

# *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
5. Utilities (10%)
6. Schools (8%)

### “One Not-as-Good Thing”

1. Traffic (23%)
2. Housing pressure (21%)
3. Other Development (10%)



# Expanded Rinconada Hours 50%+



# Reopened the Baylands Boardwalk



# Saved the Animal Shelter



# Opened the Foothills Park 7.7 Acres



# Approved New Public Safety Bldg



# 1<sup>st</sup> “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



# Approved Wilton Court Affordable Housing

## The Big Challenge of Affordable Housing is MONEY

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

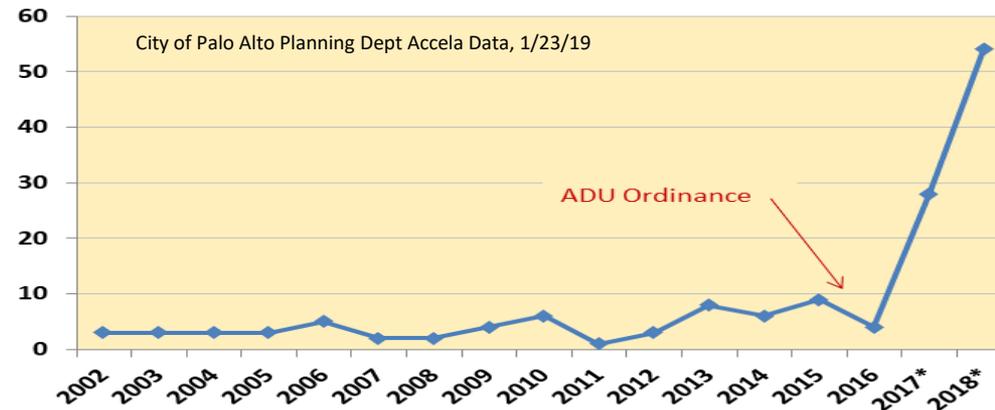
- PA Housing + Ventura Neighborhood 
- **\$10M** from City's Affordable Housing Fund
- AH Fund grows ~\$1.5M/yr – impact fees
  - 1 sf of Office Space → demand for **\$264** of AH<sup>A</sup>
  - Current impact fee: **\$35/sf**



# 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

ADU Permits - Palo Alto



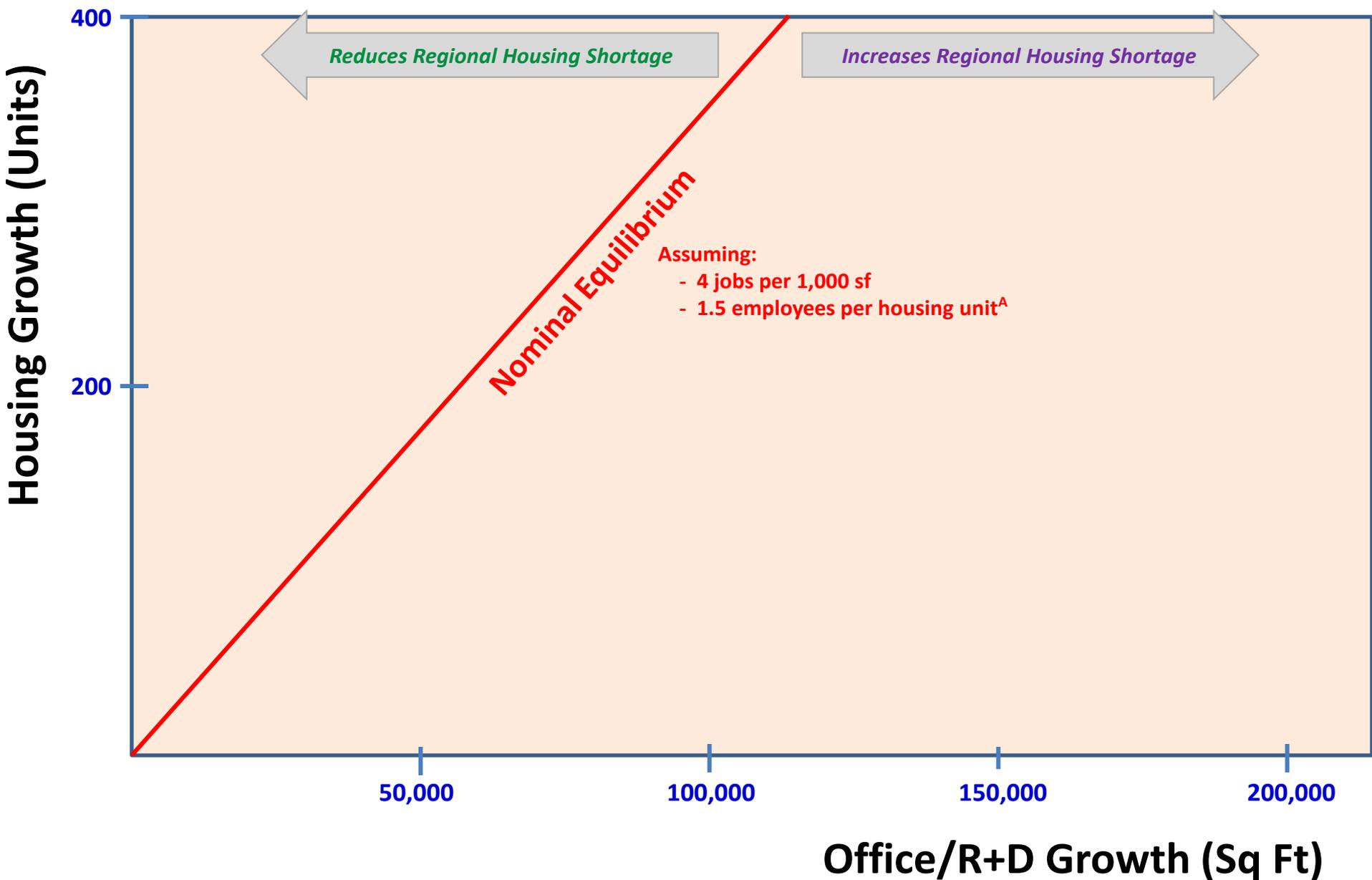
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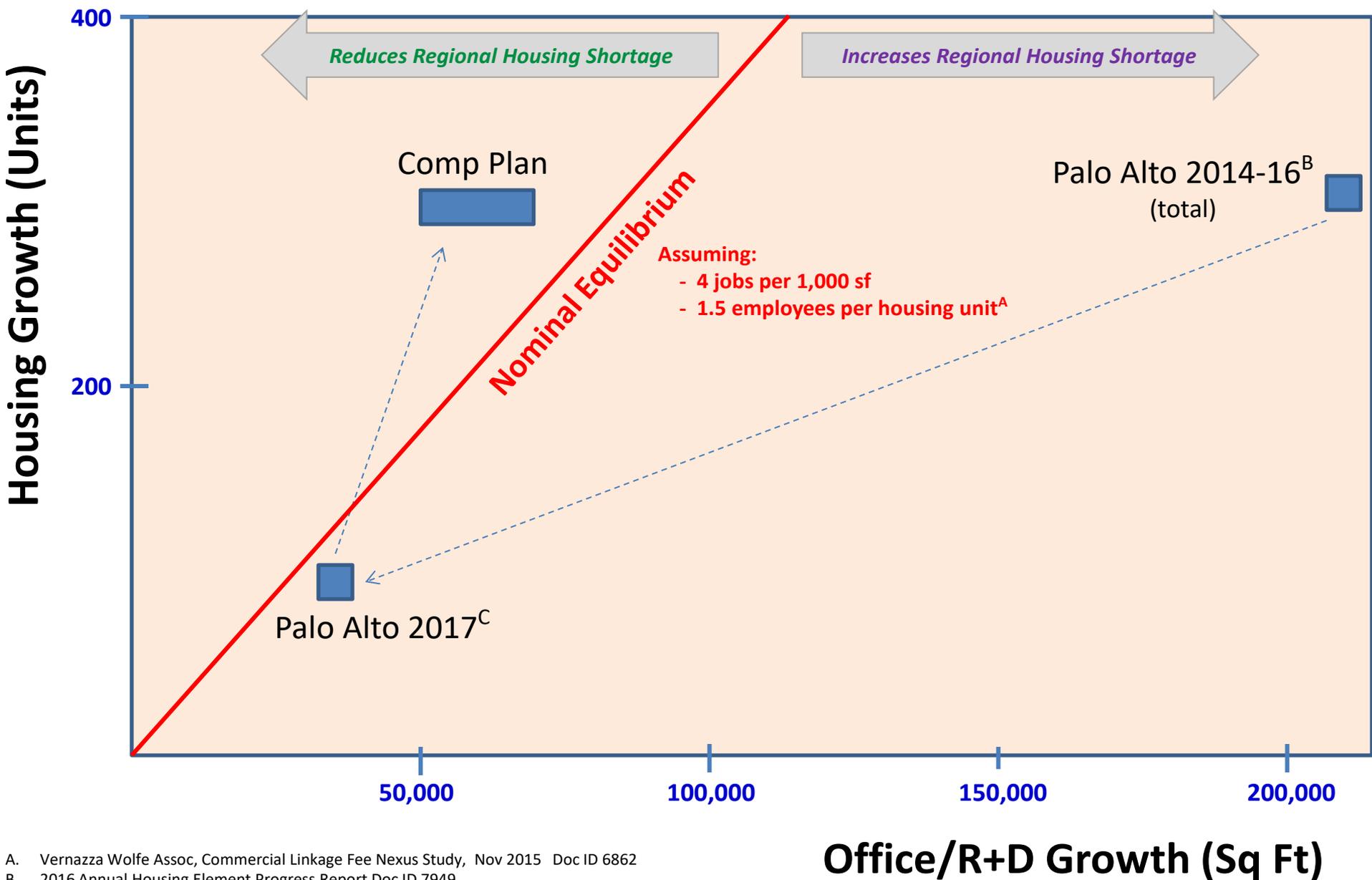
**A Good  
Neighbor**

**Take Care of Our  
Community**

# Toward a Sustainable Development Policy



# Toward a Sustainable Development Policy



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*

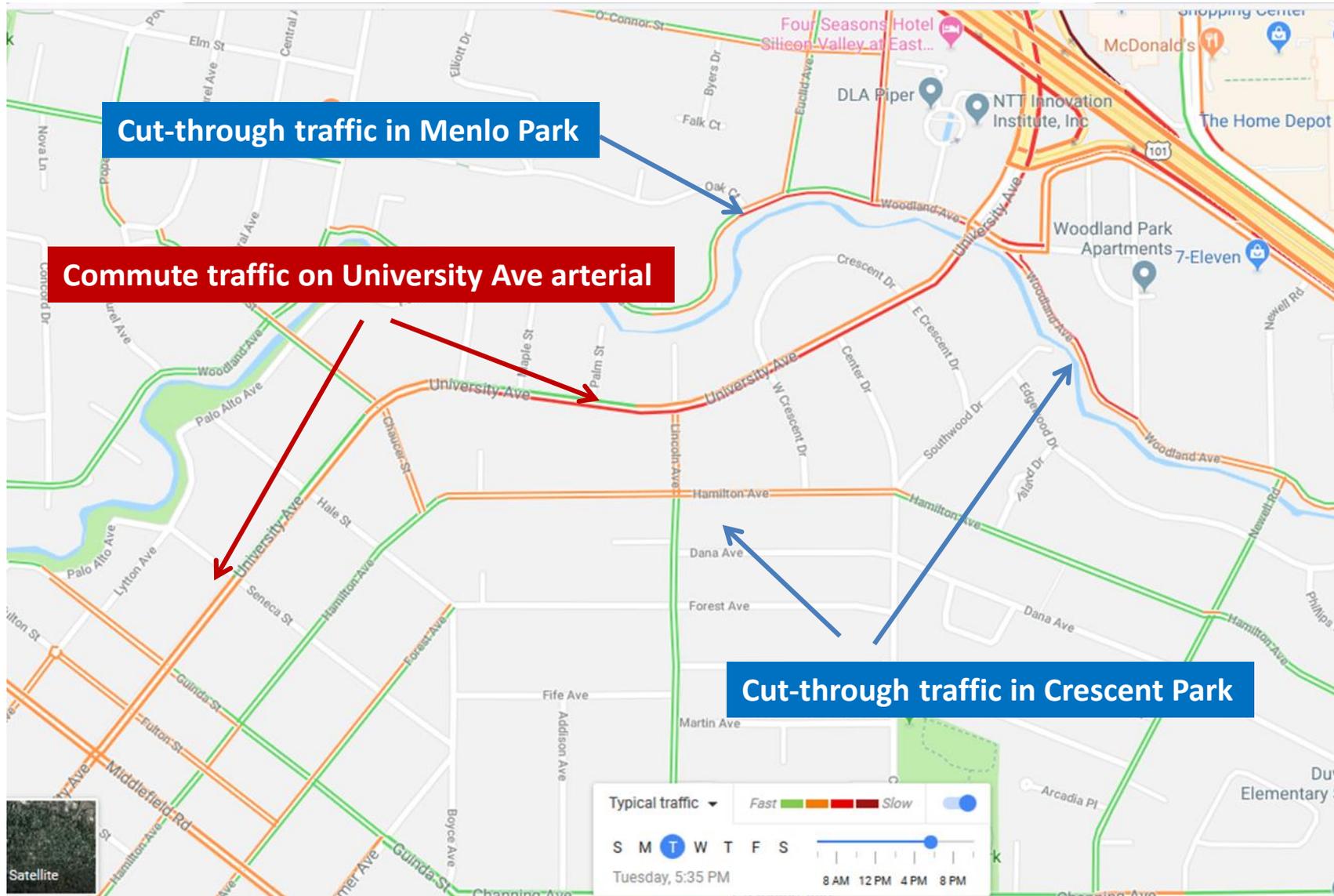
- In-town traffic
  - Bike infrastructure, Safe Routes to School ...
  - Buses and shuttles
    - VTA financial difficulties
- Commuter traffic – *reduce SOV travel*
  - Transportation Management Association (TMA) – early promise
    - TMA-driven SOV reduction in 2018 ~330 car-trips/day
    - New trips 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

SOV alternative +  
improve resident  
transportation  
around town

***Striking Distance of absorbing annual increases in  
inbound commute traffic***

# Cut-Through Traffic – Policy Discussion

## Afternoon “rush hour” on University Avenue



# To-Do List: Parking

- Residential Parking
  - New online RPP system later this year
  - Several more neighborhoods have petitioned
  - What is true Residential Demand? ← *Measurement*
    - 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
- or
- 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

South PA Viaduct

Community Meeting,  
November 28, 2018



# Stanford GUP – Negotiating Expansion with County

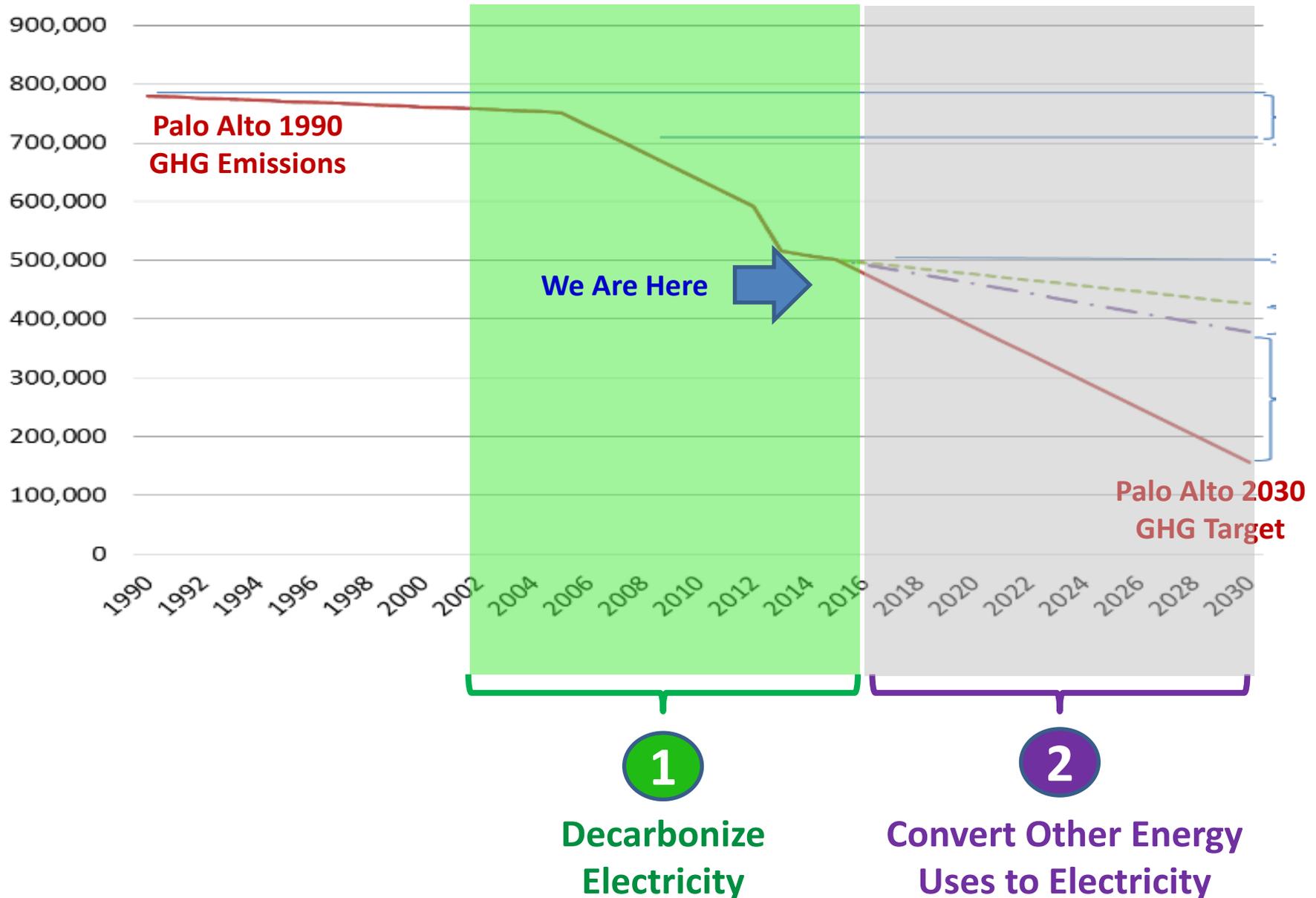
- 2.275M sf new space
- 9,610 new people
- 2600 beds + 550 more housing units

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



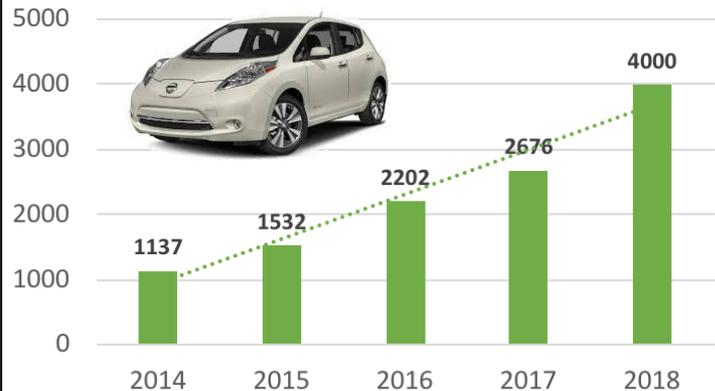
**“Full Mitigation”**  
of adverse impacts to  
surrounding communities

# Climate Change – GHG Playbook



# City of Palo Alto – GHG Emissions 2019

Number of EVs Registered in Palo Alto \*

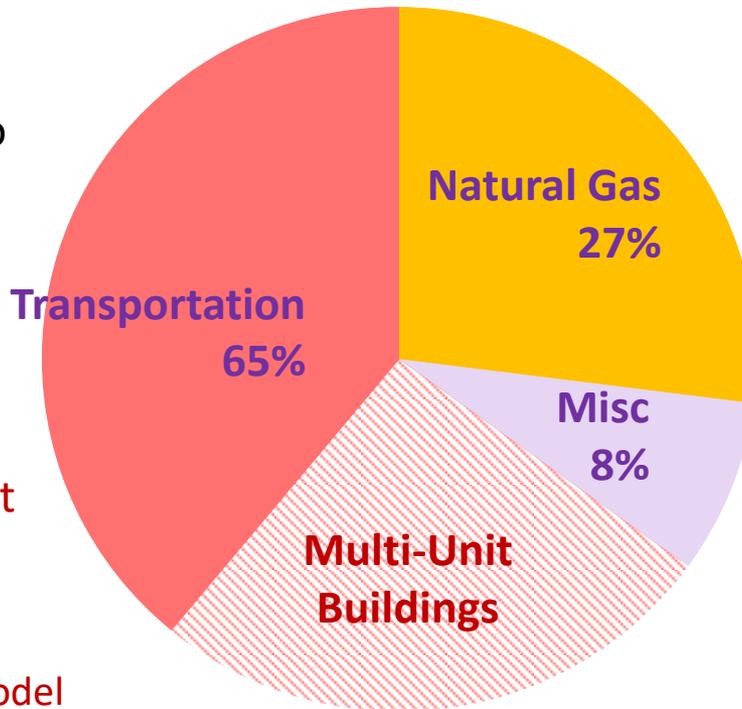


## Rebates on Electric Water Heaters

CONDITIONS	SIZE OF HPWH TANK	REBATE
Replacing an existing gas water heater with a HPWH	Up to 79 gallons	\$1,200
	80 gallons or more	\$1,500
Replace an existing electric	50 gallons or more	\$500

## Electric Vehicle Adoption

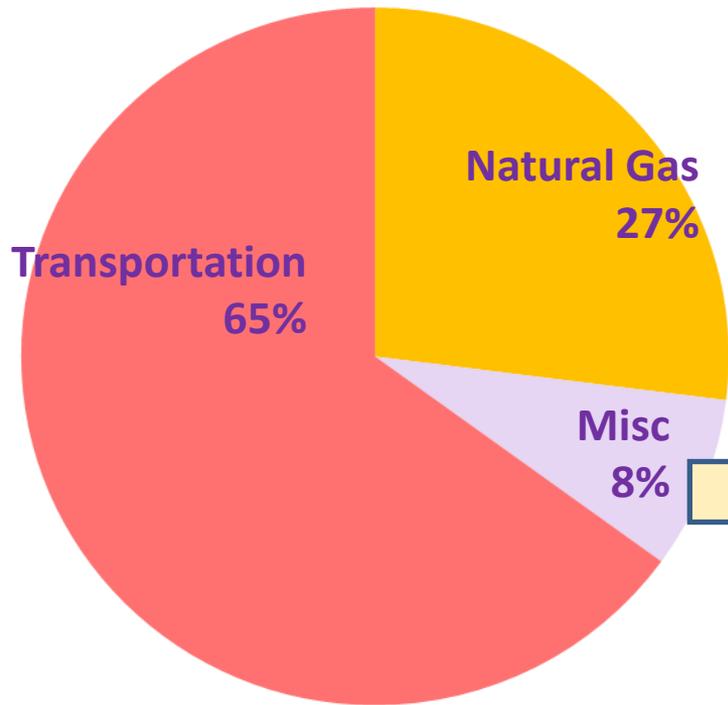
- 6% of all cars in Palo Alto
- 29% of new car registrations – and increasing
- **BUT: ~40% of Palo Alto households in Apartment and other Multi-Unit buildings**
  - No proven business model to retrofit with chargers



## “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

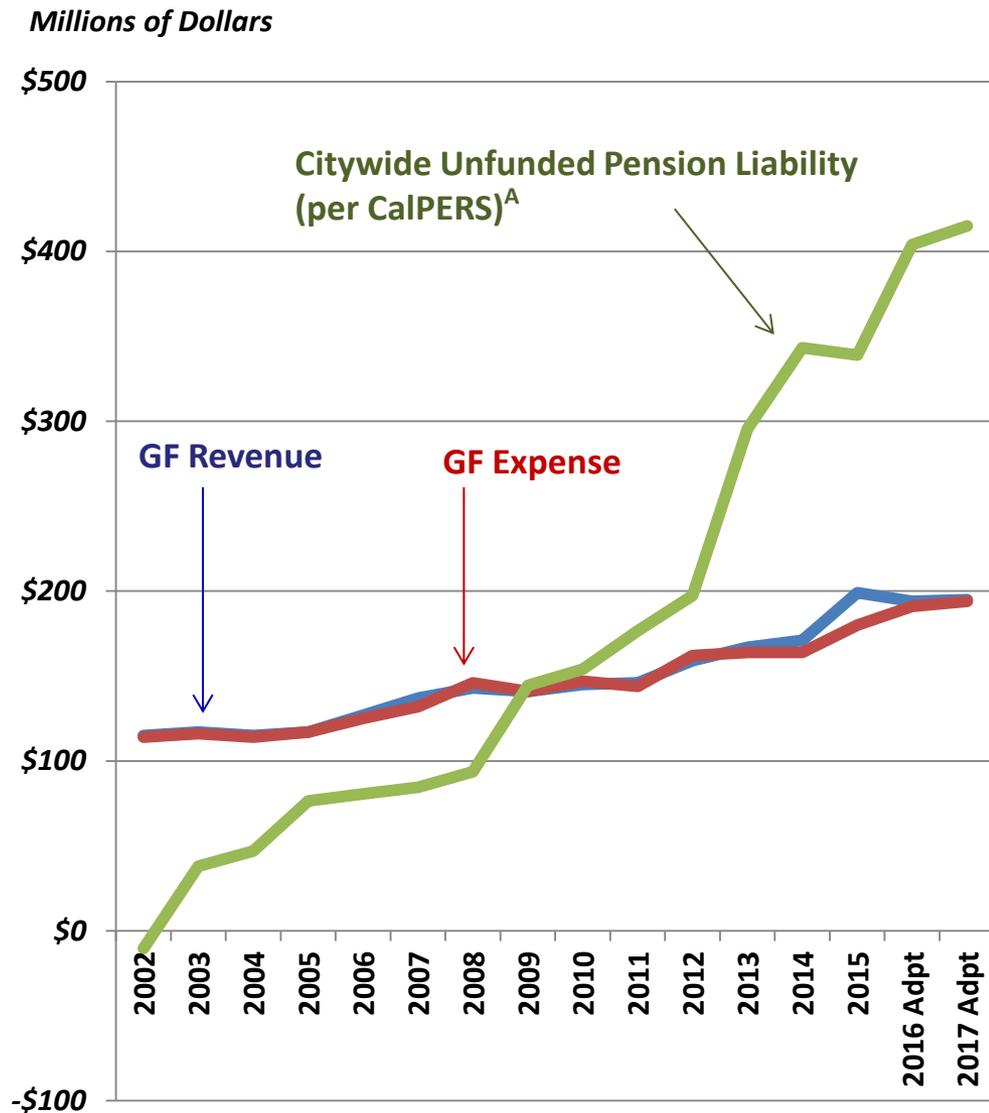
# To-Do List: Climate Action



- 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

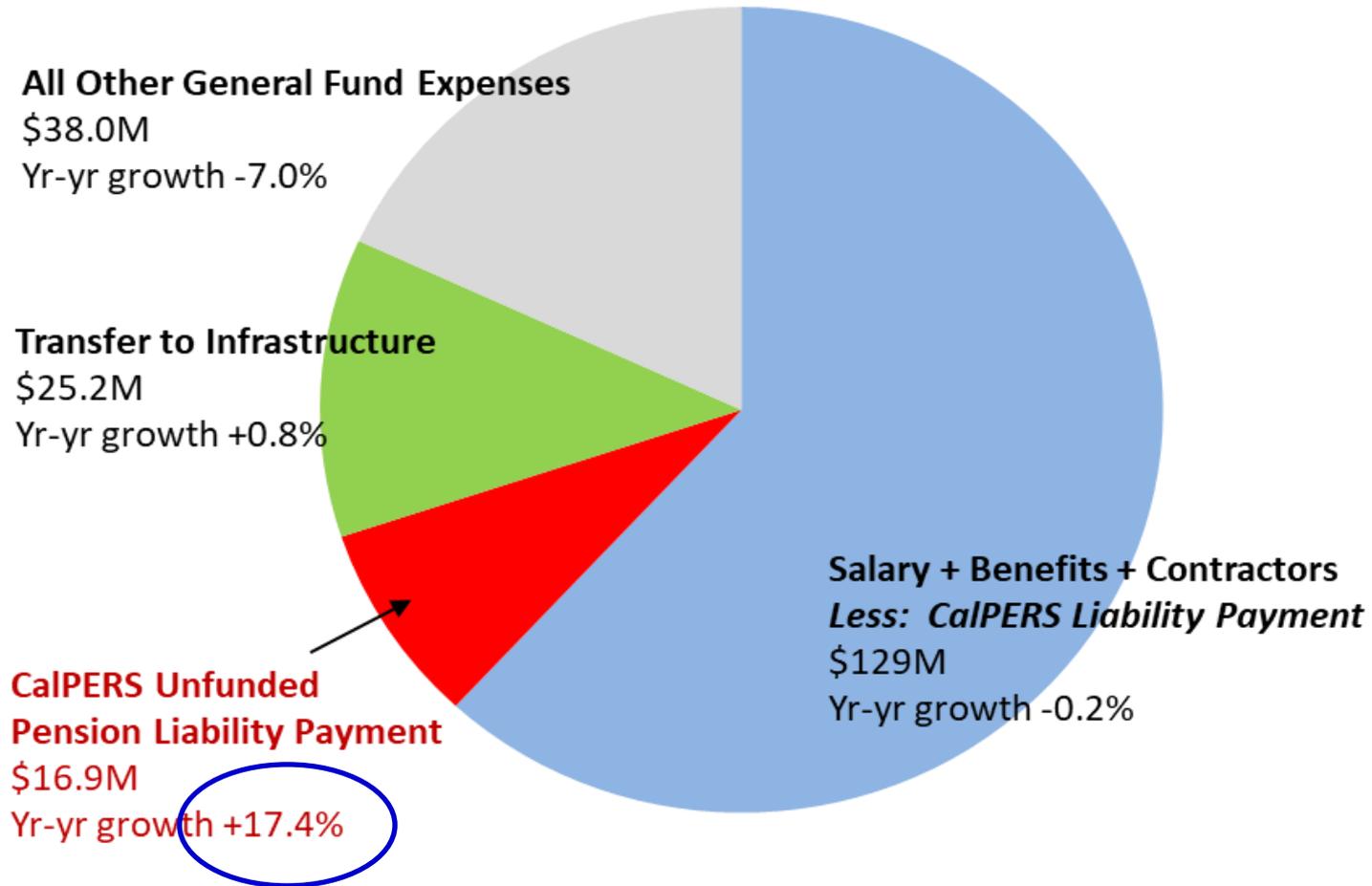
# City Finances – General Fund (\$210M in 2019)

- 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
  - 8<sup>th</sup>-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



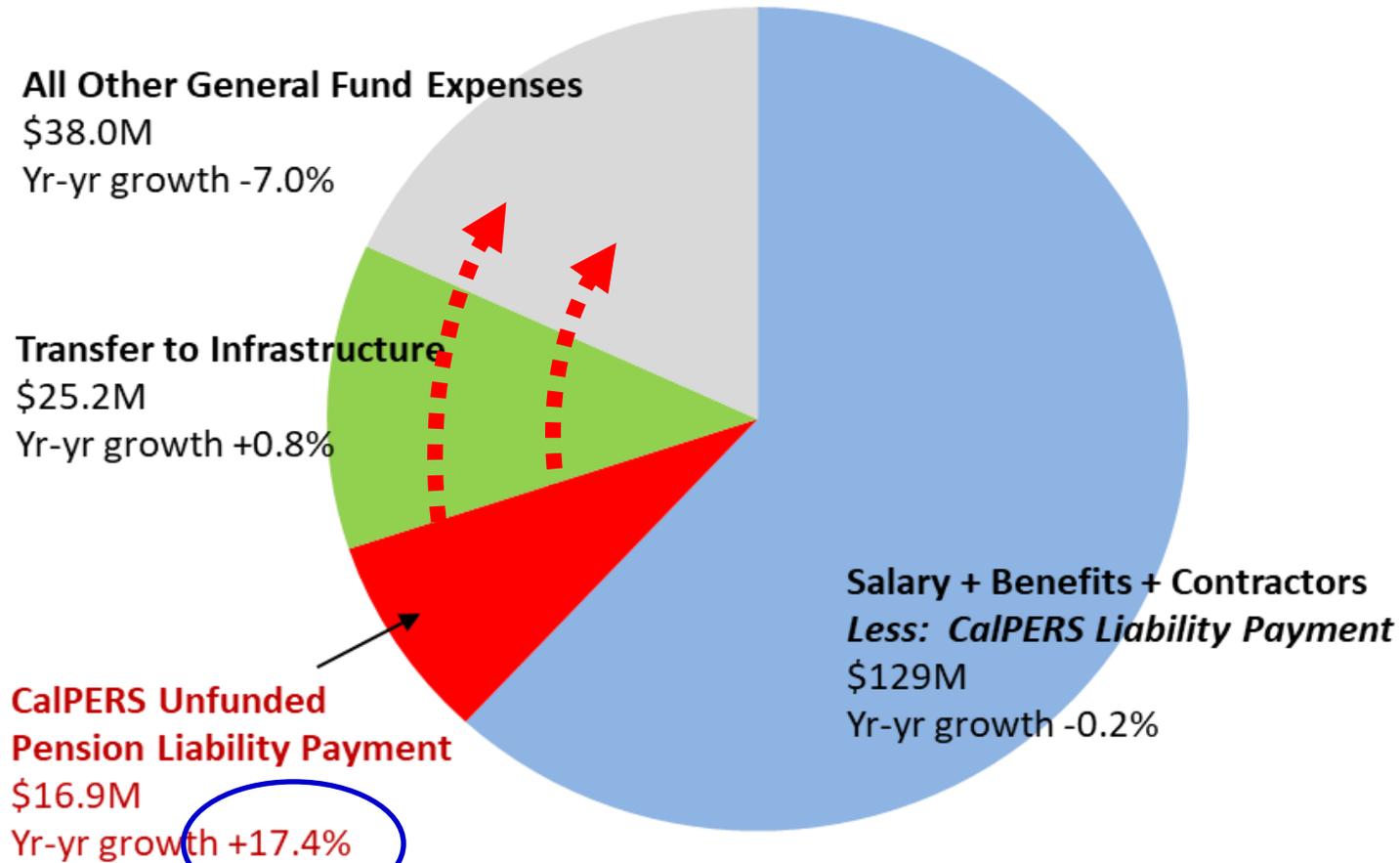
# Pension Costs Drive Faster Expense Growth

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



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



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

# Expected Investment Return

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 ...

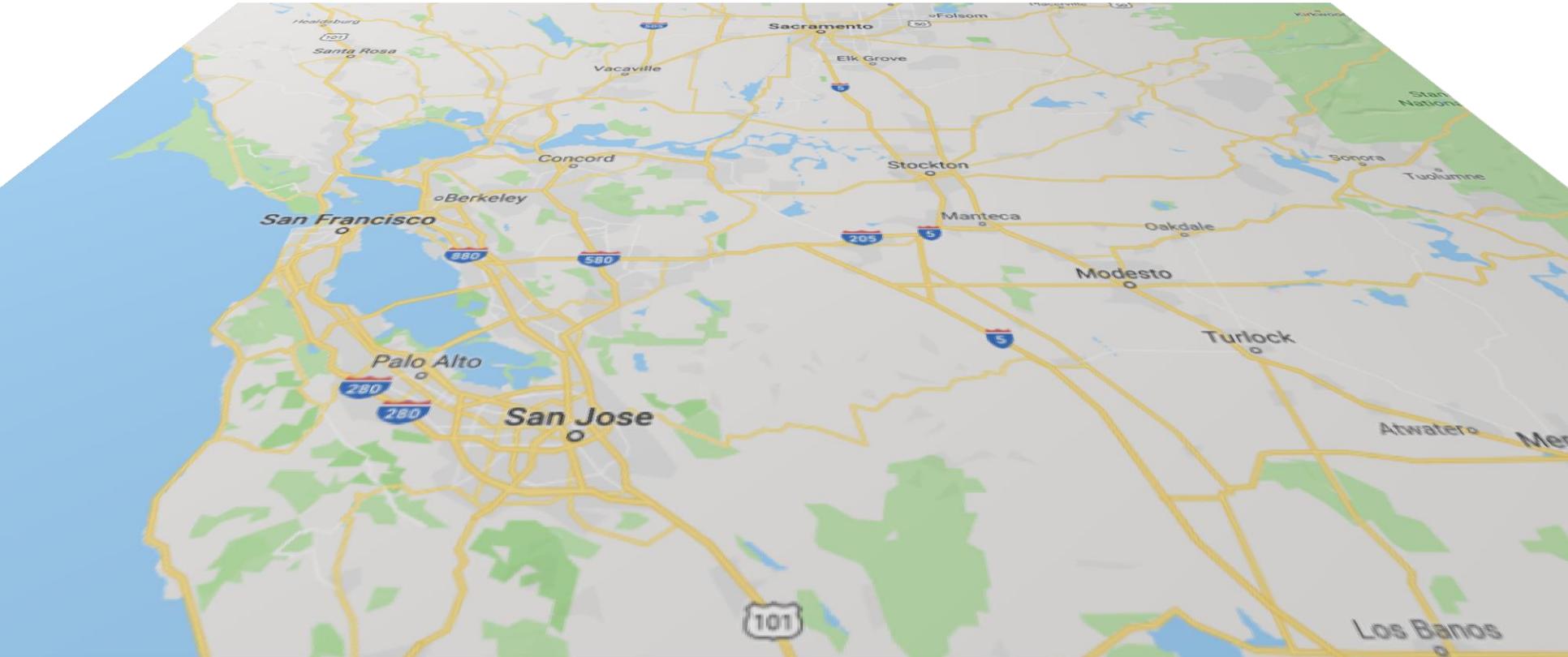


# Palo Alto and the Region

**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

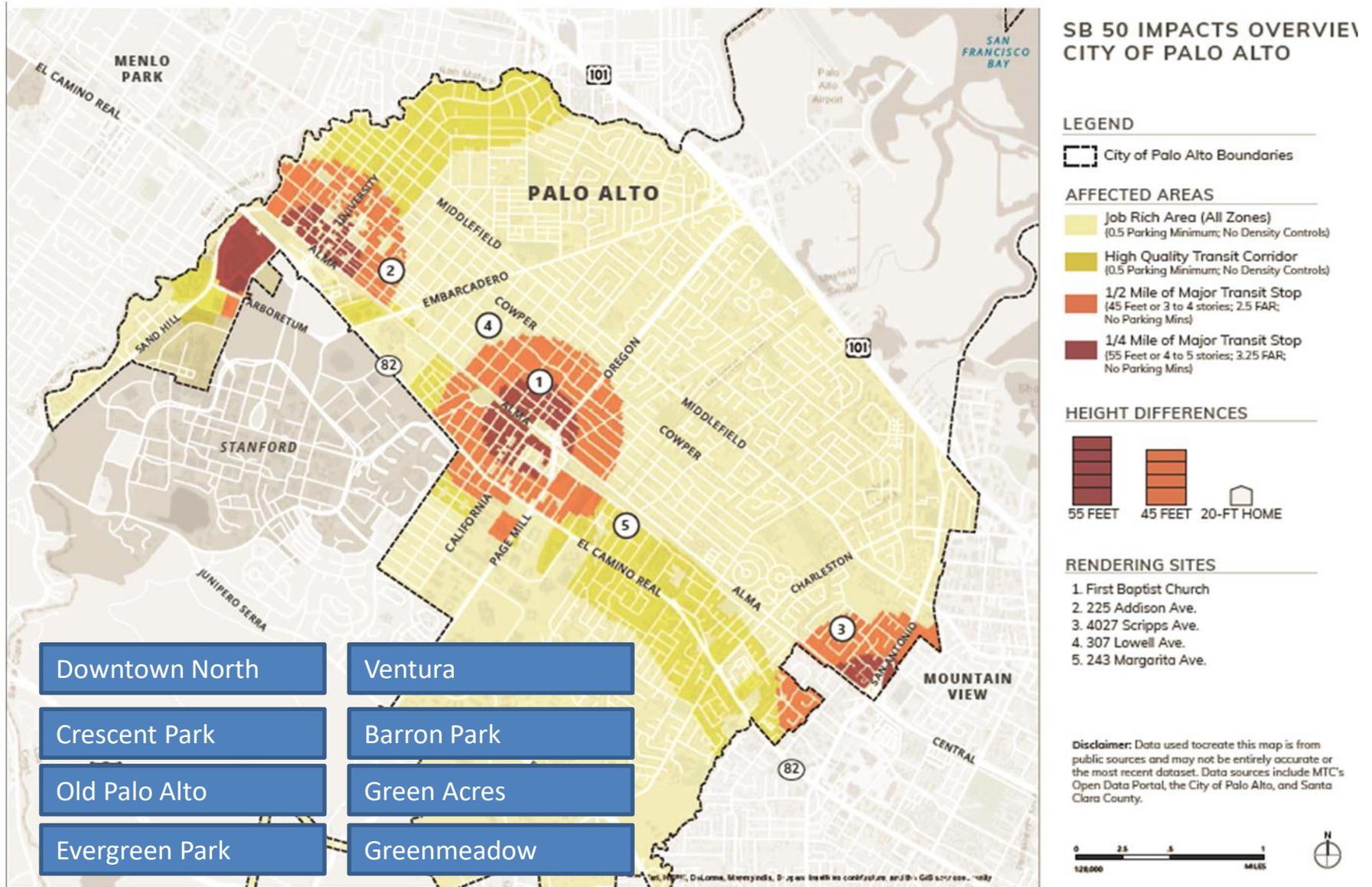
## Separate call from Governor Newsom

### “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



- |                |             |
|----------------|-------------|
| Downtown North | Ventura     |
| Crescent Park  | Barron Park |
| Old Palo Alto  | Green Acres |
| Evergreen Park | Greenmeadow |

# Example SB50 Changes

## Old Palo Alto – N. California Ave

Before



After



# Example SB50 Changes

## Addison Ave, Professorville



# Example SB50 Changes

## Addison Ave, Professorville



# Example SB50 Changes

## Scripps Ave, Greenmeadow



# Example SB50 Changes

## Scripps Ave, Greenmeadow



- Some people 😞
- Some people 😊

# Argument for SB50 / CASA and others

- Since the Recession, the Bay Area has added ~722K jobs but only ~106K housing units<sup>A</sup> – a ~7X difference
  - Santa Clara County 2010-2015: 151,800 jobs vs 31,565 housing units (5X)<sup>B</sup>
- 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”

(A) CASA Compact, MTC 1/2019

(B) MTC/ VitalSigns <http://www.vitalsigns.mtc.ca.gov/housing-growth>

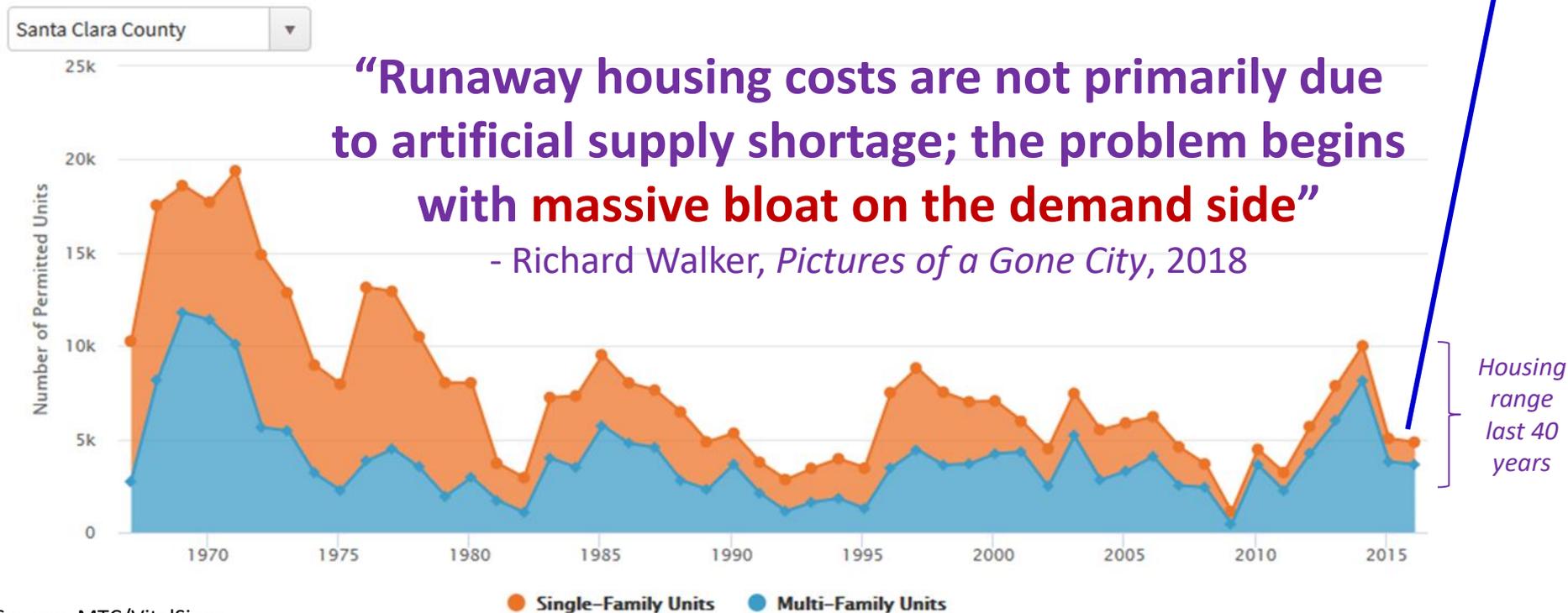
# Could SB50 Actually Work?

## Santa Clara County Historical Trend for Housing Permits

What a 500% increase would look like

“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



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

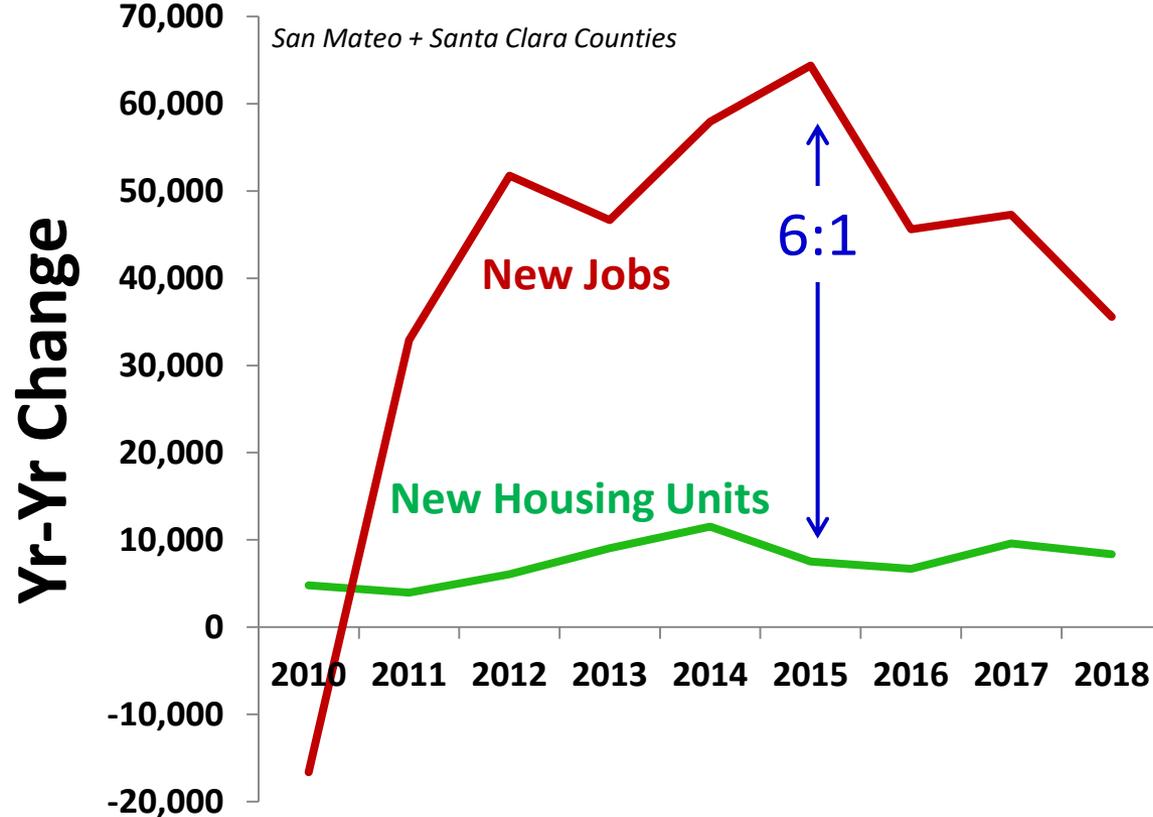
Highcharts.com

“The whole Affordable Housing problem could be solved for **\$30 billion**”

- Santa Clara County Grand Jury, 2018

# What if You Wanted to Actually Solve It?

## New Jobs = 5-6X New Dwellings



Data: 2019 SV Index; MTC/VitalSigns

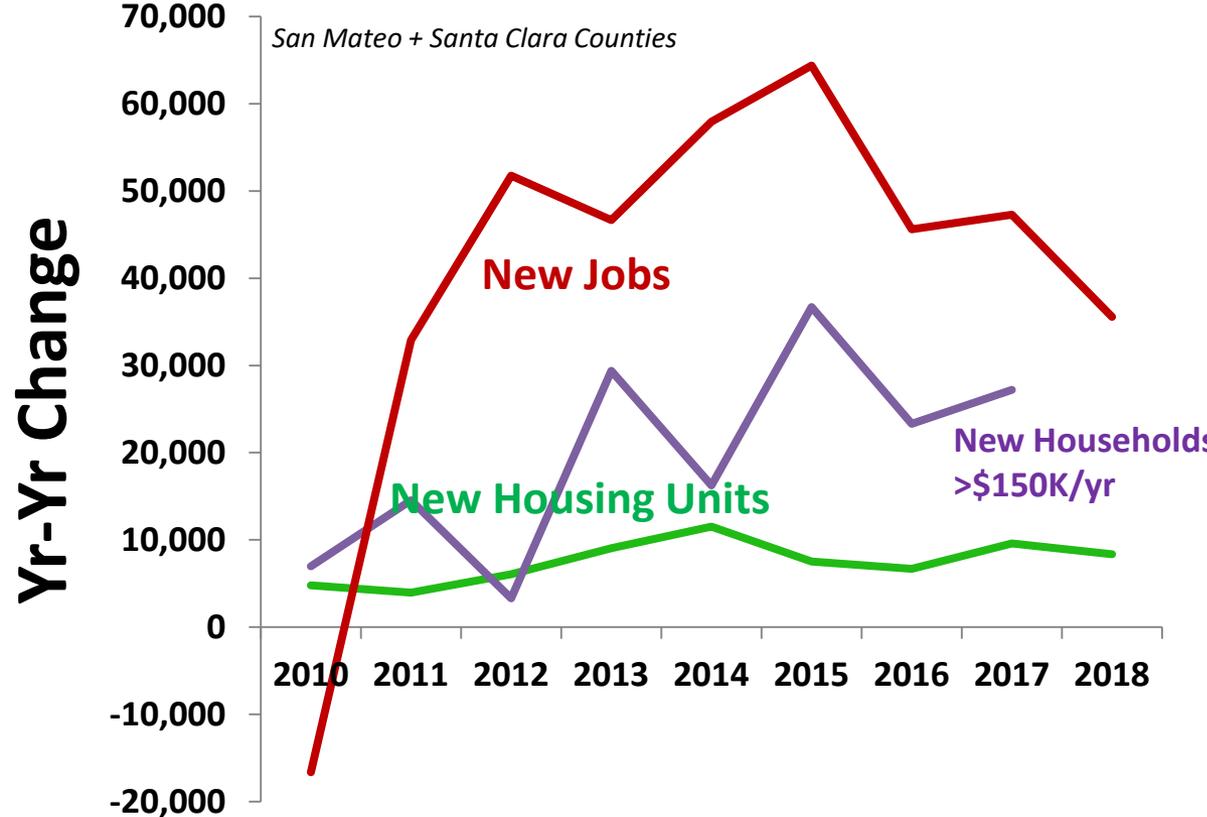
- 1 new dwelling for each 5-6 new workers
- New housing to 20-30% highest wage earners
- Bottom 70% of earners displaced to distances, small spaces

## Symptoms

- Displacement of low- and mid-wage earners
- Traffic, parking, pollution from commutes
- Loss of socioeconomic diversity
- Rental uncertainty

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Data: 2019 SV Index; MTC/VitalSigns  
Census Bureau ACS 2010-2017

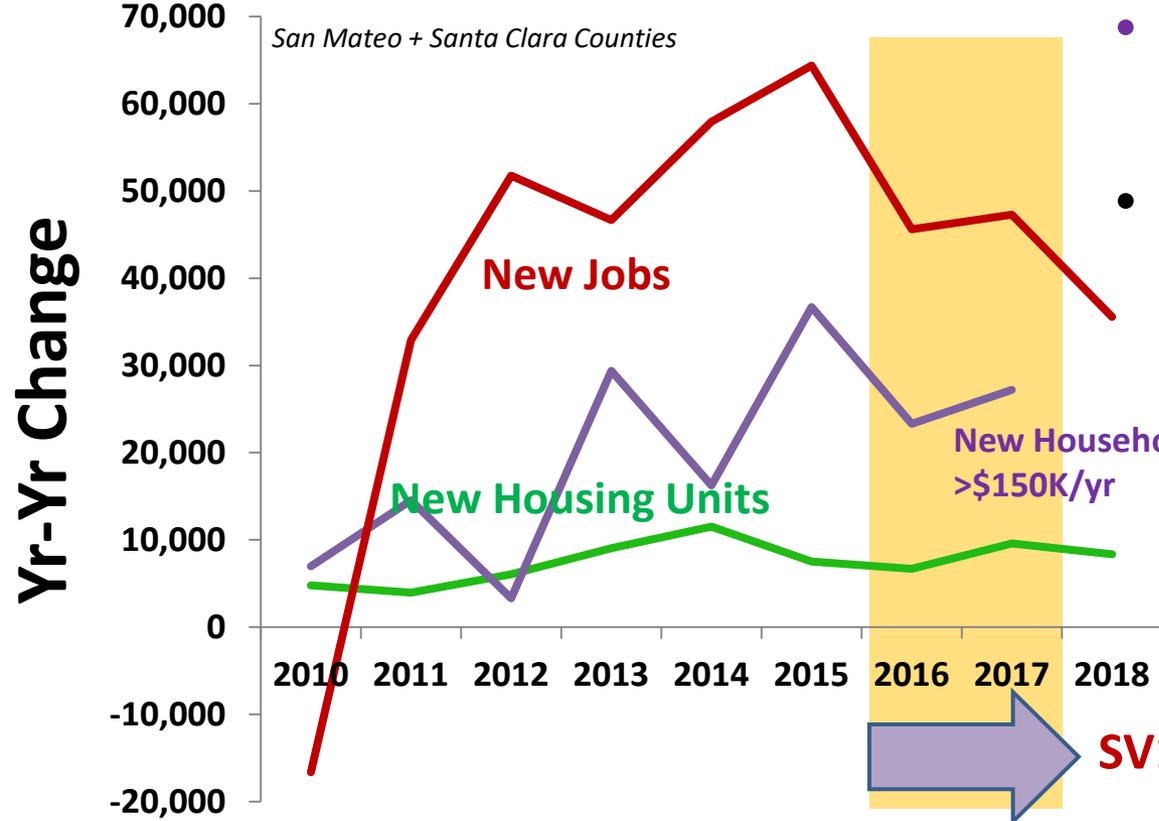
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Data: 2019 SV Index; MTC/VitalSigns

# What if You Wanted to Actually Solve It?

## New Jobs = 5-6X New Dwellings



- 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**

siliconvalley.com/sv150  
Fenwick Silicon Valley 150  
Mercury News 2/13/19

**Alternate Hypothesis**

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

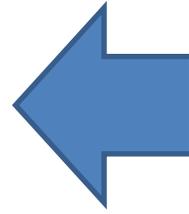
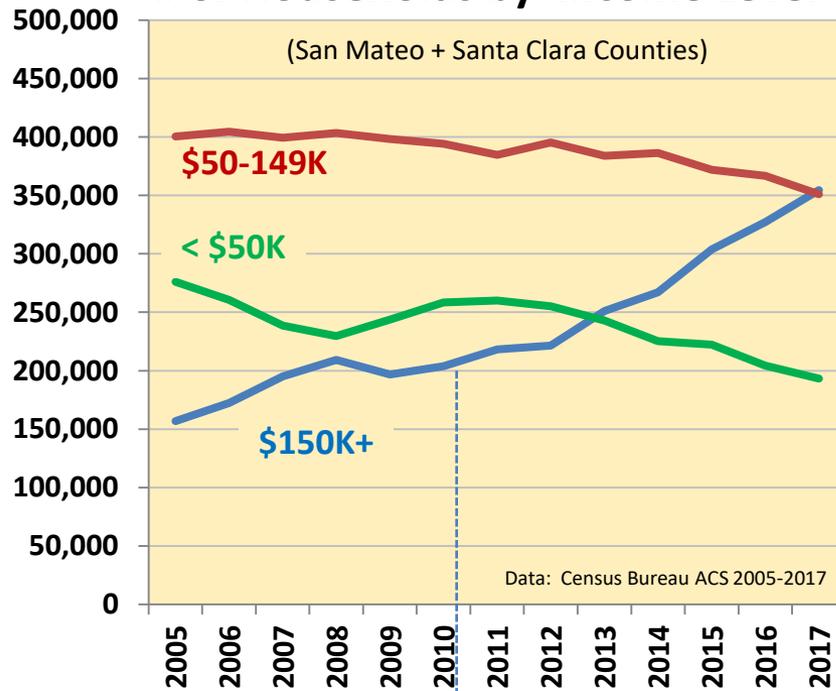
As a result, those costs fall on Communities, and disproportionately on those communities' lowest wage earners.

Data: 2019 SV Index; MTC/VitalStats; Census Bureau ACS 2010-2017

# More Than One Housing Problem

## # of Households by Income Level

(San Mateo + Santa Clara Counties)



- An immense amount of good
- 2018 Silicon Valley 150
  - Revenue \$934 billion
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## Market-Rate Housing in Palo Alto

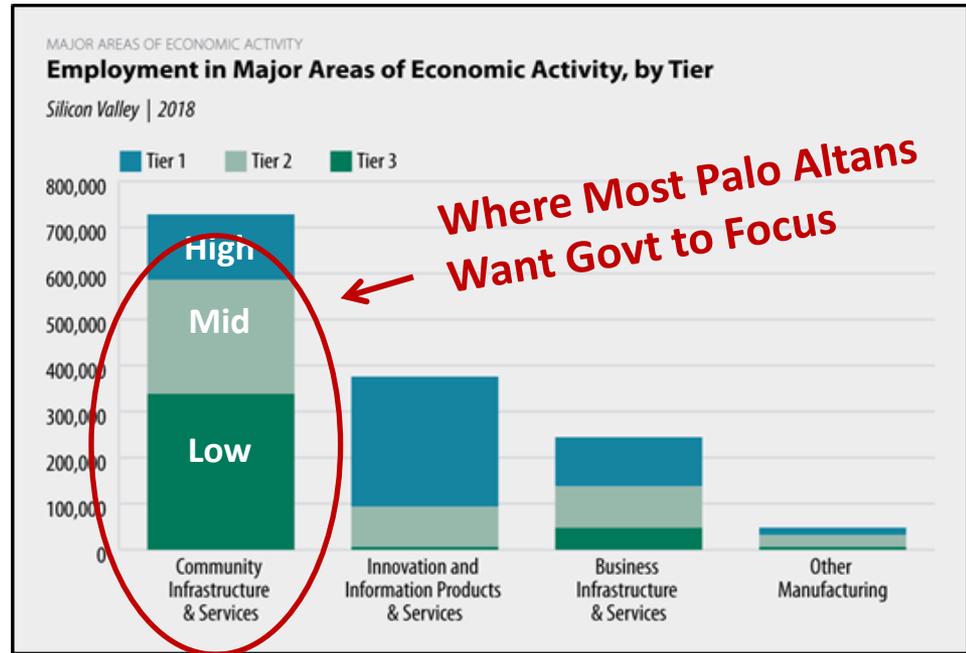
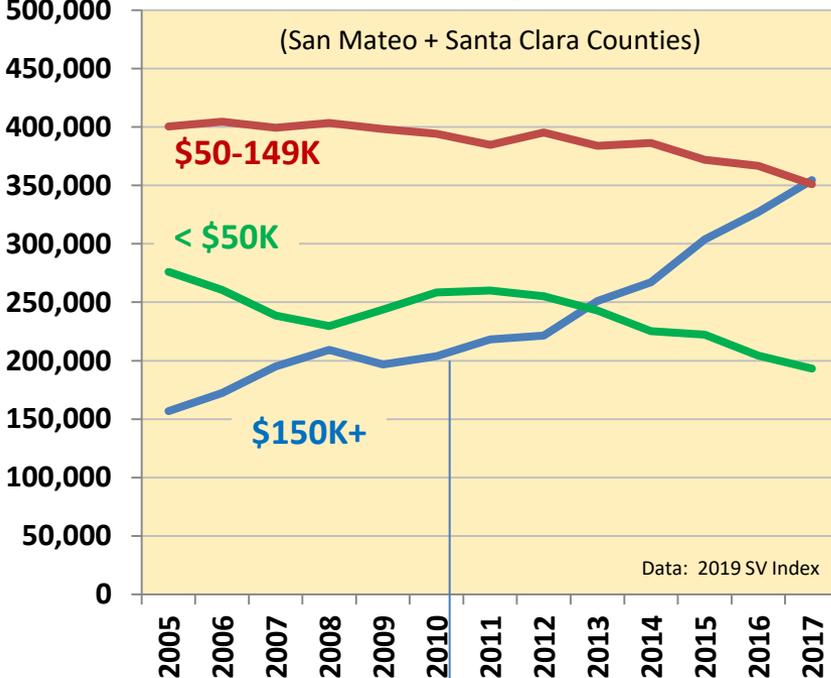


Park Plaza Apartments, Cal Ave area

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

# More Than One Housing Problem

## # of Households by Income Level



## Market-Rate Housing in Palo Alto



Park Plaza Apartments, Cal Ave area

3/4/2019

- 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

**SHELTERFORCE**  
THE VOICE OF COMMUNITY DEVELOPMENT

Why Voters Haven't Been Buying the

Case for Building  
**Does Upzoning Boost the Housing Supply and Lower Prices? Maybe Not.**

It's not because they're stupid  
Rick Jacobus - February 19, 2019



RICHARD FLORIDA JAN 31, 2019

A new study of zoning changes in Chicago finds that they led to higher, not lower, local home prices, while having no discernible impact on local housing supply.

One of the most influential ideas in urbanism today is that the key to addressing the housing crisis is reforming zoning and building codes to allow for taller buildings and higher population densities.

with the point of view that

The Housing Market is segmented

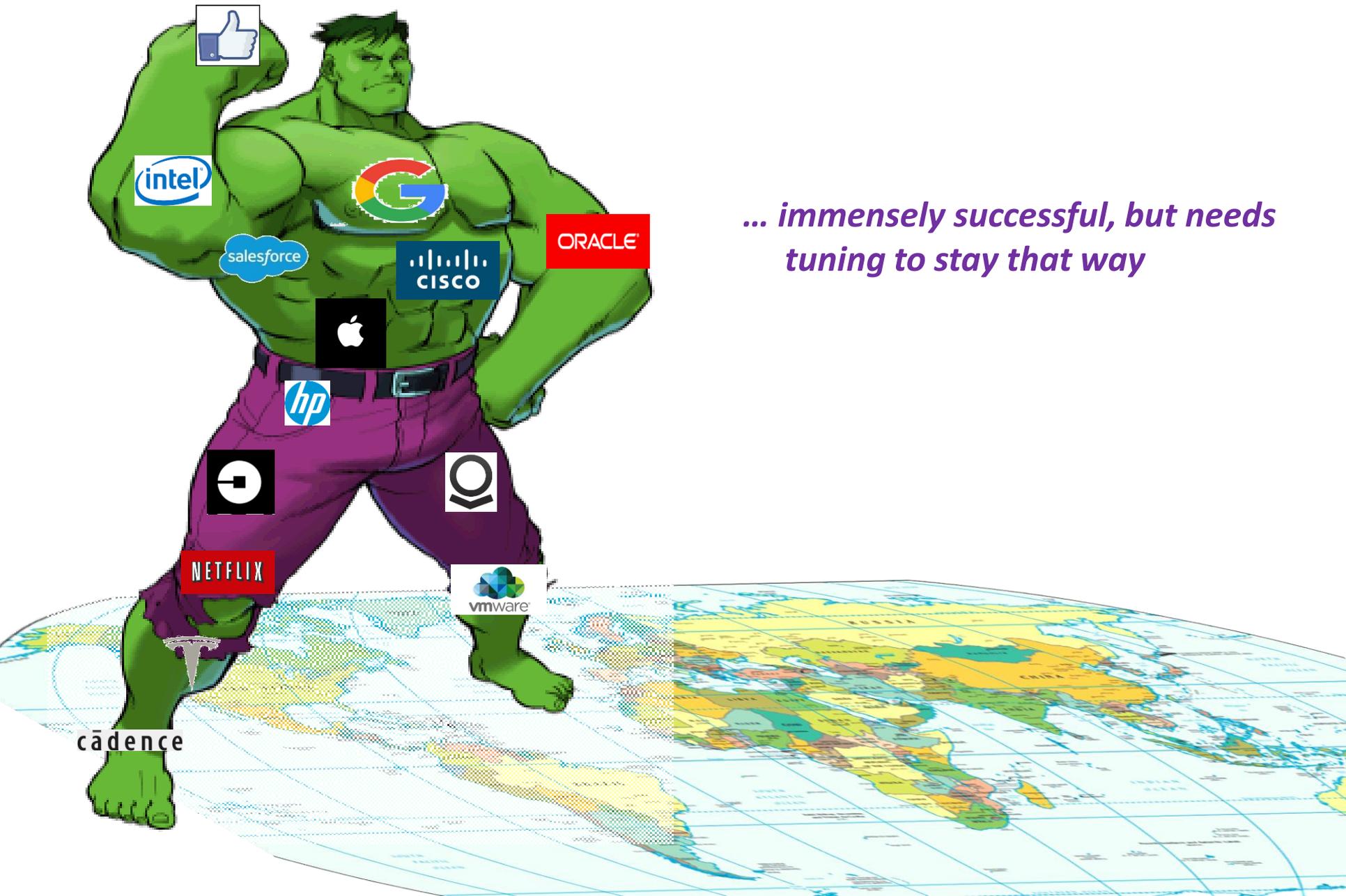
The authors of *The Maze of Urban Housing Markets* analyzed data from do and came to a surprising conclusion: The housing market is segmented. The urban housing markets is better understood as a set of interrelated subma

## 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<sup>A</sup>
  - 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

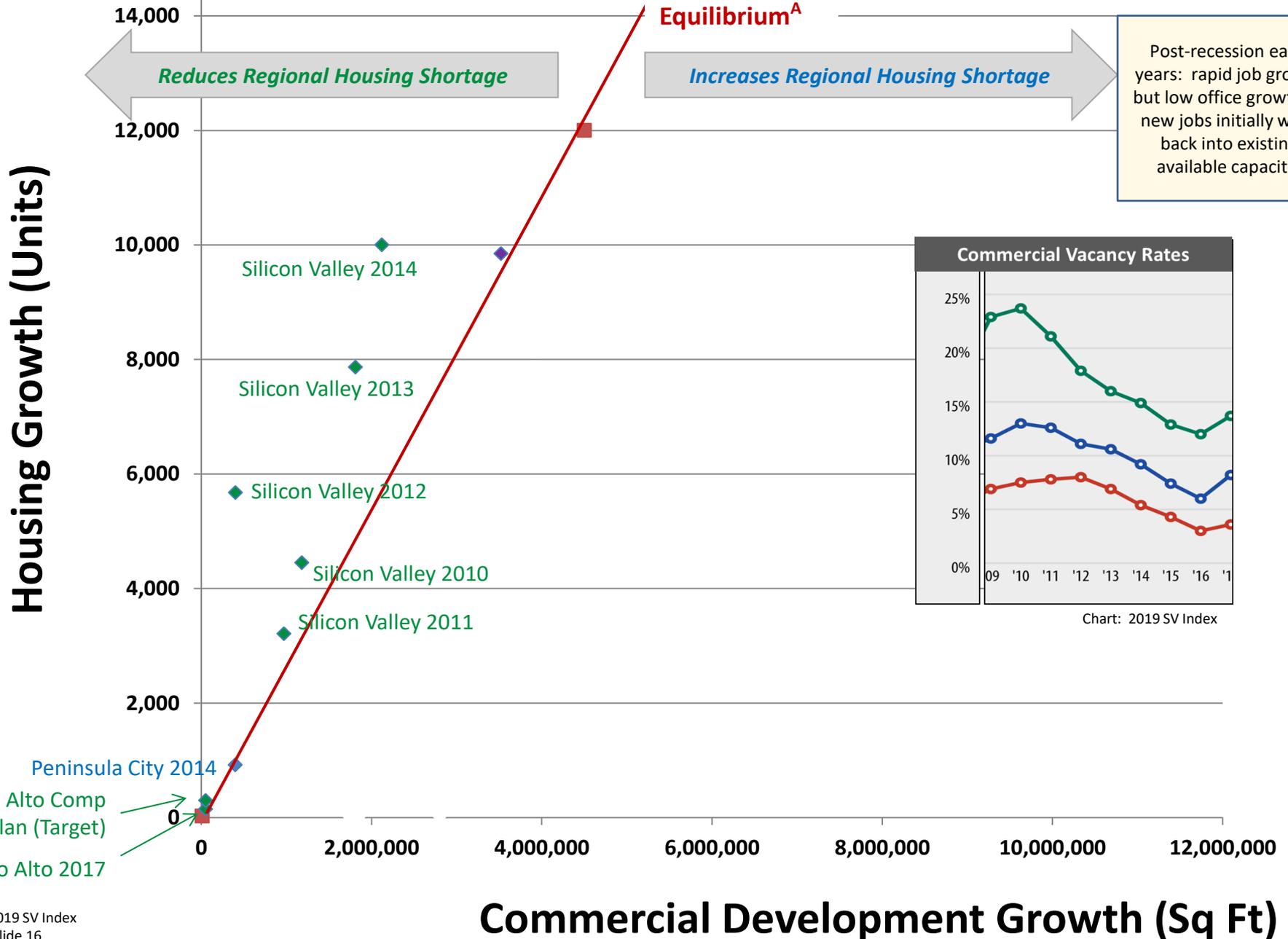
# The Incredible Engine of Silicon Valley



*... immensely successful, but needs tuning to stay that way*

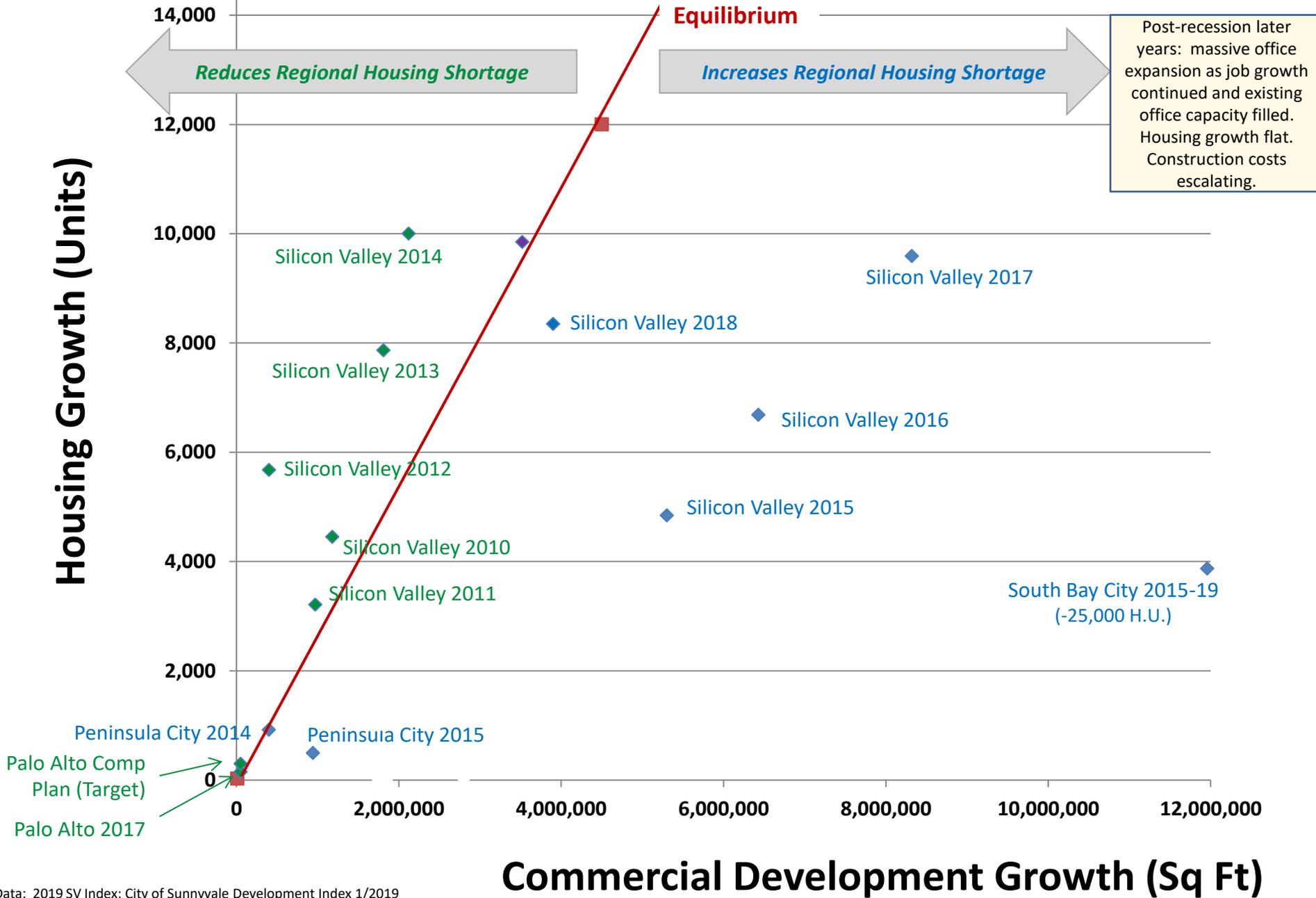
cadence

# Silicon Valley Development Post-Recession



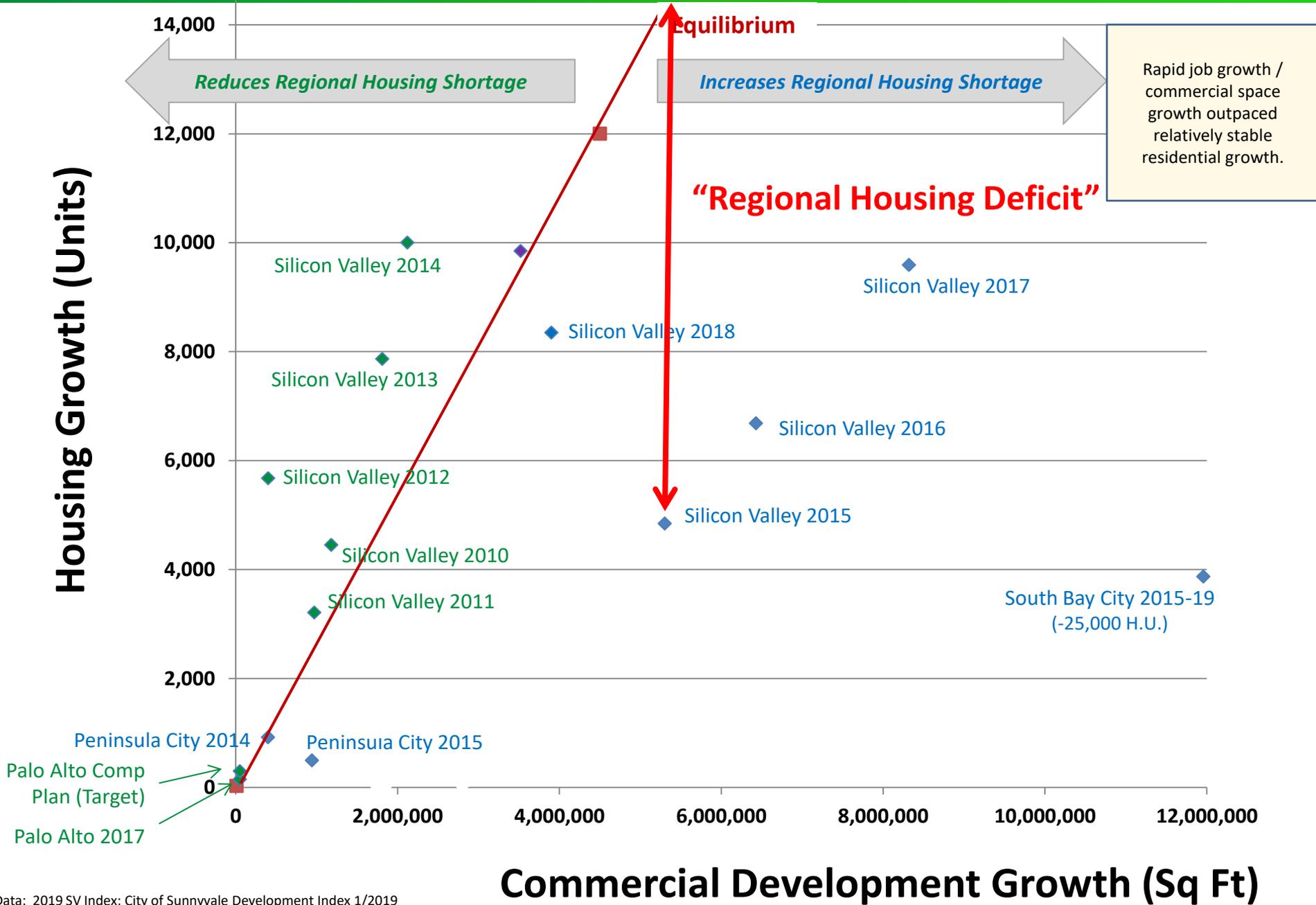
Data: 2019 SV Index  
 A. See slide 16

# Silicon Valley Development Post-Recession



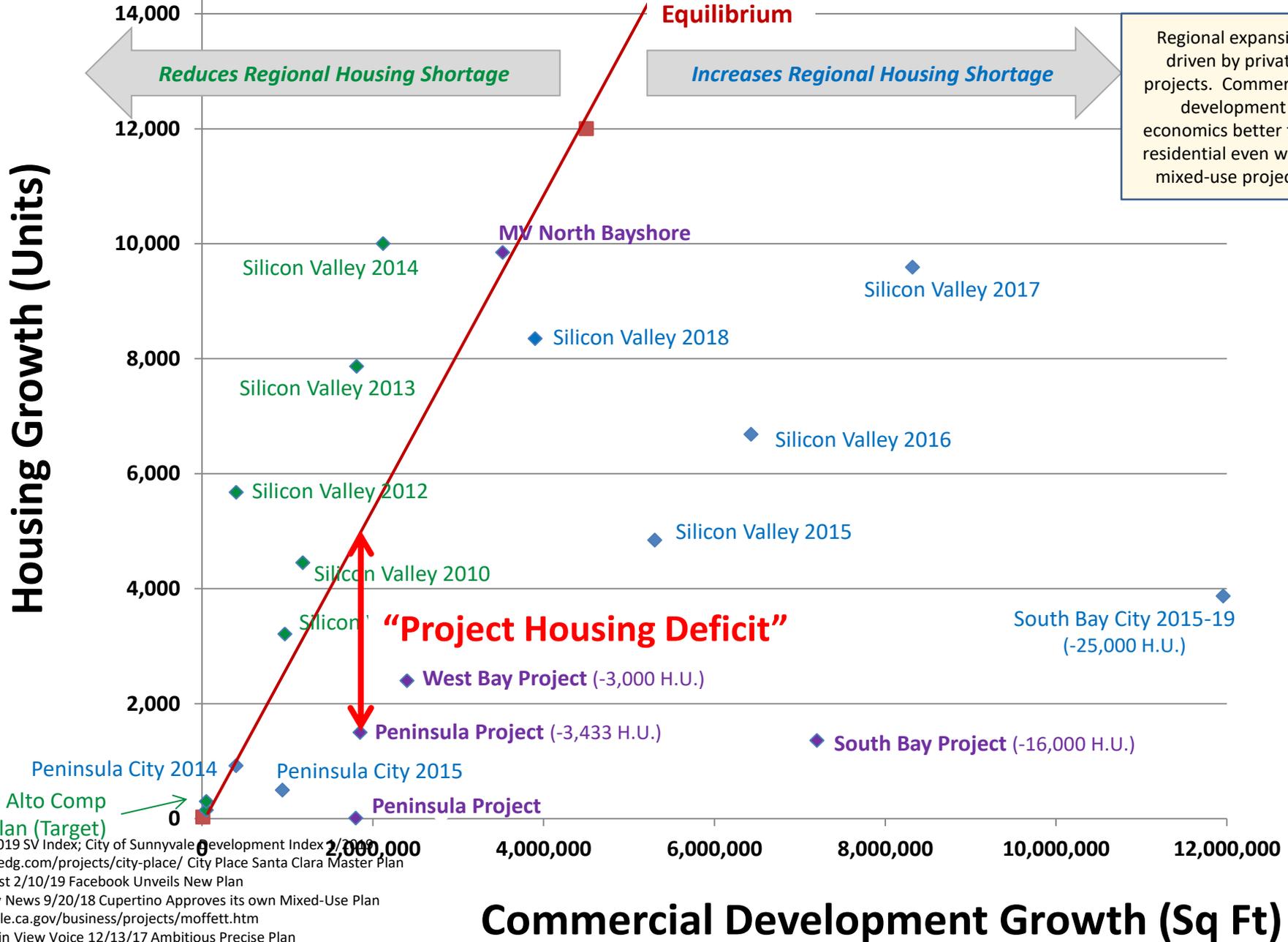
Data: 2019 SV Index; City of Sunnyvale Development Index 1/2019

# Silicon Valley Development Post-Recession

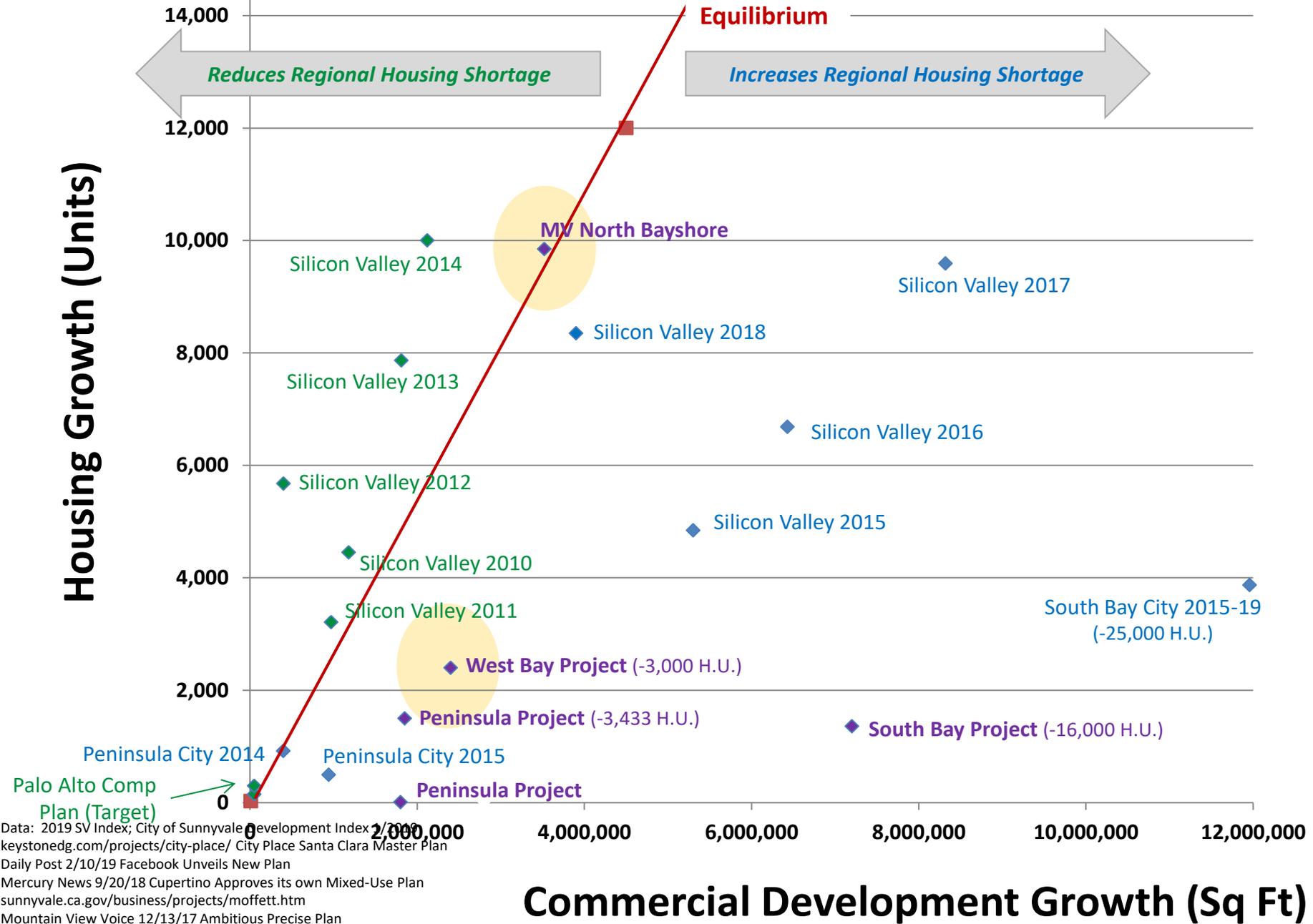


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# Silicon Valley Development Post-Recession



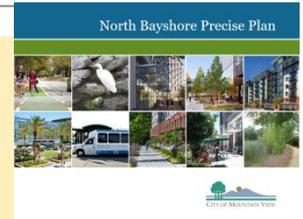
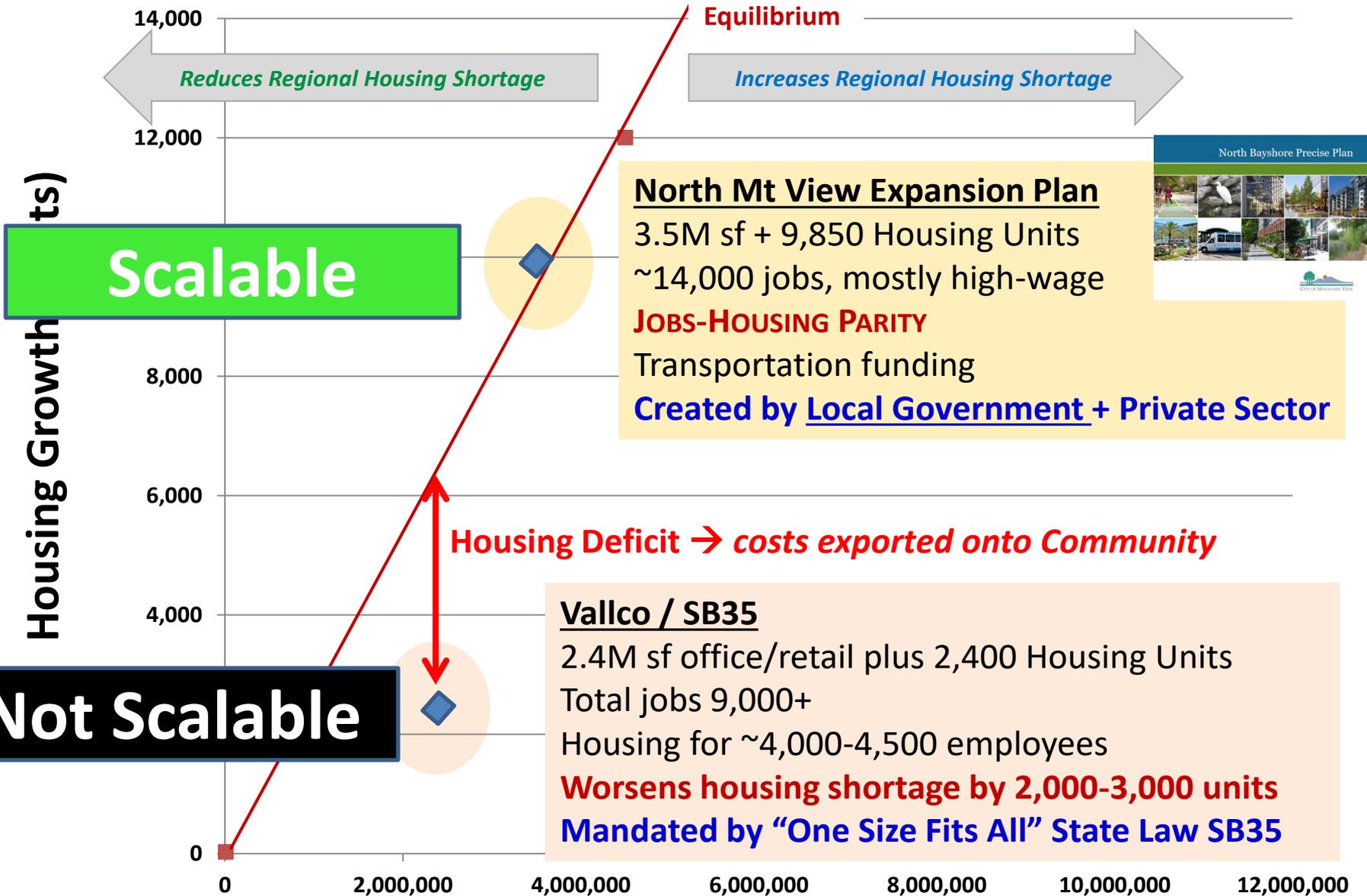
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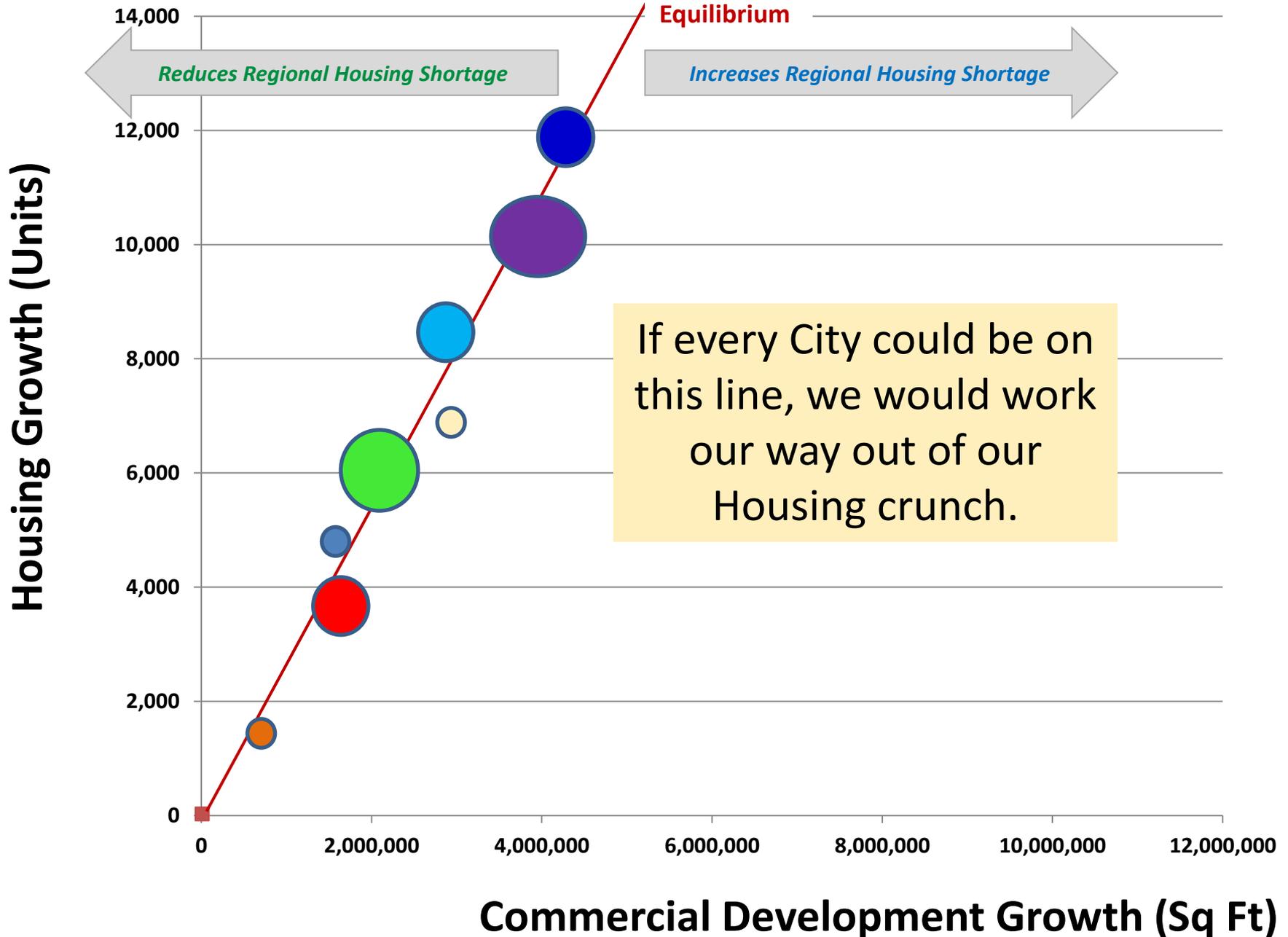
Data: 2019 SV Index; City of Sunnyvale development Index / 2019  
 keystonedg.com/projects/city-place/ City Place Santa Clara Master Plan  
 Daily Post 2/10/19 Facebook Unveils New Plan  
 Mercury News 9/20/18 Cupertino Approves its own Mixed-Use Plan  
 sunnyvale.ca.gov/business/projects/moffett.htm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

## Commercial Development Growth (Sq Ft)

# A Tale of Two Projects



# A Sustainable Process of Good Neighbors



# 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

Governor's  
"Marshall  
Plan"

- **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

What  
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<sup>th</sup> Birthday Year!
  - Progress on initiatives and wise choices will serve our future well
  - Healthy City, Healthy Community

Thank You !