INFORMATION CMR

TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER DEPARTMENT: PLANNING AND COMMUNITY ENVIRONMENT

DATE: DECEMBER 11, 2006 CMR: 441:06

SUBJECT: PRESENTATION OF PROPOSED EXPANSION PROJECT FOR STANFORD SHOPPING CENTER

This is an informational report and no Council action is required.

BACKGROUND
The Simon Property Group is proposing to expand Stanford Shopping Center and has requested a City Council study session to present the concepts for the proposed shopping center expansion. Simon proposes to add approximately 240,000 square feet of retail expansion distributed throughout the site. Simon also proposes a 120 room hotel focused primarily on serving Stanford University, the Stanford Medical Center, and the Stanford Shopping Center. The hotel will also feature conference and meeting room facilities.

In 2005, the Mayor’s Retail Attraction Committee (RAC) identified several ways to attract and retain local businesses. One element of the Action Plan presented to City Council and the Planning and Transportation Commission included enhancing Stanford Shopping Center and assisting the Center become more competitive, particularly relative to other regional shopping centers. The RAC and City Council generally indicated support for helping maximize the Shopping Center’s potential for expansion and revenue enhancement to the City. The City Council has also identified the Shopping Center expansion as a key potential source of revenue as part of the City’s efforts to add $3 million of annual revenue for infrastructure improvements.

Stanford Shopping Center Background
The following background information about the shopping center is being provided for the Council to facilitate its consideration of the Simon Property Group’s presentation.

The Stanford Shopping Center (SSC) comprises the area located between Sand Hill Road, El Camino Real, Quarry Road and Vineyard Lane. The site includes a total of 70 acres, with 54 acres in the main shopping center area and an additional 15.88 acres in the
The shopping center was constructed in 1956 and has undergone several expansions and upgrades since then. The most recent expansion was the 1997 approval of 80,000 square feet of new space, a 49,000 square-foot increase in the development cap at the SSC beyond the development existing on June 14, 1996, resulting in a total current development of 1,412,162 square feet.

The 1997 expansion project was one of four development projects approved together as the Sand Hill Corridor projects. In addition to the SSC expansion, these projects included the Stanford West Apartments, the Hyatt Senior Housing, and several roadway modifications including: the widening of Sand Hill road to four lanes from Santa Cruz Avenue to Arboretum Road; a two-lane extension of Sand Hill Road from Arboretum Road to El Camino Real, widening and improvement of Quarry Road, construction of a new Vineyard Lane, extension of Palo Road, and the extension of Stockfarm Road. These projects were considered together in one Environmental Impact Report (EIR), and were addressed in a single Development Agreement. While the EIR identified significant unavoidable impacts from the projects, including the SSC expansion (including incremental increases in traffic), the City Council adopted overriding considerations for the projects because the impacts were considered to be limited, and the projects would make the Sand Hill Road Extension and related roadway improvements economically feasible. The total approved expansion for the SSC increased the SSC’s existing floor area by about six percent. Information provided by independent experts showed that the expansion was needed to assist the SSC in remaining a competitive and viable regional shopping area by allowing continued growth and flexibility to maintain parity with other competitive shopping centers.

Key issues in the 1997 SSC expansion project
Following is a summary of key planning, transportation, and economic issues that were addressed in the City review and approval of the 1997 SSC expansion project.

Connection of Stanford Shopping Center to Downtown and Transit Station.
An important City objective in the design of the 1997 SSC expansion was to strengthen the connection between the shopping center, Downtown, and the Caltrain station. The design was modified to locate a retail building at the corner of El Camino Real and Quarry Road, providing a bridge between the SSC and Downtown by shifting the “center of gravity” of the SSC nearer the transit station and Downtown. The pedestrian link between the SSC, Downtown and the transit station was strengthened by improving the crossing of El Camino Real at Quarry Road and extending the pedestrian path into the shopping center.

Protection of San Francisquito Creek riparian area.
San Francisquito Creek and creekside riparian area is adjacent to the north side of the SSC. This natural resource was protected by locating the newly created Sand Hill Road extension away from the creek on the existing paved area of the shopping center parking lot. To provide permanent protection for the creekside open space, the area between the
north edge of the Sand Hill Road extension and San Francisquito Creek was rezoned to CC (L), adding a Landscape (L) overlay to this area.

**Fiscal and economic impacts.**
An analysis was prepared to study the fiscal impacts of the four Sand Hill Corridor projects on the City of Palo Alto and the Palo Alto Unified School District (PAUSD), and possible economic impacts on retail sales in downtown Palo Alto and downtown Menlo Park. The study found that development of the four projects would provide new annual revenues in excess of costs for necessary services for the City and for the PAUSD. Additional significant positive fiscal impact for the City resulted from the amendment. In addition, the City achieved the extension of the El Camino Park lease that was part of the development agreement. The economic analysis also found that projected increases in local population, income, and employment would provide sufficient resident- and employee-generated demand to support both the shopping center expansion, downtown Palo Alto and downtown Menlo Park retailers.

**Multimodal transportation improvements.**
A major objective of the City was that the project would not only improve vehicular circulation but also would encourage non-vehicular access to the SSC by improving conditions for pedestrians, bicyclists and transit users. In addition to many mitigation measures imposed to offset expected traffic increases resulting from the Sand Hill Corridor projects, accommodating pedestrians and bicyclists was incorporated into the design of all the projects. Due to the major scale of pedestrian and bicycle improvements throughout the projects, a condition of project approval was that a post-construction evaluation of the bicycle and pedestrian improvements would be conducted to monitor the success of the circulation system design for non-automobile modes of travel. This evaluation is to be conducted two or three years after completion of all the transportation features of the project; Stanford expects to conduct this study next year.

**Scenic quality of northern gateway and Sand Hill Road corridor.**
The SSC is located at the north gateway to the city where El Camino Real crosses San Francisquito Creek and where Sand Hill Road intersects El Camino. Sand Hill Road provides a linkage between El Camino Real, a state historic route, and Interstate 280, a California scenic highway. At the time the Sand Hill Corridor projects were approved, the Comprehensive Plan was amended to add Sand Hill Road to the city’s scenic corridors. Possible impacts on the scenic quality of the north gateway and Sand Hill Road was an important consideration for the City in the design of the SSC expansion. During the review process, proposed new development was shifted away from the north side of the shopping center to locations along Quarry and Arboretum Roads, to protect vistas from Sand Hill Road. The roadway was specially designed to retain a rural character, and the new extension from Arboretum to El Camino Real was reduced to two lanes.

**Stanford Shopping Center purchased by Simon.**
In 2003, OPG Center, LLC, an affiliate of Simon Property Group, a publicly traded real estate investment trust (“SIMON”), acquired the Stanford Shopping Center from Stanford University, subject to a long-term ground lease. The development agreement and the
maintenance agreement (the Stanford Agreements) between the City and Stanford contain provisions that apply to the SSC as well as other properties owned by Stanford. At the time Simon purchased the SSC, the City agreed to an Assignment and Assumption Agreement that severed the SSC-related obligations under the Stanford Agreements so that those obligations were assigned to and assumed by Simon. This did not release Stanford from any of its obligations and liabilities under the Stanford Agreements, for which it remains liable to the City. In the event of a breach of any of the SSC-related obligations assumed by Simon, the City may exercise its rights and remedies against Stanford or against Simon.

**Development Agreement Annual Report.**
The terms of the Development Agreement for the Sand Hill Corridor projects require that Stanford submit an annual report to the City demonstrating good faith compliance with the terms of the agreement. Nearly all of the components of the projects have been completed and most of the conditions and mitigations have been satisfied.

**POLICY IMPLICATIONS**
Following are Comprehensive Plan policies and programs relevant to the Stanford Shopping Center proposal.

Policy B-22: Work with Stanford University to ensure that the Stanford Shopping Center is sustained as a distinctive, competitive, high quality regional shopping center.

Policy B-22, Text: While the Center has had many positive economic benefits, it is primarily auto-oriented and is not as well integrated into the fabric of the community as it might be. The Shopping Center’s parking lot redevelopment and building expansion plans approved in 1997 incorporate improved pedestrian and transit connections to University Avenue/Downtown, the University Avenue multi-modal Transit Station, and nearby housing.

Policy L-26: Maintain Stanford Shopping Center as one of the Bay Area’s premiere regional shopping centers. Encourage any new development at the Center to occur through infill, including development on existing surface parking lots.

Program L-23: Identify strategies to reuse surface parking lots and improve pedestrian and transit connections at Stanford Shopping Center.

Program L-24: Maintain a Stanford Shopping Center development cap of 80,000 square feet of additional development beyond that existing on June 14, 1996.

Policy L-27: Pursue redevelopment of the University Avenue Multi-modal Transit Station area to establish a link between University Avenue/Downtown and the Stanford Shopping Center.

The Mayor’s Retail Attraction Committee (RAC) in 2005 identified as a key issue the need to actively attract and retain local businesses that add to the City’s revenues and business mix. The RAC Action Plan was reviewed by the City Council at a joint study
session with the Planning and Transportation Commission on December 12, 2005 and calls for exploring ways to enhance the SSC and help it become more competitive.

**NEXT STEPS**
The presentation and Council discussion on December 11 will be similar to the study session held on November 20 for the Stanford Medical Center. It will provide an opportunity for the Council to provide initial comments on the SSC schematic plans and raise issues regarding the proposal. On December 18, the Council is scheduled to discuss authorizing the City Manager and City Attorney to initiate the process for project review and negotiation of an amendment to the development agreement between the City, the Simon Group and Stanford regarding the future expansion of the SSC. At that time, staff will summarize for Council the issues raised at both study sessions that will form the basis for the future process and discussions. The development agreement will allow the City to negotiate with the Simon Group and Stanford, and will require conditions to adequately mitigate potential impacts of the project and to provide for appropriate public benefits. Any proposal will likely require a Comprehensive Plan and zoning code amendment.

An EIR will be required to address impacts from the project and is likely to include the Stanford Medical Center project as part of a joint EIR. A Request for Qualifications (RFQ) for an EIR consultant will be circulated in January with consultant selection in February. The EIR is anticipated to take up to a year to prepare. Staff will provide Council with progress reports over the course of the EIR preparation.

All costs of project review, including the EIR preparation, legal fees, contract planner services and City staff time will be reimbursed by the Simon Group through a reimbursement agreement. The City also expects to retain independent experts regarding the economic and design aspects of shopping center and hotel facilities. Costs associated with these experts will also be reimbursed by the Simon Group.

Although the Simon Group plans extensive public outreach regarding the project, the City will also hold public workshops and develop a project website in addition to conducting public hearings on the EIR, the development agreement and any other required entitlements.

**RESOURCE IMPACTS**
The Stanford Shopping Center generates a significant portion of the City’s General Fund Sales Tax Revenues. As staff has indicated in our Long Range Financial Forecast for this year and in prior years, the Shopping Center is facing increasing competition from other regional commercial retail centers. If this trend continues, the City could face the potential of declining sales tax revenues in the future.

The proposed expansion of 240,000 square feet should address the competition issues by insuring a balanced, attractive retail mix. Currently, retail space at the shopping center generates approximately $800 dollars per square foot. This expansion can generate significant additional sales tax revenues. Initially, new retail space is projected to generate about $650 per square foot in sales; this would yield approximately $156 million
in gross sales, or approximately $1.5 million per year in new sales tax revenues. As retail space matures, the increased floor area is anticipated to generate closer to the $800 per square foot level, which would equal approximately $192 million in gross sales, or $1.9 million per year in sales tax revenues.

Also included in the proposed development project is a 120 room hotel. Based on current Transient Occupancy Tax (TOT) reports, the average room rate in Palo Alto is approximately $131 per night with occupancy rates at about 70%. Using the same occupancy rate and room rates for a hotel of this type, annual TOT could increase by as much as $800,000.

As with any significant development project, there will also be incremental property tax revenues generated by the increased construction value as well as Utility User Tax (UUT) revenues once the space is occupied. Property Tax estimates will be determined once construction documents have been received by the City; UUT revenues are roughly estimated at $21,000 annually.

Finally, in addition to the revenues listed above, there are also one-time fees that will be paid by the developer. These include building permit fees, roughly estimated at $760,000, and parks, libraries, community centers, and housing impact fees totaling $6.6 million. In addition, a citywide traffic impact fee ordinance, scheduled to return to the City Council in early 2007, would generate a $2.2 million fee for transportation projects.

ENVIRONMENTAL REVIEW
This report is an information item and is not subject to the California Environmental Quality Act (CEQA).

ATTACHMENT
Attachment A: Aerial map of Stanford Shopping Center

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