



FINANCE COMMITTEE
Tuesday, October 5, 2021
Special Meeting
Virtual
6:00 PM

*****BY VIRTUAL TELECONFERENCE ONLY*****

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Pursuant to the provisions of California Governor's Executive Order N-29-20, issued on March 17, 2020, to prevent the spread of Covid-19, this meeting will be held by virtual teleconference only, with no physical location. The meeting will be broadcast on Midpen Media Center at <https://midpenmedia.org>. Members of the public who wish to participate by computer or phone can find the instructions at the end of this agenda. Members of the public may speak to agenda items; up to three minutes per speaker, to be determined by the presiding officer. All requests to speak will be taken until 5 minutes after the staff's presentation. Public comment may be addressed to the full Finance Committee via email at City.Council@cityofpaloalto.org and available for inspection on the City's website. Please clearly indicate which agenda item you are referencing in your email subject line.

CALL TO ORDER

ORAL COMMUNICATIONS

Members of the public may speak to any item NOT on the agenda.

ACTION ITEMS

1. Staff and the Utilities Advisory Commission Recommend That the Finance Committee Recommend the City Council Approve Design Guidelines for the 2022 Electric Cost of Service and Rates Analysis
2. [Presentation](#)
[Memo](#) Modifications to University Avenue and California Avenue Parking Policies to Expand Eligibility for City Garage Parking Permits and Update Parking Permit Fees, Modify the Downtown and Evergreen Park Mayfield Residential Preferential Parking (RPP) Programs to Reduce Employee Parking in these RPP Districts and Update RPP Permit Fees,

and Develop a Parking In-Lieu Program for the California Avenue Business District (Continued From November 9, 2020)

FUTURE MEETINGS AND AGENDAS

ADJOURNMENT

PUBLIC COMMENT INSTRUCTIONS

Members of the Public may provide public comments to virtual meetings via email, teleconference, or by phone.

1. **Written public comments** may be submitted by email to city.council@cityofpalalto.org.
2. **Spoken public comments using a computer or smart phone** will be accepted through the teleconference meeting. To address the Council, click on the link below to access a Zoom-based meeting. Please read the following instructions carefully.
 - You may download the Zoom client or connect to the meeting in- browser. If using your browser, make sure you are using a current, up-to-date browser: Chrome 30+, Firefox 27+, Microsoft Edge 12+, Safari 7+. Certain functionality may be disabled in older browsers including Internet Explorer. Or download the Zoom application onto your phone from the Apple App Store or Google Play Store and enter the Meeting ID below
 - You may be asked to enter an email address and name. We request that you identify yourself by name as this will be visible online and will be used to notify you that it is your turn to speak.
 - When you wish to speak on an Agenda Item, click on "raise hand." The Clerk will activate and unmute speakers in turn. Speakers will be notified shortly before they are called to speak.
 - When called, please limit your remarks to the time limit allotted.
 - A timer will be shown on the computer to help keep track of your comments.
3. **Spoken public comments using a phone** use the telephone number listed below. When you wish to speak on an agenda item hit *9 on your phone so we know that you wish to speak. You will be asked to provide your first and last name before addressing the Council. You will be advised how long you have to speak. When called please limit your remarks to the agenda item and time limit allotted.

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City of Palo Alto

Finance Committee Staff Report

(ID # 13544)

Report Type: Action Items

Meeting Date: 10/5/2021

Title: Staff and the Utilities Advisory Commission Recommend That the Finance Committee Recommend the City Council Approve Design Guidelines for the 2022 Electric Cost of Service and Rates Analysis

From: City Manager

Lead Department: Utilities

Executive Summary

Electric rates were last adjusted when an 8% rate increase went into effect on July 1, 2019. Staff intends to complete an electric rate cost of service analysis (COSA) in advance of future rates and necessary adjustments. The primary goal of any COSA is to review the allocation of costs to customer classes, and the electric rate design, to ensure customers are charged according to the cost to serve them. This COSA will include a review of the rate design issues created by increasing building electrification, electric vehicle (EV) penetration, EV charging needs and microgrids, and time of use (TOU) rate designs in preparation for the deployment of automated metering infrastructure (AMI). This report discusses the existing rate design, provides an overview of the issues to be addressed in the COSA analysis and sets forth work plans for addressing various types of rate design issues.

Background

COSAs allocate costs among customer classes and are the foundation for equitable and constitutionally compliant rates. COSAs gained a more important role for California publicly-owned gas and electric utilities after the passage of Proposition 26 (2010). Proposition 26 added provisions to the State Constitution essentially defining every local government fee or charge as a tax, requiring voter approval, unless one of seven exceptions apply. Municipal electric rates that do not exceed the reasonable costs to the local government of providing electric service are one exception from the constitutional definition of a tax, and its voter approval requirements.

The current rates, which were last changed on July 1, 2019, are based on a COSA performed in 2015/2016 (“City of Palo Alto Electric Cost of Service and Rate Study” drafted by EES Consulting, Inc.¹). The fundamental structure of the City’s current rates has remained the same since the early 1980s, though the commodity, distribution, and public benefits portions of the rates were

¹ Staff Report 6857 <http://www.cityofpaloalto.org/civicax/filebank/documents/52274>

“unbundled,” or separated out, as a result of California’s deregulation of the electric market in the late 1990s. Like many utilities, Palo Alto had declining block rates (rates that decreased with increasing consumption) for all customers until the late 1970s, at which point the City switched to the current system. For residents, the current system includes inclining block rates (rates that increase with consumption, more commonly called tiered rates), and for the more diverse non-residential customer classes, flat seasonal rates with demand charges for larger customers. As Palo Alto transitioned to its current rate design, fixed charges for both types of customers were switched to minimum charges and eventually eliminated. The main driver for these changes was to encourage conservation, within the context of a cost-based rate structure.

Palo Alto now has flat to declining electric loads, as larger, industrial usage is replaced with smaller commercial and residential uses, and the influx of more electric appliances is offset by improvements in efficiency. The direction many utilities are taking in California is towards implementing TOU rates, to better reflect the cost of power being faced by utilities as well as stresses on the California power grid. Palo Alto will seek to implement these kinds of rates as well in the future, as the City’s Advanced Metering Infrastructure (AMI) program progresses over the next five years, and meters capable of providing time-based (interval) data are deployed. Many utilities are also implementing fixed charges, instead of minimum charges, to better fund operations, maintenance and capital costs which do not decrease as less power is used. These trends and pricing methods will be evaluated as part of this COSA.

Discussion

The following sections provide a review of the current rate structure and a discussion of rate design issues affecting the utility in the short term and in the long term. They also include a work plan and a proposed set of COSA and rate design policy objectives to guide the COSA.

Summary of Existing Rate Structure

Table 1, below, summarizes the number of customers on each electric rate schedule and the percentage of the City’s sales volume they represent. Currently the electric rate for separately metered residential customers (Rate Schedule E-1) has two tiers, with rates that increase when customer use exceeds roughly 330 kilowatt-hours (kWh) per month. Non-residential customers’ rates are flat (not tiered) and are higher during the summer. Larger non-residential customers are billed based on their peak demand (the highest fifteen minutes of consumption in the month, measured in kilowatts, or kW) in addition to their monthly energy use. These demand charges are higher in the summer than in the winter, just like the energy charges.

Table 1: Existing Electric Rate Schedules

Rate	Applicability	Description	Number of customers ⁽¹⁾	Share of sales ⁽¹⁾
E-1	Separately metered residential customers	Two-tiered rate	25,300	20%
E-2	Small non-residential customers and master metered multi-family customers	Flat energy charge that varies seasonally	3,060	5%
E-4	Demand-metered non-residential customers, peak demand <1000 kW	Flat energy and demand charges that vary seasonally	860	30%
E-7	Demand-metered non-residential customers, peak demand >1000 kW	Flat energy and demand charges that vary seasonally	70	45%

(1) FY 2021

The City also has several optional and special use rate schedules. Both the E-4 and E-7 customer classes have optional time-of-use (TOU) rate schedules, as well as charges for standby service (maintenance of utility distribution system capacity to serve energy when on-site generation is offline). The E-14 rate establishes charges for street and highway lighting, and the E-16 rate covers unmetered electrical equipment such as billboards, wireless antennas, and traffic cameras. There are also generation-related rates, such as the E-3, E-NSE and E-EEC rates. The E-3 rate establishes wholesale energy purchase prices for certain types of customer-owned generating facilities. The City designed this schedule to comply with the Public Utility Regulatory Policies Act of 1978 (PURPA), which Congress enacted to encourage domestic energy resources and promote competition for electric generation, but no customers are on this rate at this time. The E-NSE and E-EEC rates establishes the City's purchase price for surplus generation from customer-owned net-metered solar systems under NEM-1 and NEM-2 (successor) programs. As part of the last COSA update, the City implemented a Hydro Adjuster rate (E-HYD) to be activated during times of very low, or very high, hydroelectric generation conditions. Lastly, the voluntary PaloAltoGreen rate is still available for certain commercial customers who want it for sustainability reporting purposes.

COSA and Rate Design Policy Objectives

In the past, the UAC, Finance Committee and City Council have expressed concern about having limited ability to make changes to proposed rate structures once a COSA is completed. Staff agrees and has committed to having policy discussions with the UAC, Finance Committee and Council prior to embarking on a COSA. Staff is proposing a set of Design Guidelines ([Attachment A](#)) to guide its work over the next year. The proposed guidelines are:

- Guideline 1. Rates must be based on the cost of providing service.
- Guideline 2. The effect of proposed rate design changes on low income customers should be considered, to the extent permissible within a cost-based rate structure.

- Guideline 3. Rates should not create unnecessary barriers to building and vehicle electrification, including public EV charging, while remaining cost-based.
- Guideline 4. Rates should not create unnecessary barriers to on-site generation and storage while simultaneously avoiding subsidies between customer classes.
- Guideline 5. The COSA and rate design should support a transition to more time variant rates (such as TOU, seasonal, etc.) as AMI infrastructure is deployed.
- Guideline 6. The COSA should provide support for a transition to fixed or minimum monthly charges

Guideline 1: Rates to be based on the cost of service

The goal of a COSA is to identify the costs associated with serving each customer class and the rates required to recover those costs. In compliance with Prop. 26, rates cannot be structured solely to achieve policy objectives unless they are also cost-based, absent voter approval. The COSA has become an important tool for demonstrating that utility rates are based on the cost of service. As a result, this guideline must be the overriding one for the COSA.

Guideline 2: Impact on low income customers

Changes in rate design can have different impacts on customers who use different amounts of electricity. Staff intends to evaluate the impact of any recommended rate design changes on low-income consumers and may recommend mitigation of those impacts to the extent feasible under current law.

Guideline 3: Rates should not create unnecessary barriers to building and vehicle electrification, including public EV charging, while remaining cost-based

Certain rate structures may disincentivize customers from taking up electrification measures, such as tiered rates for residential customers, or demand charges for commercial customers. Staff will evaluate existing rates designs for consistency with City electrification goals.

The City also has DC Fast charging stations for electric vehicles. These types of customers typically have very high 15-minute energy demand peaks, but serve a limited amount of energy, especially while electric vehicle penetration is still relatively low. This leads to significantly higher costs that charging station owners pass to customers, which makes customers even less likely to use the charging station, exacerbating the issue. Staff will have the consultant evaluate which options best address charging station owner needs, avoid suppressing charging station demand, and are still consistent with Palo Alto's cost structure.

Guideline 4: Rates should not create unnecessary barriers to on-site generation and storage

The City has been approached by customers looking to create or install technologies which are not effectively accommodated by the City's existing rate schedules, such as large-scale solar and storage installations. Current rates include standby charges which are designed to apply to engine generators rather than solar and storage installations, and thus need

updating. Also, because of the dynamics of energy usage and battery storage capability, rates need to be designed to reflect shifts in the time of day when demand peaks throughout California, which is different from when demand peaks on Palo Alto's system. This will ensure the proper incentives are sent to energy storage systems.

Guideline 5: COSA and rate design should support a transition to time variant rates (such as TOU, seasonal, etc.) as AMI infrastructure is deployed

The City's Utilities department is planning on installing advanced, or interval, metering within the next five years, and the trend in rates both in California as well as nationwide is a move towards Time of Use (TOU) pricing. TOU pricing seeks to better align customer rates with the real cost of electricity, but also generally does not involve tiered or block rate pricing mechanisms. Tiered rate pricing can potentially place a higher cost burden on customers moving away from natural gas and installing electric space heating, water heating, induction cooking, etc., as well as for customers opting to own electric vehicles and charging at home.

Staff feels it is the appropriate time to evaluate existing residential tiered rates, to see if tiered rates should be continued or modified to reflect changing load patterns. Analysis will also be done to see if rates should include a seasonal component or designed on a uniform basis prior to introducing TOU rates. Other local and regional utilities who have transitioned to TOU pricing from tiered rate mechanisms have done so through a combination of minimizing the number of tiers, increasing tier allocation levels to make prices more uniform, or moving to uniform rates entirely, prior to launching TOU pricing.

Guideline 6: The COSA should support a transition to fixed or minimum monthly charges

In order to adequately and fairly collect certain costs incurred by the utility regardless of whether power is used or not (such as billing, meter reading and some distribution related costs), staff will evaluate different means and methods of producing either a minimum or fixed monthly charge for the various customer classes.

As part of this COSA and rates update, the consultant will address the following work plan items:

Work Item 1: Evaluate TOU rates for all customer classes

While TOU rate options exist for the E4 and E7 rate categories currently, these should be evaluated for the E1 and E2 categories as well. An evaluation should be made of the time periods used, as well as the applicability of seasonal variation.

Work Item 2: Evaluate minimum charges and fixed charges

For this COSA, staff recommends evaluating the minimum charge and fixed charge as a way of ensuring that all customer groups contribute their share of the utility's operating costs. This is consistent with the approach currently being implemented by PG&E and other

investor-owned utilities, as well as a number of publicly owned utilities throughout California. Many of these utilities are considering eventually implementing fixed charges rather than minimum charges. Staff recommends considering whether the City should implement a minimum charge or proposed a fixed charge instead.

Work Item 3: Evaluate the division of distribution costs between demand and energy charges

For customers with demand metering (E4 and E7), an evaluation will be made as to the allocation of charges between energy (kWh) and demand (kW).

Work Item 4: Update rates for large scale energy storage and intermittent generation, such as solar photovoltaic (PV) and microgrids

As mentioned in Guideline 4 above, new and existing rates for microgrids, battery storage, as well as standby rates, need to be evaluated and implemented.

Work Item 5: Update rates to accommodate public vehicle charging

As mentioned in Guideline 3 above, new or modified cost of service-based rates should be implemented to help facilitate and foster the growth of DC fast charging stations.

Work Item 6: Evaluate rates for electrified homes and vehicles

While this may be covered under the evaluation of TOU options, until such time that AMI can be implemented, an evaluation should be made to see if other rate options are applicable for these types of customers (such as different rate tiers, uniform rates and/or seasonal pricing).

Commission Review and Recommendation

The UAC reviewed these guidelines at its September 1, 2021 meeting. The UAC made several inquiries, including whether rates items such as critical peak pricing could be investigated, as well as minimum vs. fixed charge options. Commissioners wanted the COSA to provide flexibility for future rate options, ensure that under-collection of costs didn't take place, and provide proper incentives as well as cost allocation to customers. There were a variety of questions about rates for resiliency investments, setting rates on a geographic basis, and the future of net energy metering.

Chair Forsell moved staff's recommendation with the addition of a sixth guideline supporting a transition to fixed or minimum charges. The motion carried 5-0 with Commissioners Scharff and Smith absent.

Next Steps

After receiving the Finance Committee's recommendation, staff will take the COSA design guidelines to the City Council for consideration. The COSA is expected to be completed within FY 2022 so that updated rates can be adopted as part of the FY 2023 budget process or soon thereafter.

Resource Impact

The work associated with this project will be absorbed using existing staff and contract budgets. Any new rates adopted as a result will be designed to generate adequate sales revenue to fund the electric utility's operations in FY 2023 and beyond. As discussed in the FY 2022 Electric Utility Financial Plan ([Staff Report 11887²](#)), for FY 2023, the utility is currently projected to need roughly 5% more sales revenue than is generated by current rates. Expenses are projected to exceed revenues, with reserves being used to moderate customer impacts as rates are brought to parity over several years.

Policy Implications

The process of adopting these design guidelines provides the UAC, Finance Committee and City Council an opportunity to provide policy guidance to staff before work begins on the COSA.

Environmental Review

Adoption of these Design Guidelines for the 2022 Electric Utility Cost of Service and Rate Analysis does not meet the definition of a project, under Public Resources Code Section 21065 and CEQA Guidelines Section 15378(b)(5), because it is an administrative governmental activity which will not cause a direct or indirect physical change in the environment, thus no environmental review is required.

Attachments:

- Attachment A: Proposed Electric Rate Design Guidelines

² <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/2021/id-11887.pdf>

Design Guidelines for the 2022 Electric Utility Cost of Service and Rate Analysis

1. Rates must be based on the cost of providing service. This is the overriding principle for the cost of service analysis (COSA); all other rate design considerations are subsidiary to this basic premise.
2. The effect of proposed rate design changes on low income customers should be considered, to the extent permissible within a cost-based rate structure.
3. Rates should not create unnecessary barriers to building and vehicle electrification, including public vehicle charging, while remaining cost-based.
4. Rates should not create unnecessary barriers to on-site generation and storage while simultaneously avoiding subsidies between customer classes.
5. The COSA and rate design should support a transition to more time variant rates (such as TOU, seasonal, etc.) as AMI infrastructure is deployed.
6. The COSA should provide support for a transition to fixed or minimum monthly charges.



City of Palo Alto

Finance Committee Staff Report

(ID # 12348)

Report Type: Action Items

Meeting Date: 10/5/2021

Title: Modifications to University Avenue and California Avenue Parking Policies to Expand Eligibility for City Garage Parking Permits and Update Parking Permit Fees, Modify the Downtown and Evergreen Park Mayfield Residential Preferential Parking (RPP) Programs to Reduce Employee Parking in these RPP Districts and Update RPP Permit Fees, and Develop a Parking In-Lieu Program for the California Avenue Business District (Continued From November 9, 2020)

From: City Manager

Lead Department: Transportation Department

Recommendation

Staff recommends that the Finance Committee discuss and provide a recommendation to the City Council to direct staff to:

- 1) Refer to the PTC the development of measures to alleviate parking requirements on businesses in the California Avenue area, such as by establishing a parking in-lieu fee program for that area.
- 2) Adopt an ordinance amending the FY 2022 Municipal Fee Schedule to adjust employee parking permit fees, as follows, to better align parking prices with City transportation and mobility goals as outlined in detail in Table 7 and summarized below:
 - a) Increase the price of Employee Parking Permits in the Residential Preferential Parking Program for Downtown, Evergreen Park-Mayfield, and South Gate district;
 - b) Increase the price of Reduced-Price Employee Parking Permits in the RPP programs for RPP Downtown, Evergreen Park-Mayfield, and South Gate districts;
 - c) Increase the price of Employee Parking Permits in both All Downtown and SOFA Lots and Garages Annual Parking Permit (aka University Avenue Garage Permit) and California Avenue Area All Garages and Lots (aka California Avenue Garage Permit);
 - d) Establish a Reduced-Price Employee Parking Permit in both All Downtown and SOFA Lots and Garages Annual Parking Permit (aka University Avenue Garage Permit) and California Avenue Area All Garages and Lots (aka California Avenue Garage Permit); and

- e) Eliminate first free annual residential permit in all RPP programs without employee subsidies, consistent with RPP districts in College Terrace, Crescent Park, and Old Palo Alto that do not provide for employee permits.
- 3) Adopt resolutions and direct the City Manager to authorize modifications to the Residential Preferential Parking (RPP) program and commercial district employee permit allocations, as follows:
- a) Reduce employee RPP permits in the Downtown RPP by setting a cap at issuance of 580 Downtown Employee RPP permits.
 - b) Reduce employee RPP permits in the Evergreen Park-Mayfield (EPM) RPP by eliminating permits in residential zones A-F, retaining employee parking permits in employee Zone G along El Camino Real, and:
 - i) Employee permits in Zone G shall be available only to employees/employers that are located on or near to El Camino Real; and
 - ii) Authorize staff to pursue expansion of Zone G to the West side of El Camino Real, between Park Boulevard and Stanford Avenue, if necessary, and approved by Caltrans and reviewed by Stanford University
 - c) Maximize the parking capacity utilization in University Ave. garages/lots by increasing the caps of employee parking permits in the public garages/lots by approximately 500 in the commercial district (to a total of 3,326).
 - d) Maximize the parking capacity utilization in California Ave. garages/lots by increasing the caps of employee parking permits in the public garages/lots by approximately 490 in the commercial district (to a total of 1,075).
- 4) Expand the current boundaries for the Downtown and SOFA Lots and Garages Annual Parking Permit (aka University Avenue Garage Permit) and California Avenue Area All Garages and Lots (aka California Avenue Garage Permit) to include and align with the existing Residential Preferential Parking (RPP) boundaries for the Downtown and Evergreen Park-Mayfield districts.

These actions follow a series of [parking management strategies](#) identified over the past two years intended to better align current ordinance provisions and permit pricing with City parking program goals. This topic was previously discussed by the City Council on November 9, 2020 where no action was taken so that staff could further refine the proposals.

Executive Summary

Parking management strategies, targeted parking supply investments, and transportation demand management programs allow the City to utilize a variety of tools and strategies to address parking and traffic issues prioritized by the [City's Comprehensive Plan](#), and to pursue Sustainability and Environmental goals with parking management tools outlined in the [Transportation Element](#) section of the Plan.

The recommended pricing and employee allocation adjustments address current administrative feasibility and financial sustainability concerns, accommodate demand for employee and visitor parking while decreasing impact of businesses on local RPP districts. Reducing parking requirements in the California Ave. commercial parking district for retail and restaurant uses encourages new businesses and the use of alternative modes. These planned programmatic changes and actions address the City's goals for encouraging attractive, convenient, efficient and innovative parking solutions for all users, while also protecting residential areas from parking impacts of nearby businesses and uses.

Additional changes to commercial parking policies are expected and will be developed with stakeholder input via an RFI for commercial pilot options, separate from the actions here.

Background

In the context of community and economic recovery from the pandemic and the evolving climate into the future, staff recommends Council approval to develop a parking in-lieu program for California Avenue. This commercial district rarely experiences new development in part due to parking requirements, the size of parcels, and limited opportunities to provide private off-street parking.

Several years ago, the City had an active parking assessment district and property owners that participated in this program were able to meet parking requirements through this program. The proceeds from that assessment were dedicated toward paying bond obligations that were used to finance the building of a 2-story garage (Ted Thompson garage, Lot C3). This debt matured several years ago and so the assessment district was retired. Since that time, any new use or business intensification cannot proceed if the proposed use has any parking requirement higher than the previous use allowed. For instance, a restaurant, which requires a higher parking requirement, cannot occupy a former retail storefront space, which has a lower parking requirement, unless the owner of that space is able to provide additional parking.

These requirements have constrained changes in the California Avenue, especially in the current environment with COVID-19 which has called for changes in behavior including social distancing. Tenants and property owners may find it beneficial to allow a business to locate or expand into adjacent storefronts. With incentives the City has already implemented, an in-lieu parking program, and consideration of other factors, some individuals may find opportunity in vacant storefronts.

Parking Funding Background

Parking management strategies enacted in the City of Palo Alto have included the establishment of both commercial and residential parking programs. Residential Preferential Parking (RPP) programs established via [Ordinance #5294](#) are intended to restore and enhance the quality of life in residential neighborhoods by reducing the impact of parking associated with nearby businesses and institutional uses. Parking programs established to form the

University Avenue ([Resolution #8034](#)) and California Avenue ([Resolution #7230](#)) Parking Assessment Districts provided funding for parking structure construction in their respective commercial areas via issuance of debts and levying assessments on local business in both. These provide parking supply for both visitor use, and district employee use via reserved spaces.

Separately, the City currently has three funds that track the following parking programs: the University Parking Permit (Fund 236), California Avenue Parking Permit (Fund 237), and the Residential Preferential Parking Program (Fund 239). The financial accounting of the collection of revenues, payment of expenses, and funding of parking related Capital Improvement Projects (CIPs) is managed in these funds. Historically, the parking funds have been financially insolvent with expenses exceeding revenues, when the fund is running in a deficit position, a transfer from the General Fund is adopted by the City Council as part of the annual budget process.

Full price employee parking permits and daily permits sales generate the main source of revenue in both the University and California Avenue Parking Permit Funds. Low income employee permits are not currently available in these commercial areas. In the Downtown, Evergreen Park-Mayfield, and Southgate RPP districts, in which the City currently offers employee permits, the City offers both full price and reduced-price (low-income) employee parking permits. In addition, resident, guest, and daily permits are sold throughout the RPP districts. Any fund balances in the commercial districts has historically been planned for capital investment and start-up costs of new program such as the potential infrastructure for paid parking. Historically the RPP Program Fund only operates in a positive financial position when sufficient employee permits are sold.

Historically, parking pricing for employee permits was determined by the commercial or residential areas and relative to business traffic and parking demand: the price for employee permits in California Avenue geographic area is currently approximately half the price of a University Avenue permit. As RPP programs were established, employee permit pricing mirrored that of the nearest commercial district. Original allotments of employee permits were established upon an assessment of apparent need established by a planning process.

TABLE 1: CURRENT (ACTIVE) FY2022 EMPLOYEE AND RESIDENTIAL ANNUAL PERMIT PRICING

PARKING DISTRICT	EMPLOYEE PERMITS (FULL PRICE)	EMPLOYEE PERMITS (REDUCED PRICE)	RESIDENTIAL PERMITS	NUMBER OF EMPLOYEE PERMITS AVAILABLE
<i>University Avenue</i>	\$806	None	N/A	2,826
<i>California Avenue</i>	\$403	None	N/A	585
RESIDENTIAL PREFERENTIAL PARKING (RPP) PROGRAMS				
<i>College Terrace</i>	None	None	\$50	None

<i>Downtown</i>	<i>\$806</i>	<i>\$100</i>	<i>\$50 (first one free)</i>	<i>1,000 (+200 in reserve)</i>
<i>Crescent Park</i>	<i>None</i>	<i>None</i>	<i>\$50</i>	<i>None</i>
<i>Evergreen Park/Mayfield</i>	<i>\$403</i>	<i>\$50</i>	<i>\$50 (first one free)</i>	<i>250 for Zones A-F; 40 for Zone G</i>
<i>Southgate</i>	<i>\$403</i>	<i>\$50</i>	<i>\$50 (first one free)</i>	<i>25</i>
<i>Old Palo Alto</i>	<i>None</i>	<i>None</i>	<i>\$50</i>	<i>None</i>

Parking citations for infractions in the University and California Avenue commercial parking districts are issued by Police Department’s Community Service Officers (Parking Enforcement) and the expenses for enforcement and citation revenue collected is accounted for in the general fund. Parking citations and enforcement in the RPP districts is done primarily by a contracted service provider, LAZ Parking, and both the expenses and revenue is accounted for in the RPP fund (the exception is the Crescent Park No Overnight Parking Program, which is enforced by Palo Alto Police Department, and revenues go to the general fund). Due to the pandemic, parking enforcement was suspended March 16, 2020 (resuming October 1, 2021) allowing the public to park on- and off-street without time restrictions. As a result, all permit sales revenues and citation revenues have been severely reduced during the pandemic.

Discussion

The following report details recommendation considerations in three main parts:

1. California Avenue In-Lieu Parking Program Proposal

Consistent with Policy T5.1.2: Consider creating new ways of meeting parking requirements for retail, restaurant, and other types of business uses as a means to encourage new businesses and the use of alternative modes. Existing parking requirements for the California Avenue area are found at PAMC 18.52.040. Establishment of an in-lieu parking program would be a valuable economic development and sustainability tool. Details of this conceptual in-lieu parking program are summarized below.

The conceptual, limited, in-lieu parking program as contemplated by staff would only apply to changes in uses in existing buildings that would intensify the use in terms of parking demand; new building construction would not be eligible. The program would apply to ground floor uses and only those uses that meet the City’s retail, retail-like or expanded retail definition approved by City Council. The cost per space would be calculated based on the current rate for an in-lieu parking space established for the downtown in-lieu program (~\$112K/space) and could be paid upfront as in the existing in-lieu program or paid in annual installments extended over a certain number of years. The ability to reduce the upfront cost, and pay over time, may be important as a high initial cost may discourage participation. Importantly, as with the downtown program, no physical parking space is dedicated to a property owner or a tenant. Instead the surplus public parking in the area would absorb the parking demand generated by the more intense use. Unlike the downtown program, the in-lieu payments could be spread over time and

ongoing, potentially ending when a new land use is introduced to the tenant space that has a comparable or lower parking requirement than the land use that existed prior to participation in the program or when the property owner has paid the full value of the parking. Staff anticipates that businesses with direct street access to California Avenue would be eligible and possibly some properties on adjacent side streets. The program as envisioned could accommodate up to 100 parking spaces (the upper limit of the program is determined, in part, by bond financing rules).

If Council is interested in advancing this concept, additional staff work and legal review is needed. Staff from Planning and the Office of Transportation will engage with the Planning and Transportation Committee and stakeholders to create an implementable program. Establishment of a parking in-lieu program in the California Avenue area could create a new long-term revenue stream that could be dedicated towards the 30 year debt associated with the new California Avenue garage which has an annual debt service of \$2.4 million.

California Avenue Garages/Lots and the Evergreen Park-Mayfield RPP

The California Avenue Business District, immediately adjacent to the Evergreen Park and Mayfield neighborhoods, has regularly attracted business visitor and employee parkers, who, for lack of the right incentives offered, utilize residential blocks for trips that could be better suited by parking facilities in the main commercial area, especially to avoid commercial time-based restrictions. Commercial time restrictions, when needed, prioritize turnover and ease of parking space discovery to facilitate customer and employee trip satisfaction. Residential on-street curb parking, in turn, with RPP programming, prioritizes longer stays and facilitates short visitor trips. The RPP program design in Palo Alto facilitates flexibility and adaptability in meeting parking demand while centering resident experience and quality of life.

Discussions amongst City staff and community stakeholders regarding parking availability in the California Avenue commercial district and its surrounding neighborhoods led in recent years to Council decisions to increase parking supply in the California Avenue Business District by constructing a new parking garage at 350 Sherman Avenue (as part of the [Public Safety Building project](#)), and to establish the EPM RPP district in 2017. The EPM RPP program provides both residential and employee parking permits in the area, while the California Avenue Business District ([California Avenue parking facilities](#)) provides visitor and employee parking in surface lots and garages. Again, the current design of these programs prioritize commercial district parking facilities for higher turnover uses and employee parking; and, residential parking for convenient access for residents and resident visitors ([EPM RPP program information](#)).

Together, the new California Avenue Parking Garage (as part of the California Avenue Business District) and the EPM RPP program provide City staff the ability to effectively manage parking impacts in both residential and commercial zones in the area, especially with the regular parking occupancy monitoring being implemented. City Council has previously recognized the need to be flexible with the number of employee permits made available in the Evergreen Park-Mayfield Residential Preferential Parking Program. After establishing the EPM as an RPP district

([Resolution No. 9739](#)), Council approved a district redesign by creating additional zones, including a new Employee Parking Zone G ([CMR 8893](#)) on El Camino Real.

The completion of 350 Sherman Avenue Garage adds approximately 316 new parking spaces (its ~626 total spaces replace 310 pre-existing spaces) to the California Avenue commercial district, as well as opportunities to utilize a new Parking Guidance System (PGS) to manage the City's parking facilities more efficiently. The PGS is equipped with optical sensors to detect parking occupancy, as well as software capabilities for managing visitor parking stays and payments. Light-emitting diode (LED) lights indicate availability and other information to parkers.

The additional parking supply provided by the new garage allows the City to reduce the number of employee permits made available in the EPM RPP A-F zones, in line with expectations of residential stakeholders outlined in the City's parking management work plan ([prioritized Parking Work Plan](#)). Staff will evaluate the impact of the recommended permit reduction and phasing and consider additional reductions each year. Staff believes, at this time, that the existing garages and lots along with the new California garage on Sherman provides sufficient space for shifting, thus reducing, approximately 250 of the 290 EPM RPP, Zones A-F, employee permit holders and all garage waitlisted employees/ employers (pre-pandemic the waitlist was 228). The remaining 40 employee permits are located on or near El Camino Real and would be best accommodated as they are now in Zone G. In the past, a 60% show rate for permit spaces has been typical (not all permit holders arrive each day), such that the added supply should be sufficient to accommodate both permit and visitor uses, including spaces proposed in the potential in lieu program described in [CMR 11702](#) and above. Note that in the California Avenue parking district, employee garage and lot permits are valid in any public garage/lot in the district ([California Avenue parking facilities](#)).

Currently, there are 453 garage and lot permits that have been sold in the California Avenue parking district, and the cap is 585 permits (pre-pandemic), which typically sells out. Using our 60% show-rate, allocating 490 additional permits in the new parking garage will sufficiently provide parking spaces in the district new and waitlisted employees to purchase permits, as well as new uses allowed via the to be developed in-lieu fee program.

Staff will monitor demand for these permits and recommend decreasing availability as reasonable. If there is additional demand for employee permits in EPM/Zone G, staff will coordinate with Stanford University and Caltrans on the possibility of expanding Zone G to the West side of El Camino Real on the block between Park Boulevard and Stanford Avenue.

Staff will be reviewing parking occupancy over the next year to evaluate garage/lot parking capacity to further maximize usage. While future usage trends are especially uncertain in the current economic context, the technology systems installed provide staff the ability to monitor usage trends over time, and to make future recommendations based on more complete usage and parking availability data.

TABLE 2: Expanded Parking Supply in the California Avenue Business District

Previous parking lot supply at Lots 6 and 7 (removed and replaced)	310
Previous total parking supply in the California Avenue Business District (including Lots 6 and 7)	922
New 350 Sherman Avenue parking supply	626
New total parking supply in the California Avenue Business District	1,238
Additional parking supply in the California Avenue Business District provided by the new garage at 350 Sherman Ave.	316

TABLE 3: Parking Demand, FY 2020-21

Total waitlisted California Avenue Business District employees (pre-pandemic to current, a significant number are expected to no longer need permits)	~370
Total employee RPP permits currently in the EPM District (40 in Zone G, adjacent to ECR)	290

2. Increased Price of All Employee Permits and Expand Commercial District Boundaries

Staff recommends implementing Council approved employee permit pricing rate increases throughout the City in sync with new permit sales cycles coming online throughout Fiscal Year 2022, as stated in the adopted FY 2021 Municipal Fee Schedule. This action consolidates demand for on-street spaces into the RPP program's permit sales, enabling parking occupancy rates and availability to be understood more fully, before any future pricing adjustments or parking enhancements to be considered in light of future documented demand for street space (via LPR enabled parking occupancy monitoring).

Additionally, if, as a City, it is a goal to have long-term employee parking occur in the garages and lots, the financial incentives through permit pricing for that behavior should not cost less to park in the residential zones than in the parking garages and lots. Similarly, as the City strives to meet GHG reduction goals and minimize the environmental impacts of single-occupancy vehicles, parking pricing should be closely considered with comparative pricing of transit and other peer parking pricing. The proposed price increases, as demonstrated in the table below, compare reasonably with other monthly and annual City parking rates in the region, and Caltrain pricing.

TABLE 4: Caltrain, Garage & Lot Parking Monthly Pricing Comparison Table

	<i>Monthly Costs</i>
Palo Alto (current)	\$33 - \$67
Palo Alto (proposed)	\$54 - \$84
Mountain View	\$61
Redwood City	\$40 - \$100
San Jose	\$50 - \$125

San Francisco	\$100 - \$530
Caltrain*	
	<i>Monthly Costs</i>
	\$38.40 - \$92.40

* Travel to Palo Alto assumes 1-3 zones fare

Staff relatedly recommends the City eliminate the first free annual residential permit in all RPP programs, to remain consistent with RPP districts in College Terrace, Crescent Park, and Old Palo Alto that do not have employee permit subsidization.

TABLE 5: PROPOSED FY 2022 Changes to Employee and Residential Annual Permit Pricing and Employee Permit Availability

<i>Parking District</i>	<i>Employee Permits (Full Price/yr)</i>	<i>Employee Permits (Reduced Price/yr)</i>	<i>Residential Permits (price/yr)</i>	<i>Number of Employee Permits Available</i>
University Avenue	\$806 \$900	N/A \$225	N/A	2,826 3,326
California Avenue	\$403 \$650	N/A \$162.50	N/A	585 1,075
Residential Preferential Parking				
College Terrace	None	None	\$50	None
Downtown	\$806 \$1050	\$806 \$262.50	\$50 <i>(first one free)</i>	1,000 580 <i>(+200 in reserve)</i>
Crescent Park	None	None	\$50	None
Evergreen Park/Mayfield	\$403 \$750	\$806 \$187.50	\$50 <i>(first one free)</i>	250 0 for Zones A-F; 40 for Zone G <i>(expand)</i>
Southgate	\$403 \$750	\$806 \$187.50	\$50 <i>(first one free)</i>	25
Old Palo Alto	None	None	\$50	None

Current Parking Context

Due to the pandemic, parking enforcement was suspended March 16, 2020 (resuming October 1, 2021) allowing the public to park on- and off-street without time restrictions. As a result, all permit sales revenue has been severely reduced during this time.

Reduced-Price Employee Parking Permits in Commercial Districts

Recognizing the economic constraints of low wage earners, the City reduced the cost of parking permits in the RPP zones for qualified individuals. An individual qualifies as low-income if total annual income is equal to or less than \$50,000, or if they earn a pre-tax hourly wage equal to or less than double the greater of the City or State minimum wage. An applicant must provide proof of income. There is no cap on the number of low-income permits that are issued. To accommodate the shift of permit allocation from residential parking districts to commercial garages and lots, staff recommends establishing a reduced-price permit for low-income workers, which currently only exists for employees in the RPP districts.

3. Modifications to RPP and Commercial District Employee Permit Allocations

In early 2014, the City began significant efforts to address the parking and traffic challenges, particularly in the Downtown core, through a strategic multi-pronged approach of parking management, parking supply and transportation demand management programs. The strategy includes implementation of the Downtown Residential Preferential Parking (RPP) Program, which went into effect in September 2015. The introduction of this program has required the development and launch of a new online permit sales website and sales support, installation of signage in any new permit areas, negotiation and oversight of an enforcement contract, and extensive community outreach and data collection.

Phase 1 of the program regulated non-resident parking around the Downtown commercial core by introducing Resident and Employee Parking Permits and restricting non-permit holders to two-hour parking between the hours of 8:00am and 5:00pm on Monday through Friday. Resident Parking Permits are for residents who live within the Downtown RPP program area while the Employee Parking Permits are for any individuals who are employed within and commuting to the Downtown area. Phase 2 of the program, which went into effect on April 1, 2016, capped the number of Employee Parking Permits at 2,000 and established ten Employee Parking Zones in an effort to better distribute non-resident parkers. Eligibility Areas, which can petition to join the program administrative, were also created as part of Phase 2 of the program.

Over time, the employee RPP permit caps have been reduced, both naturally and through a reduction in cap. In February 2016 the City Council directed that the number of Employee Parking Permits be reduced by 10% per year. In 2016, the cap was 2,000 permits and in 2021 the cap, as set by Resolution 9782 is 1,000 employee permits with 200 held in reserve. RPP permit sales have consistently decreased, and the most recent permit sales (pre-pandemic) was approximately 760 permits.

In the Downtown commercial parking district, there are 11 parking garages/lots that are utilized for permit parking. In these garages, there are 1,758 permit spaces and 1,790 permits currently sold, however the permits typically sell out (pre-pandemic). Pre-pandemic, there was also a waiting list for 354 permits. At this time, however, garages have sufficient capacity available to accommodate the additional recommended employee permits and accommodate waiting list permits. Staff recommends setting a Downtown RPP cap of 580. This recommendation will be re-evaluated post-pandemic using parking occupancy data in the garages/lots and RPP districts.

4. Expanded Commercial District Employee Eligibility Boundaries

Finally, the eligibility boundaries to purchase an off-street parking permit are determined based on an outdated business assessment district boundary map for the University Ave. and California Ave. commercial corridors. Staff recommends expanding the current boundaries to match the existing Residential Preferential Parking (RPP) boundaries for the Downtown and Evergreen Park-Mayfield districts. Expanding eligibility allows new and smaller businesses residing beyond the traditional commercial core access to the City's parking facilities, relieving on-street parking demand.

Resource Impact

The Parking Fund Balances table below compares two scenarios and estimates parking fund solvency from FY 2022 through FY 2025 for University Avenue, California Avenue, and the RPP parking districts. Fund balance actuals are presented for FY2021 and fund balance estimates for FY 2022 through FY 2025.

- Scenario A assumes that no adjustments are made to any parking permit policies related to any of the parking districts. The projected impact is a continuing decrease in the ending fund balance of all parking funds through FY 2025. Notably, the University Avenue Fund could no longer support operating expenses starting in FY 2024.
- Scenario B assumes that the recommendations presented in this staff report are implemented in FY 2022. All funds would remain solvent through FY 2025.

Further details for each scenario are located after the table below.

TABLE 6: PARKING FUNDS PROJECTED FUND BALANCES

Scenario	FY 2021 <i>actuals</i>	FY 2022 <i>estimates</i>	FY 2023 <i>estimates</i>	FY 2024 <i>estimates</i>	FY 2025 <i>estimates</i>
<i>University Avenue</i>					
A: No Changes	1,501,000	1,026,000	322,000	(412,000)	(765,000)
B: Recommendations		1,569,000	1,409,000	1,217,000	995,000
<i>California Avenue</i>					
A: No Changes	422,000	360,000	290,000	212,000	127,000

B: Recommendations		408,000	387,000	358,000	321,000
RPPs					
A: No Changes	133,000	202,000	257,000	148,000	25,000
B: Recommendations		268,000	388,000	344,000	287,000

In Scenario A, University Avenue fund balance is projected to decrease by 32% from FY 2021 to FY 2022 and would decrease by another 69% in the following year. In FY 2024 it is projected that the fund would require a subsidy to meet operational costs. Both the California Avenue and RPP fund balance will decrease over time through FY 2025 by 70% and 81% respectively (compared to FY 2021). Future increases in the cost of labor, consultant contracts and programmatic parking improvements will accelerate the projected downward trend.

Under Scenario B, all fund balances are still projected to decrease annually, but at a much slower rate, and would remain solvent through FY 2025. Recommended reductions of available employee permits in the Downtown and EPM RPP districts would significantly reduce cost recovery mechanisms in the RPP fund. As the table indicates, the RPP program fund balance would continue to decrease through FY 2025 but still meet its operation obligations.

TABLE 7: SUMMARY OF PROPOSED PRICING ADJUSTMENTS & TIMELINE

FEE	CURRENT RATE	PROPOSED RATE	IMPLEMENTATION SCHEDULE
All Downtown and SOFA Lots and Garages: Annual Parking Permit (University Ave.)	\$806/yr	\$900/yr	1/1/2022 (sales begin 12/1/22)
All Downtown and SOFA Lots and Garages: Annual Parking Permit - Reduced	None	75% off Annual Permit (currently \$225)	1/1/2022 (sales begin 12/1/22)
California Avenue Area All Garages and Lots: Annual Parking Permit	\$403/yr	\$650/yr	1/1/2022 (sales begin 12/1/22)
California Avenue Area All Garages and Lots: Annual Parking Permit – Reduced	None	75% off Annual Permit (currently \$162.50)	1/1/2022 (sales begin 12/1/22)
Downtown RPP: Full Price Employee Parking Permit	\$806/yr	\$1,050/yr	4/1/2022 (sales begin 3/1/22)
Downtown RPP: Reduced-Price Employee Parking Permit	\$50/yr	75% off Full Price Annual Permit (currently \$262.50)	4/1/2022 (sales begin 3/1/22)
Downtown RPP: Annual Resident Parking Permit	\$50/yr 1 st one free	\$50/yr	1/1/2022
Evergreen Park - Mayfield RPP: Full Price Employee Parking Permit	\$403/yr	\$750/yr	4/1/2022 (sales begin 3/1/22)
Evergreen Park - Mayfield RPP: Reduced-Price Employee Parking Permit	\$25/yr	75% off Full Price Annual Permit (currently \$187.50)	4/1/2022 (sales begin 3/1/22)
Evergreen Park - Mayfield RPP: Annual Resident Parking Permit	\$50/yr 1 st one free	\$50/yr	1/1/2022

Southgate RPP: Full Price Employee Parking Permit	\$403/yr	\$750/yr	4/1/2022 (sales begin 3/1/22)
Southgate RPP: Reduced Price Employee Parking Permit	\$25/yr	75% off Full Price Annual Permit (currently \$187.50)	4/1/2022 (sales begin 3/1/22)
Southgate RPP: Annual Resident Parking Permit	\$50/yr 1 st one free	\$50/yr	1/1/2022

No budget amendments are required at this time. However, budget alignments will be needed in the various parking fund in order to implement changes recommended for consideration by this report. Finance Committee’s endorsement of staff’s recommended changes to the City’s permit parking program aligns with the City’s parking pricing incentive goals and will move the program toward continuing financial viability. The specific timeline and resource impacts depend on the actions taken by the City Council based on staff recommendations in this memorandum.

Should Council approve recommendation in this report the following budget adjustments are needed:

- Increase FY 2022 adopted permit revenue amounts for the University and California Avenue Parking Funds due to increased permit prices and permit capacity
- Decrease FY2022 adopted permit revenue amount for the RPP Fund due to reduced available employee permits
- Parking permit fee adjustments in the FY 2022 Municipal Fee Schedule to reflect recommended permit price changes
- Expenses are not expected to increase as permit and enforcement service contracts are in place and funded to carry out the recommended program changes.

In addition, as an employer in the City, the City purchases employee permits for its employees at a cost of approximately \$438,300 annually. Assuming no change in quantities, these price increases will increase the City/s cost for employee permits in the University Avenue area as well. This additional cost would be factored into the next FY 2023 annual budget process should these increased fees be approved.

If staff receive direction to design an in-lieu program, additional staff resources will be needed.

Stakeholder Engagement

The recommended action is a result of expectations of residential stakeholders outlined in the City’s parking management work ([prioritized Parking Work Plan](#)), reflecting outreach and community engagement processes documented at the outset of the planning processes that created the citywide RPP program as well as subsequent RPP planning study ([Residential Preferential Parking Program Review](#)).

Policy Implications

The following Comprehensive Plan programs and policies are relevant to parking management policies:

Policy T5.1.2: Consider reducing parking requirements for retail and restaurant uses as a way to encourage new businesses and the use of alternative modes.

Policy T-5.5 Minimize the need for employees to park in and adjacent to commercial centers, employment districts and schools

Policy T-5.11 Work to protect residential areas from parking impacts of nearby businesses and uses, recognizing that fully addressing some existing intrusions may take time.

Policy B-1.2 Promote Palo Alto's image as a business-friendly community. Assume an active role in fostering businesses, including small start-ups, entrepreneurs, and innovative businesses.

Policy B-1.3 Engage with all stakeholders in the community, including businesses of all sizes, local retailers, the public, and City decision-makers in order to understand the challenges businesses and employers face.

Policy B-2.3 Recognize that employers, businesses and neighborhoods share many values and concerns, including traffic and parking issues and preserving Palo Alto's livability, and need to work together with a priority on neighborhood quality of life.

Policy B-3.3 Develop strategies for promoting businesses and employers that generate revenues that will support a full range of high-quality City services, including retain and attract revenue-generating businesses.

Policy B-4.2 Attract and support small businesses, start-ups, non-profit organizations, and professional services, which are vital to a diverse and innovative economy.

Environmental Review

The recommended action is exempt from the requirements of the California Environmental Quality Act (CEQA) pursuant to Section 15061(b)(3) of Title 14 of the California Code of Regulations since it can be seen with certainty that there is no possibility the proposed minor modifications to this existing program will have a significant effect on the environment. If the action is found to be a project, it is categorically exempt pursuant to Section 15301 in that the program modifications will have a minor impact on existing facilities.