The Municipal Services Center (MSC) and the Animal Services Center (ASC) are currently located on the southwestern edge of the Baylands, off US 101 (Bayshore Freeway), as seen in figure 4-1. These aging facilities have been in need of upgrade or replacement for many years. That situation has not changed. However, some new possibilities have emerged, offering to transform the problem site into an opportunity for Palo Alto to optimize its infrastructure and enhance the delivery of services. This section of the IBRC report explores multiple scenarios for upgrading the MSC and ASC facilities while creating room for economic development along the Embarcadero East corridor in a fiscally responsible and exciting way.

Inasmuch as the City has already budgeted for a professional consultant study of MSC repair costs, the working group on the MSC/ASC has focused on identifying appropriate issues for that consultant to consider.
Problem Statement

The City of Palo Alto owns 16.1 acres of land on East Bayshore Road where it currently operates a number of critically important municipal services, including the operations of the Public Works, Utilities, Community Services, Stores and Warehouse, and Animal Services departments.

The MSC site lies in a flood zone on the east side of the freeway. This location creates risks and exposures related to resiliency and disaster recovery; a damaging flood, earthquake, or other catastrophic event could prevent or impede the movement of emergency response vehicles into the city and/or disrupt the Utilities Department’s emergency operations center currently housed at the MSC. In addition to these risks, a failure to pursue business development projects related to the location of the MSC might create certain economic risks. Potential economic redevelopment of the MSC site would help protect the City’s sources of sales tax revenue, a critical component of the City’s budget.

As shown in table 1-1 in section 1 of this report, the total cost of major infrastructure projects is estimated to be approximately $211 million, of which $93 million is earmarked for MSC building replacement and another $6.9 million for relocating the animal shelter. Thus, approximately 47 percent of the City’s total current backlog of major infrastructure projects relates just to the MSC and ASC.

While this report focuses proportionately more attention on the MSC, the City’s strategy and plans for Animal Services merit reexamination. City staff has evaluated the cost of moving Animal Services to a nearby site at the former Los Alto Sewage Treatment Plant (LATP) (see figure 4-2). Meanwhile, the ASC has had a contract with the City of Mountain View to provide animal control services for an estimated $450,000 per year; this contract expires in 2014. In November 2011 the Mountain View City Council received a report that recommended switching its animal control services to the Silicon Valley Animal Control Authority in Santa Clara, noting that “Palo Alto has identified its Animal Control Services Center as being functionally obsolete and in need of extensive repairs and seismic upgrades.”16 The contract requires a one-year notice of intent to terminate, but the Mountain View Council voted to make the switch.17

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was a priority, and lower-cost services from County providers offered a feasible solution.

Palo Alto officials regret the Mountain View City Council’s decision, noting that repairs have been made to the ASC in recent years to address termite damage, roof condition, and functioning of the HVAC system, along with other issues. Still, Palo Alto needs to take this loss of revenue into account while also considering the option of obtaining its animal services through Santa Clara County or the Silicon Valley Animal Control Authority, as other cities do.

**Background and History**

The City’s original MSC was built in 1914 on land leased from Stanford University on El Camino Real. Beginning in 1964, the City began to relocate its services to the current site across the freeway, and by 1972, the relocation was complete. Certain parks and golf course maintenance
operations also joined the MSC site. A detailed discussion of the history is set forth in the 2008 Baylands Master Plan.\textsuperscript{18} Locating many facilities in a single City yard has offered some efficiencies over the years. However, there continue to be issues over (1) flood zone compliance; (2) the need for seismic bracing and structural upgrades; (3) facilities rehabilitation (e.g., HVAC, ADA-compliant restrooms); and (4) requirements that the emergency response facility can never be closed or inoperable.

By 2003 the condition of the MSC and ASC buildings had deteriorated from normal wear and tear, seismic vulnerabilities, and functional obsolescence (see figure 4-3). The City retained Leach Mounce Architects, an architectural design firm, to prepare cost estimates for demolition, site work, structural repairs, new specialized structures, and nonconstruction costs. Without factoring in possible removal of the ASC, the total estimated costs in 2003 dollars were nearly $80 million. (Adjustments for inflation led to the $93 million the City now estimates for the total cost of needed work at the MSC. The $93 million is based on simple replacement of the MSC, but does not include rebuilding the Utilities Control Center building. Both a new estimate of total cost and the feasibility of particular configurations should be addressed in the consultant study.)

\textbf{Figure 4-3.} Despite external seismic bracing, the buildings at the Municipal Services Center are not expected to be usable after a major earthquake.

In 2006 the City Council conducted a study of the MSC that included discussions between the Mayor’s Retail Attraction Committee and auto dealers who had expressed interest in an auto dealer cluster along the Bayshore Freeway. The City had suffered a precipitous decline in sales tax revenues: in 2000, seven auto dealers were generating about $3.1 million in sales tax revenues; by 2006, this had declined to five dealers generating about $1.9 million. The auto dealers indicated that sales might increase substantially with a freeway-visible site, noting the potential marketing synergies from having several dealers in a cluster.¹⁹ The City invested substantial time and expense in further analysis of a possible “land swap” with auto dealers; however, jeopardized by the recession of 2008–2009, these plans were put on the shelf.

Noting signs of an economic recovery, the City and the auto dealers have now renewed their discussions, with good reason: by 2010, sales tax revenues from auto dealers had further declined to less than $1.3 million. Just two dealers remained on Embarcadero Road in 2011, on parcels zoned as PC-4847 and PC-4846.

Most of the issues set forth in the 2006 MSC/Auto Dealer Study Session remain relevant. The lack of any immediately available 15- to 17-acre alternative site for the MSC operations suggests that a split-site option may be more feasible. Possible sites include the 7-acre site comprising the Honda and Audi dealerships on Embarcadero Road and the LATP site with 6.5 usable acres. Because City operations could not shut down during a move, this project would entail a multi-year implementation plan with complicated staging issues. Concluding that this would be a complex and challenging project, the 2006 Study Session identified four key questions:

♦ Are split sites acceptable?
♦ Is there sufficient economic benefit to the City?
♦ Can we accommodate staging and efficiency challenges?
♦ Are we willing to make required land use changes?

The Need for an Expanded Study

City staff has created a Capital Improvement Project (CIP) for a Municipal Services Center Facilities Study (PE-12004) at an estimated cost of $100,000. Such a study is intended to analyze options for locating City functions, personnel, and equipment currently housed at the MSC/ASC.

¹⁹ Minutes from MSC/Auto Dealer City Council Study Session, July 17, 2006.
After extensive review, IBRC has concluded that existing cost estimates to replace the MSC and ASC are out of date and not based upon actual bids from contractors. Moreover, a pivotal question has not been addressed by the City Council: should the MSC and/or ASC facilities remain at the Baylands site, or would some of these operations be better placed at other locations (the split-site option)?

Pursuing the split-site option could generate opportunities for commercial development at the current East Bayshore Road location, as well as City acquisition of land along the Embarcadero Road corridor east of the Bayshore Freeway. This approach not only would address risks related to disaster recovery and emergency response, but also would support economic development and alleviate the secondary risk of declining sales tax revenue without adversely impacting the Baylands Master Plan.

IBRC believes that the planned MSC Facilities Study needs to be expanded beyond its current projected scope, taking into account elements of the current situation described in this report.

### Analysis of the Current Situation

Sited on land classified by FEMA as a flood plain, the MSC facilities are therefore subject to more stringent building code restrictions. In the long term, global climate trends may continue to produce warming conditions that raise the level of water in the San Francisco Bay. Additionally, all of Palo Alto falls within an active seismic zone; a recent study found it likely that one in five freeway overpasses in the Bay Area could fail in a severe earthquake and become impassable.\(^\text{20}\) Getting service and emergency response vehicles into Palo Alto from the current MSC site depends on intact overpasses.

The Association of Bay Area Governments (ABAG) has conducted analyses of various disaster scenarios and their possible effects on infrastructure systems. ABAG notes that infrastructure is critical to a safe and resilient economy and that disruptions can lead to disproportionate economic impact.\(^\text{21}\) An example of what can happen is Japan’s experience after the March 2011 earthquake and tsunami. Disaster response was hindered when emergency and utility repair vehicles were reportedly caught in gridlock and blocked from the communities in crisis.


\(^\text{21}\) ABAG Earthquake and Hazards Program: Local and Regional Long-Term Disaster Recovery Issue Paper, March 3, 2010.
All of the Utilities and a portion of the Public Works operations at the MSC are emergency response operations. In case of a major earthquake or other catastrophe that causes failure of freeway overpasses, emergency response is likely to be impaired. Developing a plan for a new operations center should consider siting it west of Bayshore to mitigate this potential problem. A secondary need is to site the operations center out of the flood zone or deal with flood risks in the construction plans.

In addition to unexpected catastrophes, a widely recognized long-term disaster is unfolding. According to projections of the San Francisco Bay Conservation and Development Commission (BCDC), the sea level of the Bay could well rise 16 inches by the middle of this century. This will continue until, by the end of the century, a 55-inch sea level rise is anticipated (see Appendix F). Sea level rise is a significant consideration for the viability of the MSC and ASC sites. Some experts have explored the potential cost of strengthening levees, dikes, or other barriers to hold back rising water levels, but such projects are estimated to cost orders of magnitude more than the alternative of relocating critical facilities to higher ground.

Another situation to consider is that the Utilities Department is currently located in three different sites: the MSC, City Hall, and rented space on Elwell Court. Development of a new, consolidated operations center, including a multi-story office building in addition to the shops and other operations now at the MSC, would allow for increased efficiencies in the delivery of Utilities services. As an additional benefit, consolidation would eliminate the rented offices on Elwell Court and open up space in City Hall, allowing City functions such as the Development Center to move into City Hall from its current rented space downtown. Estimated savings on office rent for the City would be over $875,000 per year. Public Works also has office staff at both the MSC and City Hall and could consider relocating some staff to the operations center to improve operating efficiency. The sizing of the operations center to fill these needs, in both land area and building space, must be identified as a major output of the expanded study report.

Planning for repurposing the MSC site must begin with a plan to relocate the operations that currently reside at the MSC. Foremost among these are Utilities and Public Works operations, which together occupy about 47 percent of the building space and over 36 percent of the land area at the MSC (see Appendix E). Lack of an easily identifiable site to which these

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operations could be relocated has over the years been a major stumbling block in plans to repurpose the MSC site into a revenue generator for the City. Identification of a suitable site(s) for relocating these operations must be included in the statement of work for the MSC study and identified as a major output of the study report.

An Overview of the Options

IBRC believes that timely action is needed to make the necessary repairs to the MSC and ASC. Indeed, because of the emergency response and disaster recovery implications, these projects have some degree of urgency. The Commission sees two distinct options for moving forward:

- **“Static” option.** This would involve renovating the MSC and/or theASC at their current locations. There would be no need to review policies set forth in the Baylands Master Plan, and no additional land would need to be acquired. However, the static option would not be without risk. Sales tax revenues from auto dealers have declined and may be further reduced if one or more dealers leave Palo Alto. There are economic resiliency and disaster response risks associated with the current MSC location. In addition, the City’s need to rent very expensive office space in the downtown area would not be mitigated by this option. Possible variations on the static option are described in the following pages.

- **“Dynamic” option.** This approach is far more complex and would create many more opportunities. It would begin with splitting the functions now at the MSC and relocating each to new sites that would enhance the delivery of services. For example, because both Utilities and Public Works bear significant responsibility for emergency response, moving to a site or sites west of Bayshore would have considerable benefit. The ASC and the parks and golf maintenance operations might relocate to the LATP site, an idea that has been preliminarily studied by City staff. The City could then negotiate with auto dealers for the development of a freeway-visible auto dealer cluster on East Bayshore Road, perhaps giving the City ownership of parcels along the Embarcadero East corridor where two auto dealers are currently located.

Because Embarcadero East is now home to numerous office buildings, restaurants, and a potential hotel development, the 7-acre parcel available to the City in a land swap with auto dealers might be considered for office
space to alleviate the City’s current costs of renting space downtown.
While the dynamic option has many variables and challenges, we note a
recommendation from IBRC that police services at the Civic Center be
moved into a new Public Safety Building, most likely in the California
Avenue/Park Boulevard area. Opening new office space for City
employees along the Embarcadero East corridor and repurposing the police
headquarters space (or replacing it altogether) could lead to revitalizing the
Civic Center complex, particularly if some municipal employees shift to a
new Embarcadero East building.

IBRC recommends that the budgeted consultant study of MSC and ASC
replacement be expanded to include both the static and dynamic options.
Please note that both options conform to the current developmental
footprint and there will be no encroachment into the Baylands. The
consultant should be asked to identify potential costs or benefits, including
any significant risks associated with either option. In addition, the
estimated costs of relocating or repairing and upgrading the ASC should be
compared with the cost of contracting with a County agency for animal
control services, assuming an acceptable level and quality of service can be
maintained. Due to the expanded scope of the requested study, the CIP
amount should be increased as needed.

A Preliminary Look at Some Options

The City has a wide range of potential scenarios to address future needs
that are currently met by the services based at the MSC. Each of these
involves different costs, risks, and benefits.

1. **Minimal change.** This is in essence the static option. It assumes that all
City operations now at the MSC and ASC will remain in the same
location, and that bids will be sought for any necessary repairs or
improvements needed to comply with regulations applicable to the
flood zone, seismic conditions, and emergency operation
responsibilities. No impact on the Baylands Master Plan is
contemplated, nor would there be any City acquisition of land on the
Embarcadero East corridor. The LATP site would remain vacant.
Efficiencies of functions located on the single site would be retained.
Resiliency and disaster response concerns would not be mitigated.

2. **Rebuild MSC at the same site.** This variation on the static option
would involve a project to demolish and replace all of the MSC and the
ASC structures in their current location. Although out of date and
therefore inaccurate, cost estimates from the 2003 study provide a
rough idea of the potential cost. While the cost of completely rebuilding the MSC may be higher than the first option, all other factors would be similar.

3. **Utilize LATP for ASC and golf/parks maintenance.** Either of the first two options could be modified by selective relocation of some City functions that may not provide essential synergies with the Utilities and Public Works activities. For example, the LATP site (see figure 4-4) might be favored as a new location for the ASC and some of the golf course and parks maintenance operations. By moving certain City functions out of the MSC, the concept of a freeway-visible auto dealership on East Bayshore could become feasible. In this scenario, the Utilities and Public Works buildings might be rebuilt in the back portion of the 16-acre MSC site, leaving the front portion open for other uses.

4. **Embarcadero East corridor land swap.** If the City negotiates a transaction with auto dealers that results in “swapping” approximately 7 acres of freeway-visible property on East Bayshore Road for the current auto dealer parcels on Embarcadero Road (highlighted in figure 4-5), this leads to the split-site option for MSC operations noted in the 2006 City Council Study Session. Presumably, there would be

![Figure 4-4. The LATP site, annexed to Palo Alto in 2008, offers a relocation possibility for some City services, including the ASC.](image)
a plan to accommodate all of the current MSC operations at a combination of the Embarcadero Road parcels PC-4847 and PC-4846, the back portion of the MSC site, and the LATP site. Both the City and the auto dealers would expect a freeway-visible auto dealer cluster to result in increased sales and tax revenues. Appendix G shows related concept drawings for freeway-visible dealerships.

There may be other possibilities for improvements along the Embarcadero East corridor, consistent with City policies and the Baylands Master Plan. For example, upon assuming direct control of the airport, the City may find it desirable to plan a restaurant–conference center between the golf course and airport.

5. **Land swap + resiliency.** The City is mindful of the risks of having the MSC operations on the edge of the Baylands, in particular, those risks related to flood zone, seismic, and disaster response issues. If this concern is a priority, acquisition of land west of Bayshore Freeway for Utilities and Public Works would mitigate such risks, although such property acquisition presents its own inherent difficulties.

![Figure 4-5. Aerial view of Embarcadero East, showing auto dealer parcels highlighted in pink between Ming’s Restaurant and Faber Place.](image-url)
A possible location might be found in the East Meadow Circle/Fabian Way area. In this scenario, the Embarcadero East corridor parcels offered to the City by the auto dealers need not be used for fleet maintenance, warehouse, and Utilities/Public Works operations. Instead, consistent with adjacent properties, the 7-acre parcel could be developed as attractive office space. Currently, due to insufficient office space at City Hall, the City rents additional space in the expensive downtown area; this cost might be lowered or eliminated if City employees were located in a new building on the Embarcadero East corridor.

6. **Complex infrastructure interdependencies.** What might the future bring? How should we plan for interdependencies in the allocation of the City’s infrastructure investments? Based on other needs and priorities, the City may face important decisions about the disposition of the police services at the Civic Center. If the City Council and the voters were to approve a new Public Safety Building, then the City could consider the best future use of the existing public safety facility and the land it occupies. If the City also takes steps to acquire City-owned office space on the Embarcadero East corridor, there may be new public and private uses and activities on the Civic Center block. Indeed, the price per square foot of office space in the Civic Center may be the highest in Palo Alto. A long-term plan to capture this value by relocating some of the operations currently located at City Hall might yield an economic windfall to the community.

The City needs to consider the interrelationships among the following: the expected redevelopment of Cubberley in the next ten years by the opening of a new secondary school; the option for the City to develop community center facilities on its 8-acre parcel on Middlefield Road; a new Public Safety Building in the California Avenue area; improvements along the Embarcadero East corridor; acquisition of land in the East Meadow Circle/Fabian Way area for Utilities and Public Works; strengthened resiliency and disaster response. Taken together, all may create a roadmap for continuous improvement of the environment and services enjoyed by Palo Alto.

**Financial Impacts**

IBRC feels there is a lack of data needed to evaluate the overall financial impact of different plans to deal with future operation and maintenance of the MSC and ASC. Such data would ideally encompass both the expense
and the revenue sides of the equation and perhaps some quantification of the economic and disaster resiliency risks. Given the many different paths the City might consider, it would be helpful for the City Council to narrow the universe of choices into a short list. Such direction would enable the consultant to deliver up-to-date estimates of project costs and associated revenue impacts in order to reach a final recommendation. The minutes of the MSC/Auto Dealer Study Session in 2006 address many of these issues, although the assumptions and relevant facts must be updated to reflect present conditions.

An important financial consideration – and opportunity – arises because the Utilities Department is a primary tenant at the MSC. As a regulated utility, the Palo Alto Utilities Department may finance the reasonable and necessary cost of facilities required for its operations through issuance of utility revenue bonds. Thus, a significant portion of the costs associated with the split-site option – namely, costs attributed to the Utilities needs – would not be subject to ballot approval. As suggested in IBRC’s analysis of financing options (section 5 of this report), the remaining costs might be financed with income from revenue-producing initiatives in the redesigned MSC/Embarcadero East area.

Sales tax is an important component of the City’s financial stability. The City recognizes a need to pursue economic development strategies that enhance the benefits for businesses to locate in Palo Alto and, for that reason, has begun to consider the creation of an auto dealer cluster along East Bayshore Road. A similar analysis might pertain to transient occupancy taxes and the City’s revenue source from hotel operations or sales tax revenue from retail stores.

The MSC site thus presents an opportunity to increase revenue generation for the City. If this 16-acre site adjacent to the freeway were open to appropriate commercial development, respecting the environmentally sensitive character of the Baylands, a range of potential revenue-generating uses might be contemplated. One might foresee new retail activities such as auto dealerships or big-box retail outlets, perhaps development of a hotel and restaurant complex, or a corporate business campus. Thus, while optimizing certain City operations by relocating them to new facilities closer to their end users, the City-owned property could itself be optimized in an aesthetically pleasing manner for a combination of economic development and resiliency benefits.
How We Studied the Issues

In its review, the working group on the MSC had substantial support from many individuals. Key elements of the review process included these:

- A tour of the entire MSC facility accompanied by Steve Emslie, the Deputy City Manager; Matt Raschke, Public Works Senior Engineer; and Thomas Fehrenbach, Economic Development Manager. This included a tour of the ASC conducted by Sandra Stadler, Animal Services Superintendent.

- A tour of the auto dealerships on Embarcadero Road conducted by John Anderson (owner, Anderson Honda) and Charley Burton (owner, Carlson Audi). Together with City staff, the auto dealers explained the pros and cons of revisiting the land swap proposal studied by the City Council in 2006.

- A meeting with the City’s Utilities and Public Works departments, the primary tenants at the current site, who confirmed a high level of interest in pursuing plans to relocate their operations.

Materials reviewed by the working group included these:

- Baylands Master Plan (2008) and the policies enumerated therein with respect to the MSC and the ASC.

- MSC/Auto Dealer Study Session (2006).

- Cost estimates for replacement of the MSC and ASC, found in the “Infrastructure Future Needs - Backlog” table in the Palo Alto Capital Budget, FY 2012.

IBRC has conducted meetings open to the public, inviting input and feedback from residents. The MSC Working Group has made an effort to understand concerns and potential objections to the recommendations we are making. We realize that our community places a high value on the environmentally sensitive characteristics of the Baylands, which may lead to concerns about continuing to operate Utilities, Public Works, warehouse, fleet maintenance, and Animal Service functions at that site, or concerns about commercializing part or all of the 16 acres. Any such questions would be relevant to the recommended consultant study, with further opportunity for public involvement and comments.

The following lists summarize the IBRC findings and recommendations related to the MSC/ASC site.
Findings

1. The present condition of the MSC necessitates either extensive repairs or rebuilding in order to maintain essential City services and comply with applicable codes and regulations.

2. The current layout of the MSC is not space efficient; the operations currently located there could be based on less acreage.

3. Although certain repairs were made to the ASC in recent years, in order to enhance delivery of services and revenue to the City the ASC would require further work to bring it to current standards, or it should be relocated to a new facility.

4. Options for relocating the City operations now based at the MSC site to other areas of the City might be more advantageous for those operations while creating an opportunity for revenue generation at the current site.

5. The Comprehensive Annual Financial Report (CAFR) for FY 2010 shows that sales tax revenues provided approximately 15 percent of the City’s General Fund; however, sales tax revenue from auto dealers has steadily declined (see figure 4-6).

As a corollary, the number of auto dealers in Palo Alto declined from seven in 2000 to three in 2011. Carlsen Porsche relocated from Embarcadero Road, and Ford, Nissan, and Volvo vacated sites on El Camino Real. Two dealerships remain on Embarcadero East (Honda and Audi), and a third (Toyota) is located on Middlefield Road.

![Palo Alto Auto Sales Tax Revenues Trends 2001-2010](CAFR FY 2010)

**Figure 4-6.** Sales tax revenue from auto dealerships has declined from over $3.1 million in 2000. Although not shown in this graph, sales tax revenue in 2011 stands at less than $1.3 million.
6. The City has been renting 6,361 square feet of office space in the downtown area (the Development Center, at 225 Hamilton) at an approximate annual cost of $400,000 in the most recent complete year.

7. If the current Public Safety portion of City Hall becomes available for rental upon completion of a new Public Safety Building, City staff projects that rental may generate around $5.50 per square foot per month on up to 20,000 square feet.

8. Caltrans announced plans to open bids in November 2011 for a Highway 101 Auxiliary Lane (Project No. 04-4A3304). Construction of an auxiliary lane will entail removal of the landscape strip along the East Bayshore frontage road, replacing it with a new concrete barrier and mounted chain link fence. This freeway-widening work will remove foliage now partially screening the MSC site from passing motorists. A sensible response would be either to plan for improving the visual aspects of the MSC site or to consider the site for freeway-visible businesses.

Recommendations

4-1 Expand the scope of the MSC/ASC consultant study to include the possibility of establishing an auto dealer cluster or other economic development project on East Bayshore Road and to consider the best use of parcels the City may acquire on the Embarcadero East corridor.

4-2 Obtain current appraisals of the market value of the MSC site on East Bayshore Road and the auto dealer parcels on Embarcadero Road.

4-3 Update the City’s disaster response and resiliency and evaluate the risk of no or limited access to the MSC in the event of a disaster.

4-4 Update the Baylands Master Plan regarding the MSC site and the Embarcadero East corridor.

4-5 Perform economic impact analyses of the different scenarios for repair or replacement of the MSC.

4-6 Review the plan for delivering animal services to the City, the contractual obligations of the ASC to provide services to adjacent communities, and the possibility of a closer relationship with regional providers such as the Silicon Valley Animal Control Authority.

4-7 Study long-term alternatives for optimization of the Civic Center block.
This report is intended to be useful to City Council and staff in determining what to request from an expanded consultant study. In simplest terms, IBRC believes the goals of this study should be to (1) consider all relevant issues, including both the static and dynamic options we have described, (2) identify the most cost-effective solutions, (3) mitigate any significant risks, and (4) confer the greatest benefit to the City and its residents in locating its municipal services, including the Public Works and Utilities operations.