State of the City

Eric Filseth, Mayor
March 5, 2019

Slides 2-11  Palo Alto Year in Review
Slides 12-17  Wilton Court Affordable Housing Project; Housing Formula
Slides 18-32  2019 City Council Priorities
Slides 33-58  Regional Considerations
Palo Alto 2019

• A Great Place to Live, Raise Kids and Grow Old
• A Good Neighbor

Annual National Citizen Survey 2018 – 650 Palo Alto Responses

89% - Palo Alto = “excellent” or “good” place to live

“One Good Thing”
1. Parks, Open Space, Nature (23%)
2. Public safety (12%)
3. Libraries (11%)
4. Community, activities, recreation (10%)
5. Utilities (10%)
6. Schools (8%)

“One Not-as-Good Thing”
1. Traffic (23%)
2. Housing pressure (21%)
3. Other Development (10%)
Expanded Rinconadaa Hours 50%+
Reopened the Baylands Boardwalk
Saved the Animal Shelter
Opened the Foothills Park 7.7 Acres
Approved New Public Safety Bldg
1st “6.2% Budget” – Fully Funded FY2019 Pensions
Kicked off JMZ Renovation
Finished the Golf Course Rebuild
Almost Done !!

Welcome to Beautiful University Avenue
Approved Wilton Court Affordable Housing
The Big Challenge of Affordable Housing is MONEY

Wilton Court Affordable Housing Project
58 units – 60% AMI + DD adults

- PA Housing + Ventura Neighborhood
- $10M from City’s Affordable Housing Fund
- AH Fund grows ~$1.5M/yr – impact fees
  - 1 sf of Office Space → demand for $264 of AH
  - Current impact fee: $35/sf
Housing Formula

- **Accelerate Supply growth**
  - ADU ordinance
  - 2019 Housing Ordinance
    - Housing in commercial zones
    - Density/FAR increases within existing building envelopes
    - Reduce “overparking” without “underparking”

- **Attenuate Demand growth**
  - 50K sf/yr annual office cap
  - Citywide 850K sf office cap to 2030

- **Invest in Affordable Housing**
  - $15M in Buena Vista rescue (2017)
  - $10M in Wilton Court
  - $3M for Supervisor Simitian Teacher Housing project
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Toward a Sustainable Development Policy

Assuming:
- 4 jobs per 1,000 sf
- 1.5 employees per housing unit

Office/R+D Growth (Sq Ft)

Housing Growth (Units)

Nominal Equilibrium

Increases Regional Housing Shortage

Reduces Regional Housing Shortage

A. Vernazza Wolfe Assoc, Commercial Linkage Fee Nexus Study, Nov 2015  Doc ID 6862
Toward a Sustainable Development Policy

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- 4 jobs per 1,000 sf
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Office/R+D Growth (Sq Ft)

Palo Alto 2014-16
(totals)

Comp Plan
Nominal Equilibrium

Palo Alto 2017

Reduces Regional Housing Shortage
Increases Regional Housing Shortage

A. Vernazza Wolfe Assoc, Commercial Linkage Fee Nexus Study, Nov 2015 Doc ID 6862
B. 2016 Annual Housing Element Progress Report Doc ID 7949
C. Annual Element Progress Report Doc ID 8694
Council Priorities for 2019

- Transportation and Traffic
- Grade separation
- Climate action
- Long-term fiscal sustainability

(Staff developing Work Plans for these priorities)

- Regional and legislative issues
Council Focus: Transportation and Traffic

Potentially different strategies for In-Town vs Commuter traffic

- In-town traffic
  - Bike infrastructure, Safe Routes to School...
  - Buses and shuttles
    - VTA financial difficulties

- Commuter traffic – reduce SOV travel
  - Transportation Management Association (TMA) – early promise
    - TMA-driven SOV reduction in 2018: ~330 car-trips/day
    - New trips from 70,000 sf/yr office space: ~450-1,000 car-trips/day
    - Major arterials: ~30-40,000 car-trips/day
  - Raise prices on commuter parking permits: $375/yr → $750/yr
  - New commercial construction: TDM programs

Striking Distance of absorbing annual increases in inbound commute traffic
Cut-Through Traffic – Policy Discussion

Afternoon “rush hour” on University Avenue

Cut-through traffic in Menlo Park
Commute traffic on University Ave arterial
Cut-through traffic in Crescent Park
To-Do List: Parking

• Residential Parking
  – New online RPP system later this year
  – Several more neighborhoods have petitioned
  – What is true Residential Demand?
    • Some good data but limited

• Business District Parking
  – Cal Ave garage proceeding, Downtown on Hold
    • $30M for a 238-space increase

• “Parking as a Utility” – manage as a scarce resource
Grade Separation

- Meadow-Charleston
- Churchill
- Alma/Palo Alto Ave
- Citywide Tunnel

- Price tag: $500M to $3B
- Funding
  - Measure B: ~$350-400M
  - Other: TBD
- No perfect options
  - We must pick from the imperfect options in 2019
- Issues
  - Construction impacts, traffic changes, funding gaps
Stanford GUP – Negotiating Expansion with County

- 2.275M sf new space
- 9,610 new people
- 2600 beds + 550 more housing units

Palo Alto – working with County on main concerns
- PAUSD school impacts
- Traffic/Transportation
- Local Housing demand
- Services – Libraries, Parks ...
- Preserve open space

“Full Mitigation” of adverse impacts to surrounding communities
Climate Change – GHG Playbook

Palo Alto 1990 GHG Emissions

Palo Alto 2030 GHG Target

We Are Here

1 Decarbonize Electricity

2 Convert Other Energy Uses to Electricity

City of Palo Alto 2018-2020 Sustainability Implementation Plan
City of Palo Alto – GHG Emissions 2019

Electric Vehicle Adoption
- 6% of all cars in Palo Alto
- 29% of new car registrations – and increasing
- BUT: ~40% of Palo Alto households in Apartment and other Multi-Unit buildings
  - No proven business model to retrofit with chargers

“Fuel Switching”
- Gas used for cooking, water heating, space heating – could be electric instead
- Most impact on new construction and “natural” replacement cycle
- Green building codes

Rebates on Electric Water Heaters

<table>
<thead>
<tr>
<th>CONDITIONS</th>
<th>SIZE OF HPWH TANK</th>
<th>REBATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Replacing an existing gas water heater with an HPWH</td>
<td>Up to 79 gallons</td>
<td>$1,200</td>
</tr>
<tr>
<td>Replace an existing electric water heater</td>
<td>80 gallons or more</td>
<td>$1,500</td>
</tr>
<tr>
<td>Replace an existing electric water heater</td>
<td>50 gallons or more</td>
<td>$500</td>
</tr>
</tbody>
</table>

https://www.cityofpaloalto.org/civicax/filebank/documents/57005; 2015-2023 Housing Element
To-Do List: Climate Action

- Retire the Waste Incinerator (exp. Summer 2019)
  - 75% reduction in GHG emissions (~15,000 MT/yr)
- Near term: dewater, then transport biosolids to composting facility
- Long term: full processing in Palo Alto

https://www.cityofpaloalto.org/civicax/filebank/documents/57005
- GF Revenue – L/T growth ~4% /yr

- GF Expenses – L/T growth ~4% /yr
  - Construction costs (capital budget) increasing > 4% /yr
  - Pension costs (operating budget) increasing >> 4% /yr

- Palo Alto net unfunded pension + medical liability = $700-750M
  - 8th-highest per household in California
  - Root cause: CalPERS unrealistic investment-return expectations since ~2000 (now 7.0% /yr)
    • Therefore we haven’t saved enough each year
Pension Costs Drive Faster Expense Growth

Palo Alto General Fund Expenses – FY2019 Adopted Budget
Total $210 Million – same as FY2018

- **Salary + Benefits + Contractors**
  - $129M
  - Yr-yr growth -0.2%

- **CalPERS Unfunded Pension Liability Payment**
  - $16.9M
  - Yr-yr growth +17.4%

- **Transfer to Infrastructure**
  - $25.2M
  - Yr-yr growth +0.8%

- **All Other General Fund Expenses**
  - $38.0M
  - Yr-yr growth -7.0%

Data: City of Palo Alto Pension Annual Valuation Report 9/18/18 Doc ID 9604
Pension Costs Drive Faster Expense Growth

Long-term result: expenses grow faster than revenues, crowd out City services and investment
City Finances – Solid but Some Work Ahead

• Correct Accounting / Budgeting → **Fully Fund our Future Pensions**
  - Recognize General Fund true pension expenses @6.2% ROI
  - Next: extend to Enterprise Funds, review Amortization of existing debt

• Optimize how we use money – services and/or “more with less”
  - Public-private
    • 2018 Aquatics: increased annual pool hours 50%+ while reducing costs $300K+ /yr
    • 2018 Animal Shelter: increase hours /community programs; reducing costs ~$400K /yr
  - City operations: labor mix, staffing, processes → “structural” $4M/yr target
    • In process
  - Prioritization – must-haves vs nice-to-haves. Bike Bridge, Post Office ...
  - Technology
  - Right-size revenues: example – most city fees indexed now ...

• Make sure Capital plans map to current construction costs
Palo Alto budgets at 6.2% expected investment return
Palo Alto 2019: A Year of Progress

• **Operational focus – “Rock Solid”**
  – Government high-quality, efficient service to residents
  – A good neighbor to the region
  – Planning, execution, **measurement**, community alignment

• **Progress on existing initiatives**
  – Infrastructure: Cal Garage/PSB, Fire Station 3, Bike Bridge …
  – Comp Plan, Parks and Rec Master Plan, Urban Forest Master Plan …
  – Community: Cubberley, North Ventura, JMZ …
  – Pension finances + long-term fiscal sustainability

• **Wise decisions on key challenges ahead**
  – Grade separation, other transportation wrt VTA changes …
Palo Alto and the Region

Joint Venture Silicon Valley
2019 Silicon Valley Index
Mandatory Reading!

https://jointventure.org/publications/silicon-valley-index
Regional Mandates – “Help” from Sacramento

• Several new Legislature bills that would override local city zoning
  • Main focus on Market-Rate housing

• SB50: applies “Near Transit,” “Jobs Rich,” and “Good Schools”
  • Height up to 75’ including bonuses – for now
  • Reduce or eliminate parking requirements
  • Essentially same as SB827 (withdrawn in 2018)

• “CASA” bills
  • Include SB50
  • Also: diverts part of future city property taxes
  • Also: renter protection / rent control measures

• Other bills
  • Broaden definition of “Near Transit” ...
  • Ban citizen ballot initiatives on many zoning issues

Separate call from Governor Newsom

“Marshall Plan for Housing”
• Major investment in Housing
  - Funding from Sacramento
  - Called for Tech Companies to contribute
• Fiscal sanctions for cities not achieving Housing targets – loss of transportation funding
What Would SB50 Mean in Palo Alto?

Areas covered in Palo Alto by SB50; other bills may extend this

Source: Embarcadero Institute March 2019
Example SB50 Changes

Old Palo Alto – N. California Ave

Before

After

Source: Embarcadero Institute March 2019
Example SB50 Changes

Addison Ave, Professorville

Source: Embarcadero Institute March 2019
Example SB50 Changes

Addison Ave, Professorville

Source: Embarcadero Institute March 2019
Example SB50 Changes

Scripps Ave, Greenmeadow

Source: Embarcadero Institute March 2019
Example SB50 Changes

Scripps Ave, Greenmeadow

- Some people 😞
- Some people 😊

Source: Embarcadero Institute March 2019
Argument for SB50 / CASA and others

• Since the Recession, the Bay Area has added ~722K jobs but only ~106K housing units\textsuperscript{A} – a ~7X difference
  – Santa Clara County 2010-2015: 151,800 jobs vs 31,565 housing units (5X)\textsuperscript{B}

• Hypothesis: there is an artificial Housing shortage caused by restrictive local City codes (it’s a Zoning problem)
  – Unleash private developers to produce large increases in market-rate housing
  – That, in turn, will produce lower prices at all levels

• Since Cities have not acted, Sacramento must take control of neighborhood zoning
  – “We have to do something”

\begin{itemize}
  \item \textsuperscript{A} CASA Compact, MTC 1/2019
  \item \textsuperscript{B} MTC/VitalSigns http://www.vitalsigns.mtc.ca.gov/housing-growth
\end{itemize}
Could SB50 Actually Work?

Source: MTC/VitalSigns
http://www.vitalsigns.mtc.ca.gov/housing-growth

“Runaway housing costs are not primarily due to artificial supply shortage; the problem begins with massive bloat on the demand side”
- Richard Walker, Pictures of a Gone City, 2018

“The whole Affordable Housing problem could be solved for $30 billion”
- Santa Clara County Grand Jury, 2018

Source: MTC/VitalSigns
http://www.vitalsigns.mtc.ca.gov/housing-growth

Richard Walker, Pictures of a Gone City: Tech and the Dark Side of Prosperity in the San Francisco Bay Area, PM Press 2018

Affordable Housing Crisis: Density is our Destiny Santa Clara County Civil Grand Jury 6/21/18
What if You Wanted to Actually Solve It?

New Jobs = 5-6X New Dwellings

San Mateo + Santa Clara Counties

- 1 new dwelling for each 5-6 new workers
- New housing to 20-30% highest wage earners
- Bottom 70% of earners displaced to distances, small spaces

Symptoms
- Displacement of low- and mid-wage earners
- Traffic, parking, pollution from commutes
- Loss of socioeconomic diversity
- Rental uncertainty
What if You Wanted to Actually Solve It?

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Data: 2019 SV Index; MTC/VitalSigns
Census Bureau ACS 2010-2017
What if You Wanted to Actually Solve It?

• Suppose you actually wanted $30 Billion ...

• 2018 Silicon Valley 150
  - Revenue $934 billion
  - Market cap $4-4.5 Trillion
  - Apple, Google, Facebook total $387 billion in cash
  - Also >75% of all tech job growth in 2018

SV150: $1.25 Trillion of New Value in 2016/2017

The Valley generates enormous wealth, but does not invest enough of it in the Housing/Transportation needed to support its job growth.

As a result, those costs fall on Communities, and disproportionately on those communities’ lowest wage earners.
More Than One Housing Problem

• An immense amount of good
• 2018 Silicon Valley 150
  - Revenue $934 billion
  - Market cap $4-4.5 Trillion
  - Apple, Google, Facebook total $387 billion in cash
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SV150: $1.25 **Trillion** of New Value in 2016/2017
More Than One Housing Problem

- Healthy communities need many kinds of people
- Mid- / low-wage earners whose presence benefits the community
  - Teachers, City staff, emergency support staff, nonprofit workers ...
- Can be solved, but at cost
What About “Trickle-Down” for Housing?

Unclear How Much High-Price Housing Benefits Mid- and Low-Wage Earners

Valley Processes Today
- Generate immense wealth, but concentrated
- H/T costs to sustain economic growth not adequately funded
  - Costs exported to Communities
    - The Housing Crisis...
- Accelerating trend of people leaving Valley
  - Now leaving as fast as arriving
  - Avg wage of Arrivers - $90K
  - Avg wage of Leavers - $81.5K

SB50 and current Legislative measures do not fix the process
- Just extend the existing process a few more turns
- A little more market-rate housing + a few more high-wage employees; funded by a little more displacement, a little more cost on Communities

Citylab.com 1/31/19
Shelterforce.org 2/19/19

(A) Mercury News, Unpacking the Bay Area Housing Market, 1/11/18 (Trulia Study 2018)
The Incredible Engine of Silicon Valley

... immensely successful, but needs tuning to stay that way
Silicon Valley Development Post-Recession

- Post-recession early years: rapid job growth but low office growth as new jobs initially went back into existing available capacity.

**Chart: 2019 SV Index**

- **Increases Regional Housing Shortage**
- **Reduces Regional Housing Shortage**

**Data:** 2019 SV Index

- **Silicon Valley Development Post-Recession:**
  - Silicon Valley 2014
  - Silicon Valley 2013
  - Silicon Valley 2012
  - Silicon Valley 2010
  - Silicon Valley 2011
  - Peninsula City 2014
  - Palo Alto Comp Plan (Target)
  - Palo Alto 2017
Silicon Valley Development Post-Recession

- Post-recession later years: massive office expansion as job growth continued and existing office capacity filled. Housing growth flat. Construction costs escalating.

Data: 2019 SV Index; City of Sunnyvale Development Index 1/2019
Silicon Valley Development Post-Recession

- "Regional Housing Deficit"
- Rapid job growth/commercial space growth outpaced relatively stable residential growth.

Data: 2019 SV Index; City of Sunnyvale Development Index 1/2019
Regional expansion driven by private projects. Commercial-development economics better than residential even within mixed-use projects.
Silicon Valley Development Post-Recession

Housing Growth (Units)

- Reduces Regional Housing Shortage
- Increases Regional Housing Shortage

Commercial Development Growth (Sq Ft)

- Silicon Valley 2014
- Silicon Valley 2013
- Silicon Valley 2012
- Silicon Valley 2010
- Silicon Valley 2011
- Silicon Valley 2015
- Silicon Valley 2016
- Silicon Valley 2017
- Silicon Valley 2018
- Peninsula Project (-3,433 H.U.)
- West Bay Project (-3,000 H.U.)
- South Bay Project (-16,000 H.U.)
- South Bay City 2015-19 (-25,000 H.U.)

Data: 2019 SV Index; City of Sunnyvale Development Index; keystonedg.com/projects/city-place/ City Place Santa Clara Master Plan; Daily Post 2/10/19 Facebook Unveils New Plan; Mercury News 9/20/18 Cupertino Approves its own Mixed-Use Plan; sunnyvale.ca.gov/business/projects/moffett.htm; Mountain View Voice 12/13/17 Ambitious Precise Plan.
A Tale of Two Projects

North Mt View Expansion Plan
- 3.5M sf + 9,850 Housing Units
- ~14,000 jobs, mostly high-wage
- Jobs-Housing Parity
- Transportation funding
- Created by Local Government + Private Sector

Vallco / SB35
- 2.4M sf office/retail plus 2,400 Housing Units
- Total jobs 9,000+
- Housing for ~4,000-4,500 employees
- Worsens housing shortage by 2,000-3,000 units
- Mandated by “One Size Fits All” State Law SB35

Housing Growth
- Scalable
- Not Scalable

Equilibrium

North Bayshore Precise Plan

Data: 2019 SV Index
Mercury News 9/20/18 Cupertino Approves its own Mixed-Use Plan
Mountain View Voice 12/13/17 Ambitious Precise Plan

Commercial Development Growth (Sq Ft)
A Sustainable Process of Good Neighbors

If every City could be on this line, we would work our way out of our Housing crunch.
A Path to Actually Solve the Problem

• Money: new, ongoing investment in Housing and Transportation infrastructure
  – More of SV wealth generation into Housing/Transportation
    • Cities already innovating: Mt View, East PA, San Francisco
  – State investment in high-output region

• Get smart about Geography
  – Costs of Housing/Transportation vary across region
    • Private sector already innovating: Google-led rush to Diridon Stn
  – Jobs growth is the real driver
    • Focus housing/transportation investment near job growth
  – Guidance for State investment

• Cities (or subregions): require jobs-housing balanced Development policies
  – Don’t export Housing/Transportation costs of Jobs growth onto neighboring cities

Governor’s “Marshall Plan”

Sacramento should regulate
2019 – a Year of Opportunity

• Some Challenges
  – External – Caltrain/Grade separation, regional pressures, Full Mitigation from the Stanford GUP
  – Internal – execution on initiatives, balancing our books

• Some things to look forward to
  – 125\textsuperscript{th} Birthday Year!
  – Progress on initiatives and wise choices will serve our future well
  – Healthy City, Healthy Community
Thank You !