original document is in the Planning Division project file for public review. Copies of the TIA have been provided to members of the public who requested them.

The current project meets the zoning standards of the LM(D)(3) zoning district and parking regulations, set forth in the attached table (Attachment D to this report.) Staff and the Commission found the project to be consistent with the Comprehensive Plan policies as set forth in Attachment E to this report.

The draft Record of Land Use Action (RLUA) contains findings for approval of the Site and Design Review application, as reviewed by the Commission, and draft Architectural Review findings for Council consideration. Subsequent to the ARB’s recommendation, the Council approved the conversion of the ARB standards for review into Architectural Review Findings set forth in Chapter 18.76, which became effective July 7, 2004. Council may direct staff to delete these findings from the RLUA or revise these findings.

**DISCUSSION**

**Architecture and Sustainable Design**

During the ARB study session and preliminary review requested by the applicant in 2001, the ARB was aware of the fact that the project had to include an inherent public benefit to warrant the rezoning. As a result, the ARB requested more architectural inventiveness, a higher level of sustainable design, elimination of excess vehicle spaces, and responsiveness to the site’s location at the gateway to
the Baylands. The project no longer needs to be an extraordinary project in order to meet the expectation associated with a Planned Community project. The project is still subject to meeting ARB Findings for Approval and Site and Design Findings, and to meeting with the Council’s standards. Staff has provided for Council draft ARB findings in the Record of Land Use Action (Attachment A).

The ARB stated in it’s recommendation for denial that the project did not include sufficient sustainability measures to meet ARB Finding #15. However, staff is of the opinion that the project would meet architectural review finding #15 as follows:

- **15A** - Some of the sustainability measures incorporated into the design of the building would include dual-paned Low E vision glazing, “Energy Star” high reflective roofing, an energy-saving HVAC system, bioswales, drought tolerant landscaping, and water efficient irrigation and plumbing fixtures. The roof structure will be engineered to support the weight of possible future photo voltaic cells.

- **15B** – Not applicable at this time, the project is a shell building, a future tenant would install lighting and climatic controls. The ARB could add a condition of approval to require tenant improvements to meet that finding.

- **15C** – The project would include 16,365 square feet of landscaping, an increase of 4.35% over the minimum of 10% required by the City. The additional landscaping could reduce the “heat island” effect caused by asphalt parking lots. The siting of the building would add an incremental energy cost of $700 per year in comparison to a building rotated 90 degrees clockwise from the proposed location. The amount of permeable lot coverage has been increased by 22%, from the existing 65,811 square feet to 84,108 square feet.

**Circulation and Parking**

The proposed L-shaped building would be surrounded by vehicular circulation and 300 surface parking spaces where a minimum of 244 parking spaces are required for the proposed floor area. The applicant is proposing a parking ratio of one space per 250 square feet of gross floor area instead of the minimum which is one space per 300 square feet. Access driveways are proposed from both Watson Court and East Bayshore Road. The existing driveway on East Bayshore Road closest to Watson Court would be removed and the two driveways on Watson Court would be realigned.

The Commission recommended the extra 56 parking spaces be held in a landscape reserve and that the remaining driveway on East Bayshore Road be eliminated. Staff supports the applicant’s proposal for extra parking spaces, due to the unknown future use of the building and limited off site parking in the area. For
instance, conditionally permitted used such as a fitness facility or college rely on additional parking for peak use, and parking calculations are based upon total capacity of persons and not gross floor area. Additional justification for supporting the extra spaces are that the project exceeds the City’s landscape requirements by approximately 5,000 square feet and the site plan as proposed increases permeable area on site by 22%.

Environmental Concerns
Attachment M to this report was prepared by staff to address environmental concerns raised by members of the public. Those concerns included aesthetic impacts, air quality impacts, biological impacts, noise, hydrology, geology, jobs/housing balance, and traffic. Traffic is discussed below briefly below and further in Attachment M.

The Fehr and Peers Transportation Consultants traffic impact analysis (TIA) was prepared in March 2002, when the proposed IKEA project located in East Palo Alto was uncertain. The report analyzed conditions for an 110,000 square foot multi-tenant office project on the site with and without the IKEA project. The TIA studied the proposed project effects on freeway segments of U.S. Highway 101 south of San Antonio Road, and north and south of Embarcadero Road.

The TIA found that the project would not have a significant adverse impact on the freeway segments. However, it would have a significant adverse impact at the San Antonio Road/Northbound U.S. 101 off-ramp intersections both with and without the IKEA scenarios. This unsignalized intersection currently operates at unacceptable Level of Service (LOS) “F” conditions during morning and evening peak hour conditions and the addition of any vehicle traffic would exacerbate the poor operating conditions. Heavy traffic volumes on northbound/southbound San Antonio Road does result in long delays and queues for vehicles existing northbound U.S. 101 and waiting for acceptable gaps in traffic.

Palo Alto, Mountain View, and Caltrans are constructing a traffic signal for the San Antonio/Northbound U.S. 101 off ramp intersection, with an estimated project completion date of October 14, 2004. This project has a total current cost estimated at $850,000. To mitigate the potential traffic impacts, a condition of project approval would require that the project developer pay a “fair share” portion of the cost based on the actual square footage of the approved project. The TIA analyzed a project of 110,000 square feet that results in a proportionate share of 2.2% of the total cost of the signal. The actual proportionate percentage would be based on the approved project square footage, approximately 74,000 square feet as proposed, and would be assessed at the time of application for a building permit. The revised proportionate percentage based on the project size is 1% of the total cost, $8,500. The installation of the signal would improve the operation of the
intersection to acceptable LOS B conditions during both AM and PM peak hour conditions.

The City Attorney has prepared a memo (Attachment R) for Council. The memo discusses the baseline issue as it relates to the evaluation of the traffic generated by the proposed project. The Attorney presents three options and staff supports Option One, which is consistent with City’s long-standing methodology for considering trips assigned to existing buildings on site. That is, since the buildings on-site represent approved projects with associated mitigations already implemented at the study intersections, 100% of the trips assigned to the existing buildings provide the base for calculating net new trips represented by the site redevelopment. This methodology is consistent with the Valley Transportation Authority’s (VTA) Congestion Management Program guidelines used elsewhere in Santa Clara County. The TIA used this methodology. Copies of the applicant’s TIA are provided to Council and attached to this report as Attachment N.

BOARD/COMMISSION REVIEW AND RECOMMENDATIONS

Planning and Transportation Commission
The Commission reviewed the current application at its regularly scheduled meeting on December 17, 2003. The Commission recommended the Council approve the application, adding conditions to supplement staff recommended conditions. The action of the Commission is included in the RLUA. Meeting minutes reflecting the Commission discussion are found in Attachment H, the Commission staff report is included as Attachment P.

The Commission discussed the proposed project’s effects on trip generation, proposed mitigation measures to reduce these impacts, and commented on the potential loss of hillside views as viewed from East Bayshore Road. The Commission discussed the lack of Baylands influence in the proposed building design but refrained from providing specific direction, instead referring comments on the suitability of the design to the Architectural Review Board. Two members of the public addressed the Commission during the public comment period. Their concerns included a request that the project have a connection to the existing bike and pedestrian path near the southern corner of the site and that the Environmental Impact Assessment did not adequately address the project’s traffic impacts. Written comments provided to the Commission are attached to this report (Attachment M).

Architectural Review Board
After two public hearings on the project, the ARB found the project did not meet its review standards. Minutes of the ARB meetings are provided as Attachments F and G to this report. The ARB staff report is included as Attachment O. On January 15, 2004, the ARB provided comments to the applicant and continued the
project review to a date uncertain to allow the applicant time to respond to its comments. On April 1, 2004, the ARB reviewed additional materials provided by the applicant and recommended denial of the application.

The ARB’s comments prior to the motion for denial can be summarized as follows: (1) the documents are incomplete and vague, lacking detail and information such as how the different materials interface with each other, (2) the applicant’s response to previous ARB direction is inadequate, (3) the proposal does not achieve a desired goal of serving as a gateway building, in that the design is too urban and does not include a contextual response to the Baylands, and (4) the sustainability measures are inadequate.

**ALTERNATIVES**
The Council has the option to make findings to deny the project without prejudice or continue the item to obtain more information from the ARB.

**POLICY IMPLICATIONS**
As stated in Attachment E, the project is in conformance with policies of the City of Palo Alto’s Comprehensive Plan, including “Maintain the East Bayshore and San Antonio Road/Bayshore areas as diverse business and light industrial districts” (Policy L-46). However, the Comprehensive Plan also states that new and redeveloped buildings and landscaping should reflect the area’s location near the Baylands.

There is no “unified design character” in the Baylands. Staff is preparing draft guidelines entitled “Site Assessment and Design Guidelines – Palo Alto Baylands Nature Preserve,” the purpose of which is to establish the “character” of the Baylands.

**RESOURCE IMPACT**
The proposed office building at 2300 East Bayshore is unlikely to generate significant revenue to the City. First, office and research facilities generally contribute marginally to City resources and to its ability to provide services to these facilities. Second, it is uncertain whether the owners of 2300 East Bayshore will be able to lease all of the newly developed space. In August of 2004 there were an estimated 267,000 square feet of vacant office space in the Palo Alto-East Embarcadero neighborhood – a 33.3% vacancy rate.
The following outlines the likely impact of the proposed building on specific revenue sources.

*Sales Tax*
Of the tax records reviewed, most recent businesses in the area have had very low or no sales tax generated. If the new office building contained a sales operation,
the revenues would depend upon the nature of the business and sales volume. For example, a few furniture/equipment companies located in this area have reported significant sales taxes in positive economic cycles. If the complex housed a small retail operation such as a sandwich shop, it could generate approximately $5,000 annually.

In addition, assuming that the facility employs approximately 300 office workers, purchases by those workers would generate in the range of $3,600 in sales taxes per year.

Property Tax
For each $1 million in additional assessed and moveable equipment value, the City will receive approximately $950 annually. Should a new office building worth $5.0 million more than the current building be constructed containing $1.5 million in new moveable equipment, the City would receive approximately $6,200 annually. The property is not being sold or transferred, so there is no documentary transfer tax.

Utility Users Tax
The new building would generate approximately $4,000 in UUT revenues per year.

One-time Revenue
A 73,932 square-foot building on the combined parcels would yield, on a one-time basis, $648,564 in housing fees and $163,598 in community facilities fees.

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ATTACHMENTS
Attachment A: Draft Record of Land Use Action
Attachment B: Location map
Attachment C: Applicant submittal
Attachment D: Zoning table (prepared by staff)
Attachment E: Comprehensive Plan table (prepared by staff)
Attachment F: Minutes of ARB meeting on April 1, 2004
Attachment G: Minutes of ARB meeting on January 15, 2004
Attachment H: Minutes of Commission meeting on December 17, 2003
Attachment I:* CEQA review period correspondence, (A. Volterra 1/29/04)
(Complete Text – Council Members Only)
Attachment J: CEQA review period correspondence (T. Stein 1/21/04)
Attachment K:* Correspondence submitted by A. Volterra (10/13/04, 7/704,
3/25/04, and 12/17/03) (Complete Text – Council Members Only)
Attachment L: Initial Study Mitigated Negative Declaration (MND)
Attachment M: Staff response to comments on MND
Attachment N: Fehr and Peers TIA (Council Members Only)
Attachment O: ARB staff reports dated January 15 and April 1, 2004
(without attachments)
Attachment P: Planning and Transportation Commission staff report dated
December 17, 2004 (without attachments)
Attachment Q: Letter from Architectural Review Board member Judith
Wasserman
Attachment R: Memo to City Council regarding the Baseline Analysis from
Gary Baum, City Attorney
Attachment S: Letter from Toni Stein, dated October 13, 2004
Attachment T: Project Plans (Council Members Only)

* Because of their length, only the first page of each document is attached. The
complete documents may be viewed in the City Clerks Office, City Hall, 7th
Floor.

COURTESY COPIES:
Richard Peery
Lee Ashby, Hoover Associates, Architects
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