TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER

DEPARTMENT: PLANNING AND COMMUNITY ENVIRONMENT

DATE: JULY 10, 2006 CMR: 284:06

SUBJECT: ORDINANCE REMOVING AN EXEMPTION FOR HOSPITALS FROM THE HOUSING IN-LIEU FEE (CHAPTER 16.47 OF THE PALO ALTO MUNICIPAL CODE)

RECOMMENDATION
Staff recommends that the City Council adopt the attached ordinance removing an exemption for hospitals from Chapter 16.47 of the Palo Alto Municipal Code (Approval of Projects with Impacts on Housing).

BACKGROUND
The goal and purpose of Chapter 16.47, adopted in 1984, is to “lessen the shortage of low-income and moderate-income housing in Palo Alto by requiring developers of large commercial and industrial projects, as a condition of using land for the privilege of development, to contribute to programs that increase the City's low-income and moderate-income housing stock.” The ordinance requires that developers adding to the City’s employment base provide affordable housing units to reduce the impact the additional employees have on the City’s affordable housing stock, or pay a fee in-lieu of providing units. As stated in the adopting ordinance, the City has an interest in ensuring that people who work in the City can live in the City, because “the lack of affordable housing in Palo Alto forces many new employees to commute considerable distances, adding to the air pollution and traffic congestion in palo Alto and adjacent communities.”

DISCUSSION
Since 1984, when the in-lieu housing fee was adopted, there have been several hospital expansions in the City, adding significantly to the employment generated. Over 8,000 people are employed in hospitals throughout the City. At least 3,000 of these employees are attributable to hospital expansions performed since 1984.
Any additional or expanded hospital uses in the City will have further impacts on housing. According to the 2001 updated nexus study performed for the in-lieu housing fee, each additional 100,000 square feet of employment-generating uses in the City creates a need for seven very-low income housing units, fifteen low-income units, and sixteen moderate-income units. Without workforce housing alternatives in the city, employees in those income categories will live outside of the city and commute in, increasing traffic on city streets. Removing the fee exemption for hospitals will ensure that they share in the cost of providing housing for the employees they generate.

**POLICY IMPLICATIONS**

This ordinance is consistent with Policy H-15 and Program H-50 of the Comprehensive Plan, which support pursuing funding for construction or rehabilitation of affordable housing, and requiring developers of employment-generating commercial and industrial developments to contribute to the supply of low- and moderate-income housing.

**RESOURCE IMPACT**

Currently, the in-lieu fee for commercial housing projects that do not provide affordable housing units is $16.01 per square foot. A 1,000,000 square foot hospital expansion would generate $16 million in housing fees, which could only be used to provide affordable housing. The in-lieu fee only applies to net new square footage; replacement or renovation of existing facilities is exempt.

**ENVIRONMENTAL REVIEW**

The imposition of an in-lieu fee on development is not a project under the California Environmental Quality Act, and does not require environmental review.

**ATTACHMENTS**

A. Ordinance amending Chapter 16.47 of the Palo Alto Municipal Code

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