Presentations for the

February 3, 2020

City Council Meeting
Housing Work Plan Update

Planning & Development Services
City of Palo Alto
February 3, 2020
Housing Work Plan

- **Ongoing initiatives**: 91%
- **2018 amendments**: 83%
- **2019 amendments**: 0%
- **Economic Analysis to Support BMR**: 66%
- **Leveraging City Funds**: 100%
- **Partnerships**: 57%
Housing Work Plan: Accomplishments

- Affordable Housing Overlay
- Workforce Housing Overlay
- 2018 Housing Ordinance
  - Eliminated Site & Design Review
  - 10% Reduction in Parking
  - Up-zoned RM-15 to RM-20
  - Established Minimum Unit Density
  - HIP: Greater Development Potential Compared to State Density Bonus Law & SB 35
  - 100% Affordable Housing: Retail Preservation Waiver
- ADU Regulations
- $23M Dedicated for Affordable Housing Projects
Colleagues Memos

Strengthening Renter Protections
September 10, 2018
• Local mitigations ordinance
• State law changes: just cause / rent caps (AB 1482)

Safe Parking
June 10, 2019
• Pilot program to start in March

Socio-Economic Diversity & Affordability
September 23, 2019
• Some overlap with housing work plan
• Commercial housing impact fee
Pending Assignments

Area & Regional Planning
- NVCAP
- PDA / PCAs
- Housing Element: 2022-2030

Housing Protection
- Safe Parking
- Renter Protections
- No-Net Loss Housing Policy

Housing Preservation
- Cottage Clusters / Multi-Plexes
- Housing Replacement In-Lieu Fee
- Restrict Housing to Commercial Use

Housing Production
- Inclusionary Housing
- ADU Regulations
- Parking In-Lieu Study
- SB 35 Compliance
- Commercial Housing Impact Fees
- PTOD & Village Residential
- Stanford RP/Shopping Center
- Co-Housing & Small Units
- Special Needs Housing
- TDRs for Residential Uses
- In-Lieu Parking Fees for Housing

Non-Housing Related
- EV Chargers + Related
- Wireless Ordinance
- Reach Code
- Seismic Ordinance
Take Aways from Staff Report

• Limited resources
• Completion of housing work plan assignments not likely to significantly increase housing production
• Not on pace to meet Comprehensive Plan housing unit goal
• Mixed success on meeting RHNA numbers
• Limited near-term strategies to increase housing production

Long Term
• North Ventura Coordinated Area Plan
• Downtown CAP or Study

Mid Term Housing
• Continue with Housing Work Plan

Near Term

Planned Community: Housing Zoning
✔ Limited Applicability (Commercial Zoning)
✔ Improve Housing Balance (net new jobs)
✔ Established On-Site Affordability for Ownership
✔ Compliance with City Office Caps
✔ Prescreening Required
City Council Priority Housing with special emphasis on affordability

Inclusionary Housing & Palmer Fix
Commercial Housing Impact Fee

ADU Regulations
Studio & Micro Unit | Parking Regulations

SB 35 & Market Rate Housing
Effective 2018

Project Streamlining. Jurisdictions that meet RHNA Above Moderate Numbers:
- 2/3rd Residential
- 50% of units deed restricted for low income
- 1 Parking Space / Unit – or No Parking w/in .5 mi of transit stop or excluded from RPP
- Objective standards only – no design review (ARB)
- Process w/in 60 days

Jurisdictions that fail to meet Above Moderate RHNA are subject to above w/only 10% deed restricted housing
### Comprehensive Plan Housing Production Range

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<tr>
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<tbody>
<tr>
<td></td>
<td>All Incomes (units)</td>
<td>286</td>
<td>18</td>
<td>89</td>
<td>54</td>
<td>107</td>
<td>343</td>
<td>343</td>
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### Housing Element Regional Housing Needs Assessment (RHNA)

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>Permitted Units</th>
<th>RHNA Target</th>
<th>% of RHNA</th>
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<tbody>
<tr>
<td>Very Low</td>
<td>43</td>
<td>5</td>
<td></td>
<td>43</td>
<td>691</td>
<td>6.2%</td>
<td></td>
<td></td>
<td>43</td>
<td>691</td>
<td>6.2%</td>
</tr>
<tr>
<td>Low</td>
<td>58</td>
<td></td>
<td>2</td>
<td></td>
<td></td>
<td>15%</td>
<td>65</td>
<td></td>
<td>65</td>
<td>432</td>
<td>15%</td>
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<tr>
<td>Moderate</td>
<td>11</td>
<td>3</td>
<td>12</td>
<td></td>
<td>26</td>
<td>9.4%</td>
<td></td>
<td>26</td>
<td>278</td>
<td>278</td>
<td>9.4%</td>
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<tr>
<td>Above Moderate</td>
<td>174</td>
<td>15</td>
<td>72</td>
<td>54</td>
<td>105</td>
<td>3</td>
<td></td>
<td>423</td>
<td>587</td>
<td>72%</td>
<td>72%</td>
</tr>
<tr>
<td>Sub Total</td>
<td>286</td>
<td>18</td>
<td>89</td>
<td>54</td>
<td>107</td>
<td>3</td>
<td></td>
<td>557</td>
<td>1988</td>
<td>28%</td>
<td>28%</td>
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### SB 35 Streamlined Review @ 50% Affordability for Not Meeting Above Moderate RHNA Target

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</thead>
<tbody>
<tr>
<td>DU/YR (Need)</td>
<td>73</td>
<td>147</td>
<td>220</td>
<td>294</td>
<td>367</td>
<td>440</td>
<td>514</td>
<td>587</td>
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<tr>
<td>DU/YR (Permitted)</td>
<td>174</td>
<td>189</td>
<td>261</td>
<td>315</td>
<td>420</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADUs / Year</td>
<td>11</td>
<td>3</td>
<td>12</td>
<td>36</td>
<td>62</td>
<td></td>
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Housing Unit Production Over Time

To Reach Comprehensive Plan Housing Production Mid-Range Target: 343 Housing Units Are Needed on Averaged Over the Next 10 Years.
## Palo Alto

<table>
<thead>
<tr>
<th>Population</th>
<th>Median Home Price</th>
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<tbody>
<tr>
<td>67,019</td>
<td>$2.7M</td>
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<table>
<thead>
<tr>
<th>Zoning</th>
<th>Median Rent</th>
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<tbody>
<tr>
<td>72% R1 &amp; Low Density</td>
<td>$4,280 (2 Bedrooms)</td>
</tr>
<tr>
<td>11% Multi-Family</td>
<td></td>
</tr>
<tr>
<td>8%+ Commercial</td>
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<table>
<thead>
<tr>
<th>Households</th>
<th>Market Considerations</th>
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<tr>
<td>26,212</td>
<td>Skilled Labor Shortage</td>
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</table>

<table>
<thead>
<tr>
<th>Deed Restricted</th>
<th>Construction Materials</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.0%</td>
<td>Limited Area to Build</td>
</tr>
</tbody>
</table>

Sources: City of Palo Alto, American Community Survey and Zillow, Inc.
Area Median Income for Santa Clara County:
1 Person Household = $92,000
4 Person Household = $131,400

Housing By Income Level
- Non-Profit Home Builders
- Public/Private Partnerships
- Inclusionary Housing
- Affordable Housing Funds
- City Property
- Alternative Funding Sources

- Zoning Regulations:
  - affordable by design
  - Inclusionary Housing

- Private Home Builders
- Zoning Incentives
- State Legislation
- Market Conditions
Housing Work Plan Update

Planning & Development Services
City of Palo Alto
January 21, 2020
FY 2021 – FY 2030
Long Range Financial Forecast

City Council Item #12
February 3, 2020
Overview

• Through hard work over the past few years the forecast projects a slight surplus in FY 2021, very minor deficits through the middle of the forecast, and significant surpluses at end of the forecast

• Palo Alto is a service-driven organization; LRFF includes maintenance of the current service delivery levels

• Review financial outlook through high-level trends

• Provide context for development of FY 2021 Operating and Capital Budgets; includes Budget Development Guidelines

• Maintains proactive pension contributions @ 6.2% discount rate

• NEW: Committed Additions
FY 2021 - 2030 General Fund LRFF: Base Case

<table>
<thead>
<tr>
<th></th>
<th>Adopted 2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
<th>2029</th>
<th>2030</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4.1%</td>
<td>2.8%</td>
<td>3.0%</td>
<td>2.8%</td>
<td>3.1%</td>
<td>3.2%</td>
<td>3.3%</td>
<td>3.6%</td>
<td>3.6%</td>
<td>3.6%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>$230,809</td>
<td>$240,447</td>
<td>$250,168</td>
<td>$258,194</td>
<td>$265,396</td>
<td>$272,465</td>
<td>$277,743</td>
<td>$283,366</td>
<td>$291,169</td>
<td>$298,276</td>
<td>$304,382</td>
</tr>
<tr>
<td></td>
<td>4.2%</td>
<td>4.0%</td>
<td>3.2%</td>
<td>2.8%</td>
<td>2.7%</td>
<td>1.9%</td>
<td>2.0%</td>
<td>2.8%</td>
<td>2.4%</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Net One-Time Surplus/(Gap)</td>
<td>$1,292</td>
<td>$1,080</td>
<td>$(1,810)</td>
<td>$(2,386)</td>
<td>$(2,313)</td>
<td>$(1,147)</td>
<td>$(2,284)</td>
<td>$(5,941)</td>
<td>$(8,457)</td>
<td>$(12,212)</td>
<td>$(17,347)</td>
</tr>
</tbody>
</table>
| Cumulative Net Operating Margin (One-Time) | $39,664
FY 2021 - 2030 General Fund LRFF: Base Case

Base Case: Revenue and Expense % Growth

Revenue % Growth

Expense % Growth

2021 2022 2023 2024 2025 2026 2027 2028 2029 2030
Costs/Revenues - NOT Included

**Year 1**

New CIPs: JMZ Phase II, Animal Shelter Rebuild, Foothills Park, Boulware Park/Birch St. Property Dev


Potential additional tax measures

Long-term Plans, such as Parks Master Plan, Cubberley Concept Plan

Grade Separation/Railroad Train Crossings

Continued Capital Infrastructure Plan cost increases

UAL for Pension and Retiree Healthcare Trusts

City owned assets operated by non-profit organizations

Acute recession impacts

**See pages 22-24 of CMR #10727**
Alternative Forecast Scenarios one-time surplus/(gap)

Alt A = CalPERS Pension Rates
Alt B = Major tax revenue sensitivity analysis – Jan 2021
Alt C = Additional 1% General Wage Increase (yrs. without MOAs)
Conclusion

• The City always faces competing priorities; LRFF shows context for balancing high City services expectations against the limited resources available to meet them

• Forecast is intended to assist in informing daily policy decisions and ongoing long-term goals and challenges
  
    ➢ Reflects a projection of the financial status based on current service levels in the General Fund.

    ➢ The first few years of the forecast have a higher confidence level than the final years of the forecast.

• LRFF used to inform the creation of the FY 2021 Budget Development Guidelines
FY 2021 Budget Development Guiding Principles

1) Develop a **structurally balanced budget** that brings ongoing revenues and expenses into alignment. Develop a plan for any structural imbalance to ensure that the City maintains its fiscal sustainability over the short, medium, and long-term.

2) Allocate **one-time resources for one-time needs** rather than committing one-time resources to ongoing services. Examine appropriate uses of revenue surpluses that exceed forecasted levels including planning for recession needs.

3) Ensure appropriate resource allocation for **City Council’s existing priorities**.

4) Focus on **business process redesign** to enhance quality, flexibility, and cost-effectiveness of service delivery (include examining opportunities to streamline, simplify, reorganize, and reallocate resources to avoid duplication of effort).

5) Explore **alternative service delivery models** (such as partnerships with non-profits or other public/private sector groups) to minimize overlap, maximize cost share, and effectively use resources.

6) Continue to thoroughly analyze non-personnel/equipment/other costs, such as contract services, for cost savings opportunities.

7) Explore the **expansion of existing revenue sources or the addition of new revenue sources**, including the alignment of existing charges for services and the opportunity to establish new fees, when appropriate.

8) Continue to **analyze and prioritize resource augmentations**, seeking to offset augmentations with reductions elsewhere for net-zero impacts to the budget whenever possible.
Recommended Action

Staff and the Finance Committee recommends that the City Council:

Accept the Fiscal Year 2021 to 2030 General Fund Long Range Financial Forecast (Base Case), City Manager’s Report 1-727 (Attachment A), including the Fiscal Year 2021 annual Budget Development Guiding Principles.