



PLANNING & TRANSPORTATION COMMISSION MINUTES

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Wednesday, July 27, 2016 Regular Meeting

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6:00 PM, Council Chambers

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Call to Order / Roll Call: 6:05PM

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Vice-chair Gardias late

10

11 Chair Fine: Welcome to the meeting of the Planning and Transportation Commission (PTC) for
12 July 27th. Robin if you would please take the roll?

13

14 Robin Ellner, Administrative Associate III: Commissioner Alcheck, Commissioner Downing, Chair
15 Fine, Vice-Chair Gardias, Commissioner Rosenblum, Commissioner Tanaka, Commissioner
16 Waldfoegel. Six present.

17

18 **Oral Communications**

19 The public may speak to any item not on the agenda. Three (3) minutes per speaker.

20 None

21

22 Chair Fine: Thank you. Are there any Oral Communications or cards from the public on issues
23 not agendized?

24

25 Robin Ellner, Administrative Associate III: No.

26

27 Chair Fine: Thank you.

28

29 **Agenda Changes, Additions, and Deletions**

30 The Chair or Commission majority may modify the agenda order to improve meeting management.

31 Items 1 and 2 switched.

32

33 Chair Fine: And I believe now it's time to talk about any agenda changes, additions, or deletions.

34

35 Jonathan Lait, Assistant Director: Yes. So Commissioners the consultant for the first item on
36 your agenda is running about a half an hour late and so we would request that you initiate your
37 conversation on the study session as to you until the consultants able to arrive.

38

39 Chair Fine: Great, thank you. So we'll switch Items 1 and 2.

40

41

1 **City Official Reports**

2 Assistant Director Lait provided an update on the theater.

3
4 Chair Fine: And then I believe we have the Assistant Director's report.

5
6 Jonathan Lait, Assistant Director: Great, thank you. The only item I wanted to report there's
7 been a lot of publicity about CineArts Theatre. We've learned that the tenants has given notice
8 to the property owner that their plan is not to continue the lease for the theater. That may,
9 that means that the theater will, could close really soon, within the month I would think. And
10 this is a property that was subject to a Planned Community (PC). It is a requirement of the
11 development that a theater be placed there. This is not though a public benefit, but if there
12 was an interest of the property owner to remove the theater replace it with something else it
13 would have to go through a public hearing process that would come before the Planning
14 Commission and then ultimately to the City Council, but there has been no such application
15 filed. In fact a meeting with the property owner today indicated that their interest in that they
16 were going to have a continued conversation with the tenant to see if there were other
17 opportunities to help them stay at the site. So more to be... when we have more information
18 we will share that with the Commission.

19
20 Chair Fine: Ok, thank you very much. While we wait for the Vice-Chair and before we get
21 started on the items I'd just like to give Commissioner Downing a moment.

22
23 Commissioner Downing: Thanks, Adrian. I wanted to let you all know that I will be resigning
24 from the Planning and Transportation Commission (PTC) and that this will be my last session
25 with you. It has been a privilege and honor to serve with such excellent Commissioners who
26 have devoted so much of their time to this Commission and who strive to always make a better
27 life for Palo Altoans. I also wish to thank the staff whose efforts during my time here on the
28 Commission have been absolutely Herculean considering the limited resources available to
29 them. Thank you for all of that you do for us.

30
31 My family will be moving to Santa Cruz and we spent a lot of time trying to figure out financially
32 how to stay in Palo Alto. As many of you know we are renters. We have been renting with
33 roommates. And we have thought hard about the sort of community we want to raise our
34 children in. We wanted them to go to school with people who weren't millionaires. We
35 wanted a future where we weren't staying up at night worrying about how we were going to
36 pay the bills. We wanted a community that was still growing, where young people could still
37 come and could still live, a community that was still adding interesting new hangouts and
38 where independent shops could still exist. We thought about which communities were actively
39 thinking about how to be a better place. Which would add artist space, live music, rooftop
40 lounges, and sadly the answer is no longer Palo Alto. I will miss all of you and I'm deeply
41 honored to have worked with you. Thank you.

42
43 Chair Fine: Thank you, Commissioner Downing. Thanks, Kate. It's been an honor to serve with
44 you as well. I think you have done an amazing job on this Commission digging deeply into the
45 issues and providing us all with research and thoughts that many of us had not thought of
46 before you brought them up. Particularly on this topic tonight Accessory Dwelling Units (ADU)

1 you've really helped move the ball forward for the City and I think all of us to be grateful to you
2 for that. Just personally for myself as well it's been a pleasure serving with you, getting drinks
3 with you occasionally at the Nut House and learning what you think and how the City can move
4 forward. I also just want to open it up to any other Commissioners who may have something to
5 say.

6
7 Commissioner Tanaka: Yeah, Commissioner Downing I'm going to miss you. To be honest, I am
8 kind of surprised, but I think you'll be missed and we appreciate your work on this and I think
9 whichever community you move to they'll be thankful for your service. So thank you.

10
11 Commissioner Alcheck: That's a bummer. I think before I knew you I was just really excited that
12 Palo Alto appointed a woman to this Commission, but after having the opportunity work with
13 you I think that you are extremely, you take this role very personally and I think that's a really
14 great thing because you approached the decision making process as if these decisions were
15 reflections of our own personal values. And I think that you will be missed for that. I think that
16 your vision of what Palo Alto could do to improve the way that it utilized its land was a
17 aspirational one and it was good, it was great to have someone who was that passionate about
18 those sort of values on the Commission. And I think the City will miss you. We will miss having
19 someone who took it so seriously and personally and passionately because this is the sort of job
20 that I think sometimes can get... it's difficult to commit as much energy to a job like this, but
21 you really did it and I'm sad. I'm really sad to see that you're leaving, but I guess we will visit
22 you in Santa Cruz. Maybe we'll see you on that Planning Commission.

23
24 Commissioner Downing: Thank you all so much for your kind words. I really appreciate it and I
25 really have enjoyed serving with all of you. You all have come with such interesting points of
26 view, such attention to detail, such perspectives that have really opened my mind about how to
27 look at things, how to analyze things. It's been a deeply rewarding process and I thank you all
28 for that.

29
30 Chair Fine: Thank you. So I think we should move on to our action items. I know a few people
31 have walked in, just for the public to know we are switching Items 1 and 2. I do know there's a
32 lot of cards for the impact fee issue, but we're waiting on the consultant for that.

33 34 **Action Items**

35 Public Comment is Permitted. Applicants/Appellant Teams: Fifteen (15) minutes, plus three (3) minutes rebuttal.
36 All others: Five (5) minutes per speaker.

37 38 2. Planning and Transportation Commission Study Session on Second Dwelling Units

39
40 Chair Fine: So let's kick it off with the continued study session on Second Dwelling Units (SDU)
41 and if staff has a report let's go through that.

42
43 Chitra Moitra, Planner: Good evening, Commissioners. I am Chitra Moitra, Planner, Long Range
44 Planning. Tonight staff comes before you for the second study session on this item. To give
45 you a brief history this item was first initiated by the City Council memo in a colleague's memo
46 format to the Planning and Transportation Commission (PTC) in October of 2015. Council

1 through that memo directed PTC to find greater opportunities to create more SDUs and to
2 figure out ways how to bring the non-compliant SDU to compliance. Our first study session was
3 earlier this year in January of 2016 and it was a very well attended meeting with a lot of public
4 input and we the staff report discussed a lot of topics many relating to SDUs: the benefits of
5 them, some of the constraints which the Palo Alto regulations provide, and then some of the
6 best practices of neighboring cities. Staff has received a lot of good input from PTC in that
7 meeting and the PTC input can be classified into three tasks and these where changes to the
8 existing development regulations, exploration of new ideas, and examine ways how to bring the
9 non-compliant second units into compliance.

10
11 Staff over the last few months have done some research and today is bringing to you the
12 findings. The staff report today consists of some of the best practices of the neighboring cities,
13 some of the constraints which the City of Palo Alto regulations have, and it consists of two
14 surveys; Survey 1 and Survey 2. Survey 1 is to solicit general community's input on this subject
15 and Survey 2 is to find out more about SDU which have been already permitted in the City. The
16 next, the survey, the next two slides describes in details the reasoning behind the questions for
17 each of each of the questions and the surveys would be put up on the City's website for two to
18 three weeks. Once we get your input and once we make the recommended changes we would
19 put it up on the City's website. And the timeframe might be mid-August. Survey 2 aims to
20 collect more information on the existing permitted SDU. City has building permit records of
21 approved units from 2002 and we want to see the characteristics of these units how their sizes,
22 their occupants, their affordability, what are the ownership type, and then the occupants
23 parking habits, etcetera. So this survey would be mailed to the 55 plus permitted SDU owners
24 we have in Palo Alto.

25
26 The staff report in addition to the surveys also discusses the constraints. And these are
27 minimum lot size requirement, parking requirement, unit size requirement, and height and
28 setback requirements. Staff has done preliminary research and it's still in the process of adding
29 more information to it, which we would bring in the following PTC discussions. Staff has also
30 provided as an Attachment C a frequently asked questionnaire on this subject matter which we
31 will be putting up on our website which we are working on right now. And Attachment A of the
32 staff report also provides the state laws on SDUs. So with the above information provided to
33 you tonight staff thinks we will have a good discussion on the constraints discussion and other
34 items provided to you. This is my brief presentation and I would think we'll have a good
35 discussion on this item. Thank you.

36
37 Chair Fine: Thank you very much. Do we have any cards on item, on this item? None? Ok. So
38 just to my fellow Commissioners as you know this is a continuation of our discussion from
39 January. At that time we'd asked staff to consider what regulations currently restrict Accessory
40 Dwelling Units (ADU) or SDUs and how we might change them and what impact it would have
41 on the number of SDUs to be built. There are a number of those changes explored in this
42 report and also a lot of comparisons to nearby communities the four main areas we've looked
43 at so far: minimum lot size, parking requirements, unit size requirements, and height and set
44 back issues. So staff is asking us to kind of look at their work and see if we have any other
45 additional comments, but then particularly we'd like to give some comments to staff on the two
46 surveys. The first survey is a general survey to the public about SDUs and the second survey is

1 for current SDU owners, those 55 that are currently permitted. So I'm just going to open it up
2 to a round of questions or comments, however you want to go through it. Vice-Chair.

3
4 Vice-Chair Gardias: Thank you and good evening everyone. Sorry for being late. The question
5 that I have here is about comparability. Items that you put in the, in your presentation. So you
6 selected a number of cities and of course this, this document will go... well or it will expand
7 toward presentation to the City Council and our follow up meeting. This, my comment about
8 those municipalities that you selected is although they are very interesting I don't find all of
9 them to be comparable to Palo Alto. When I, when I'm going through the list and when I think
10 about our neighbors I think that probably Menlo Park is the most comparable from the
11 perspective of the ADUs. So giving this my question is could you either replace some of those
12 with some other comparable municipalities in the Bay Area or maybe beyond or if you want to
13 stick to them maybe you can expand the list with other towns that are like Palo Alto.

14
15 Ms. Moitra: The reason behind selection of these cities was mainly these are the cities which
16 went through their ordinance update recently. City of Mountain View just finished it. Menlo
17 Park did it last year. Redwood City did it I think 2014. East Palo Alto (EPA), San Rafael, and
18 Santa Cruz are the examples of those cities which have done outstanding jobs in changing their
19 code and bringing in new ideas, so that was the reason why we selected these cities.

20
21 Vice-Chair Gardias: Right and it's clearly stated in your document, but in terms of us bench
22 marking ourselves to some others maybe you can have at least one or two other examples.

23
24 Ms. Moitra: Sure we can.

25
26 Vice-Chair Gardias: Like Menlo Park. At least from my perspective those are municipalities that
27 are closer to this, what we are doing here in Palo Alto.

28
29 Jonathan Lait, Assistant Director: So Vice-Chair we're happy to study any city that you want us
30 to study. If you can, if you have specific ideas we do have Menlo Park on there, but there's
31 other cities that you have in mind or Commissioners please let us know and we can, we can
32 research that.

33
34 Vice-Chair Gardias: I don't have, but I thought that you could expand the selection with some
35 others, right? That we could benchmark.

36
37 Mr. Lait: Yes, the idea of comparability is a bit of a challenge. There's no other city quite like
38 Palo Alto.

39
40 Vice-Chair Gardias: With the respect to the neighbors, right? I still think that there are some
41 others, right, in California.

42
43 Mr. Lait: Again, we're happy to study any city and get that information.

1 Vice-Chair Gardias: Ok, very good. Thank you. And the second question I say about the survey.
2 So is this survey that you're planning to distribute will it be done on the statistical basis or it will
3 be sent out to all the potential, all potential owners of the SDU?
4

5 Ms. Moitra: Survey Number 1 would be put up on City's website and anybody can, prospective
6 SDU owners or regular current owners can fill out the survey even any community members
7 can fill out that. And Survey Number 2 would be made to the 55 SDU owners whose records we
8 have obtained from the building permit records.
9

10 Vice-Chair Gardias: Ok. The reason that I'm asking this question is pretty much that I think that
11 there will be economic interest and looking at our neighborhoods and I'm sure that there will
12 be some at least there will be probably different economic interest between North and South
13 and then there may be different economic interests between different neighborhoods. So I
14 would be interested that you identify in your survey the location of the respondent.
15

16 Ms. Moitra: There is one question in the survey I think it's question number... at the end of the
17 survey with the map which asks the respondent to fill out like which area you are from and I
18 have divided the city into sections.
19

20 Vice-Chair Gardias: Right, but it only just shows like you're talking about this one?
21

22 Ms. Moitra: Yes.
23

24 Vice-Chair Gardias: Those four quadrants, right? So I was hoping for more if it's possible. It just
25 they can select from a down, pull down menu then the neighborhoods if it's online.
26

27 Elena Lee, Interim Planning Manager: So we're working with Stanford University actually on this
28 survey to get their help in doing statistical analysis of these surveys and also to craft these
29 surveys. So they've also helped us on the Comprehensive Plan outreach. So we'll be working
30 with them to help refine the surveys and I'm also working with them as well as other
31 organizations to get the word out on the survey to get as comprehensive response from the
32 public as possible on this.
33

34 Vice-Chair Gardias: Exactly. And then probably, if we're in the same we're in the same group of
35 questions, of identification. Probably would like to know if that person is an owner. Or is a part
36 of the family or maybe is the, and if he occupies the property. Because we would like to
37 differentiate between those that lease out the property against those that live on the property.
38

39 Ms. Lee: Right, so yes we will work with Stanford to try to refine those questions. We just need
40 to be careful in crafting the survey to not accidentally lean it towards one subset versus the
41 other to make sure that all individuals feel that the survey is worth their time and valid for their
42 interest.
43

44 Vice-Chair Gardias: Right, but I'm just raising this consciously because when you look at this
45 SDU the different regulations there is a many municipalities specifically allow for expansion for
46 the owner occupied property as opposed to for the leasor so for this reason, if you ask me, I

1 would be inclined just to have the same language in our pronouncement because those from
2 our perspective those are probably two different parties.

3
4 Ms. Lee: Yes, we can definitely incorporate that in.

5
6 Vice-Chair Gardias: Thank you.

7
8 Chair Fine: Commissioner Rosenblum.

9
10 Commissioner Rosenblum: Thanks for coming back with some additional detail after our study
11 session last time. So two parts. First the additional detail and then talk about the survey a little
12 bit. On the additional detail last time part of the discussion is around this paradox which is
13 some people say well, you're not going to get many units built anyway, so if you look at the
14 number of units that are eligible and look at the economics of building a place in Palo Alto and
15 look at the amount you can charge for rent it's just you're not... this is a tool that simply is not
16 going to add much housing stock. On the flip side you have people saying oh, but it's going to
17 do terrible things to our parking and traffic congestion so it's, it goes both ways. Some people
18 think that it's going to cause problems because you evidently will have so many units and
19 others say you'll never get that many units.

20
21 Some of the additional information answers question one, which is how many units will be
22 eligible? And so you helped define how many units are eligible under different scenarios of lot
23 size. I think that the piece that we're still missing is there essentially what we're looking at is
24 what restrictions would we relax and then what would the results be? And so it has to do with
25 parking restrictions, minimum lot restrictions primarily I think are the two kind of variables
26 you're playing with. And then you looked at a number of cities as comparables. And so my ask
27 is a little bit different from my colleague although it's related, which is when picking cities to
28 compare not just to see what the regulation was, but what the effect was. So do the
29 applications increase by certain amount? And then what was the key lever that was pulled? So
30 were parking requirements reduced? Minimum lot size reduced? So you have Santa Cruz for
31 example, which did have a it seems like the primary tool they used move from their previous 10
32 percent of total lot size restriction to a 500 square foot number which would seem to be a
33 lessening of that restriction. It's less strict now. So what did that have as a result in terms of
34 applications for SDUs? I think that will help answer question number one, does anyone actually
35 want this?

36
37 Question number two, which is around the traffic, etcetera impact I think is a function of
38 question one. If a lot of people want it then we have to look at the impact of traffic, etcetera
39 and part of that I think we'll, you'll get some answers from your survey. And that's my only
40 comment on the new information. I think it's moving the right direction, but again as
41 Commissioners the main thing we're asking about is if we lessen certain restrictions what do we
42 think will happen? And so I'm interested in any city, not just neighboring or California cities,
43 just the impact of lessening SDU restrictions on applications.

44
45 On the surveys themselves I have no input on the survey content. I think it's excellent. I think
46 you'll get the right demographic information even on the getting an address I thought about

1 that too. You have a quadrant in the city verses an address and I'm trying to think what would I
2 do with an address that I can't do with a quadrant. And I can't really think of anything. So I
3 think the quadrant is probably an easier format to answer versus you guys having to have a look
4 up tool against addresses, but I leave that up to the experts that build surveys. I think the
5 content looks good.

6
7 The other thing I would say is that on the present owners of secondary units your mailing list to
8 a total of 55 people I think, right? So there's 55 current units. And so given average response
9 rates to these things which I don't know what they are, but like direct mailing responses are
10 two percent. Other kinds of surveys you may get up to five percent. So you're going to get like
11 two people that respond to this and so the thing there around the methodology I'm not sure if
12 you have resources to actually I know this is annoying, but like follow up with a call or have
13 other ways to market to the individuals that have SDUs. But you're not to get data back and
14 you developed like what I think is a good survey and somehow I think you need to think harder
15 about how to get to these people. That's it.

16
17 Chair Fine: Thank you. Commissioner Waldfogel.

18
19 Commissioner Waldfogel: Thank you. And again thank you for coming back. Let me just make
20 one comment to Commissioner Rosenblum. I think I can reconcile your paradox possibly, which
21 is that even if this is not particularly productive in creating units which it may or may not be and
22 we'll find out I think that it has a potential to create winners and losers. If you happen to be the
23 neighbor or on the block where it is successful you may feel like a loser even if the by and large
24 doesn't produce many units. So just I think we have to be somewhat sensitive to that.

25
26 Which leads to my comments I have some general comments and just request of things we
27 should try to learn. And then one suggestion for the survey which overall I think is nicely
28 crafted. And what I'd like you to do if possible is you've done a great job of looking at the kind
29 of physical constraints lot size, parking, etcetera and saying hey, if we at least relax this
30 constraint then there'd be so many more eligible units. It would be great if we could also layer
31 on just a little bit of economic analysis on how many units we think we have produced or
32 whether we think that I mean just what are the economics of creating them? Because we want
33 to know whether we're going to accomplish the goals of creating affordable housing or whether
34 we'll just create lots of Airbnb opportunities or kind of what the, what it is we're going to make
35 by doing this. So, it would be great to try to figure out a way to analyze that. And as we look at
36 things like stay in place opportunities we're actually kind of fortunate that our property values
37 are so high that tools like reverse mortgages could be better tools for people to stay in place
38 then building an SDU, but it's just something I think we have to understand because people
39 have alternatives when they think about how to deploy their capital.

40
41 The specific ask is I think it's Q9 in your survey when you ask about purpose, what would your,
42 who would your SDU be occupied by. It'd be great if you could add the category of sort of
43 nobody, like a home office or something like that, because in some of our neighborhoods I think
44 that's a fairly prevalent I mean if you just look at our productivity of SDUs I wouldn't be
45 surprised if a large fraction of them have been produced basically as surge space for people to
46 work at home. So let's just understand that because if that's what's going on I'm actually not

1 that enthusiastic about relaxing the rules to create a lot of surge space. But if it's truly for
2 affordable housing then I would love to know that.

3
4 Chair Fine: Thank you. Commissioner Alcheck.

5
6 Commissioner Alcheck: I can't stand that sound. I lost my train of thought... I remember having
7 this discussion last time. We talked about a lot of interesting ideas including subsidizing. I
8 know that I brought up the idea of subsidizing costs or permit fees for SDUs, especially ones
9 that could theoretically be marketed towards individuals who work in our community, in our
10 public institutions like school teachers and firemen and such and such. I hope this doesn't
11 upset you, but I'm a little surprised that we're surveying. The colleagues' memo suggested that
12 they wanted us to have a study session and initiate a discussion on SDUs and facilitate the
13 following: increase opportunities to create SDUs with minimum impact on the community,
14 consider steps which depending on who you ask may not even be possible, consider steps to
15 bring existing non-compliant SDUs in compliance and any other relevant... I don't know that we
16 recommended a survey. I mean did somebody on this panel recommend... I don't know.
17 Frankly, I agree with Commissioners on this panel that have suggested that this probably won't
18 get much of a response. That's number one.

19
20 Number two, I don't think it's relevant to know all the answers to these survey questions. I'll
21 give you a good example, who would your SDU be occupied by? That isn't going to affect
22 whether or not I think, whether or not this Commission is willing to have, is willing to make a
23 recommendation to the City Council on whether or not we should number one be innovating in
24 that space or encouraging SDUs. We've already been told by the City Council that they would
25 like us to come up with ways to increase the number of SDUs. I don't know, if this survey is
26 designed to provide political cover for either doing something or not doing something then I
27 understand it. I'm not asking for that political cover. Maybe City Council has suggested that
28 we'd like to have the citizens respond to a survey so that when we make this decision we can
29 stand behind it, but as far as my perspective is, I feel like their decision has been made that
30 they want us to start evaluating how to encourage the increase in the number of SDUs. I feel
31 like what we're doing right now is we're evaluating a survey that is intended to take the
32 temperature of individuals in the community on whether or not they think this is a good idea.
33 And that is not really how I read the colleagues memo. And I don't mean to sound critical, but I
34 guess I have a question. Where did this idea come from? If it didn't come from this panel or
35 this Commission then why are we in the process of survey? Why are we in the process of
36 building a survey?

37
38 Ms. Lee: Thank you. So the survey idea did come from staff and part of it is because we just
39 want to engage in public outreach. We do realize that what the Council's memo, colleagues
40 memo, is asking for and we are working towards that and identifying and that's part of the
41 research that Chitra is engaged in, but the other part of this is also to get community feedback.
42 And through all the efforts that we're going through with the Comp Plan update and all the
43 various different activities one of the key components that we've been directed to is to also
44 obtain feedback just from the public. It's not going to affect what we're going to come up with
45 necessarily, but it is part of the complete picture that we feel that we need to provide. And if

1 the direction from the Commission is to not move forward with the survey we can certainly do
2 that, but that was the intent to do that.

3
4 Commissioner Alcheck: Alright, well I appreciate the answer. I get it. I get that we want to get
5 like as much information, but I think one of the things that came out of this discussion the last
6 time we had it and I can't remember the number, but I feel like at one point we were
7 wondering how many SDUs had been built in the last year or two, three or four and the number
8 was astonishingly low. Like so low that it's single digits. And then we had a discussion on what
9 we could do to encourage it and there was this I believe because I didn't read the minutes
10 tonight. I didn't read the minutes of our last meeting ahead of tonight, but I believe there was
11 some theorizing about whether or not these changes would lead to a dramatic increase in the
12 number of SDUs that got built even if we did go really, even if we did create really dramatic
13 policies to encourage SDU would it even really result in more than the single digit increase in
14 SDUs.

15
16 And so considering the sort of skepticism about even how effective these policies could be
17 based on what we have, what we have space for, right, because the limiting even if you
18 eliminate for example I mean there's a short discussion of sort of options here. One of them is
19 eliminating the minimum lot size requirement. So we eliminate the minimum lot size
20 requirement, is that suddenly going to result in eight SDUs getting built next year? And I, it
21 would be my recommendation that we abandon the survey tonight and we proceed with an
22 ordinance that resembles I guess my recommendation would be I would like to know which of
23 our neighboring cities Palo Alto thinks has succeeded in encouraging the largest development
24 of SDUs since they adopted a change in their SDU policy. So Mountain View has eliminated the
25 lot size requirement. Did that end up resulting in an increase in SDU development? If the
26 answer is no then that wasn't enough and if we need to adopt even greater policies to
27 encourage it like for example, waiving permit fees as we suggested last time or even subsidizing
28 the cost of some of this development I think we could create a draft ordinance that we could
29 pass to City Council and then City Council can sit doing one of their meetings and have a
30 discussion on whether or not they think PTC's recommendation to use public funds to subsidize
31 the development of SDUs is good. But you get my point, if we do this survey we're going to
32 meet back in eight to nine months, we'll have maybe at best 150 responses that would be
33 shocking, and we will have not really taken the ball down the road.

34
35 I think with respect to this issue the real information I want to know is what difference did the
36 policy changes that our neighboring cities made and maybe it's not a neighboring city maybe
37 we have to look at Portland or maybe there's another city out there that did adopt some
38 serious policies encouraging SDUs and succeeded in actually making a difference in the
39 development and then let's recommend that and let's just, let's get this done. So I know this is
40 a study session, but that would be my recommendation and if my colleagues agree then let's
41 abandon the survey and let's just get a draft ordinance out that I mean, hold on. Let's have
42 instead of allocating any time to survey let's have staff just determine how dramatic the
43 difference was when policy changes were made. That's really what's relevant. If we come back
44 and say because minimum lot size requirements were eliminated in Mountain View that there
45 was a 100 percent increase in SDU development and they go wow, that really did make a
46 dramatic effect. If there's another city in our nation that waived permit fees and that made a

1 dramatic difference I mean I think my take away from the colleagues memo that City Council
2 provided was let's do something to encourage SDU development. And maybe I'm reading
3 between the lines here, but I sort of walked away from that going they're ready to experiment.
4

5 There is an acknowledgement housing crisis is upon us, right? I don't need a survey to know
6 whether or not people would make use of these. It's abundantly clear no one can afford to live
7 in this city so let's get some more housing. And so I think from that perspective they're ready to
8 experiment if they're ready to experiment I think I'm ready based on some of the research that
9 you guys could do that would be helpful to make a recommendation to pursue some of those
10 measures. Alright, I'll end there.

11
12 Chair Fine: Thank you. Commissioner Tanaka.

13
14 Commissioner Tanaka: So thanks for your work on this report. I think the comments that
15 Commissioner Rosenblum made about really looking at other cities and seeing what the effect
16 was I think that's actually one of the biggest values we could do. Is really, because it's hard to
17 predict what's going to happen, but we can look at neighboring cities or and actually when I
18 was looking at the list of cities, cities like EPA or Redwood City I think actually what's probably
19 more important is not local cities, but comparable cities. So like maybe Santa Monica instead
20 of EPA because maybe that's more similar social economic profile to Palo Alto. I think and I
21 think several other Commissioners also echoed that comment so I'm not going to belabor it,
22 but I think that's actually one of the biggest things that we could do. I realize it's a lot of work.
23 You have to go through all these other, you have to go through other cities data and it could be
24 kind of hard to navigate, but I think that's... it'd be well worth it to do it.

25
26 Now in terms of whether we should do the survey or not in general I like to be data driven, but I
27 do know how hard it is to do a really good survey and I don't know what kind of budget we
28 have for this and how extensive and all the survey techniques. But to really get good data is
29 actually pretty hard because what might be happening is when you get the survey back it might
30 be just people who feel strongly one way or another versus a true representative sample. So I
31 don't know how rigorous you guys are going to be on this, but maybe you could talk about what
32 you're planning to do? Can someone on staff comment on that?

33
34 Ms. Lee: Thank you. We're still working with Stanford to try to figure out the best outreach and
35 part of the reason and we're working with them to get as much data, relevant data from the
36 respondents to make sure that we have good statistical analysis. So the answer, short answer is
37 that we're working with Stanford to make sure that we get a survey that is as useful as possible.

38
39 Commissioner Tanaka: Ok, because the survey is pretty long and kind of the problem with long
40 surveys is the longer it gets the worse quality answers you get, so that's kind of unavoidable.
41 And one key question that I don't, I didn't see in the survey maybe it's there, but I was like
42 what's the size of the lot right now of the people you're asking. Since you don't have the
43 addresses we don't know what size lot you're talking about. So that's something or is it there or
44 did I miss it?

1 Ms. Lee: No it's not there because the purpose of the first survey is really for anybody whether
2 they own property or not. Certainly we can add that if they have a property and then certainly
3 for the second survey that would be really relevant to add that in there.

4
5 Commissioner Tanaka: Ok, and then is there a plan to do more community outreach to have
6 like let's say... can you talk about that?

7
8 Ms. Lee: Sure. We are actually planning on reaching out to stakeholder groups. So following
9 this goal the intention was that after the survey after we have the initial data then we would
10 reach out to the different stakeholder groups in the city, working with Palo Alto Neighborhood
11 Association (PAN) and other organizations also partnering as well with other groups that have
12 done this kind of work just to get as much data as possible.

13
14 Commissioner Tanaka: Ok, well I think it's not just data, but also just to get involvement
15 because this can be a controversial issue and so I think it's important to get buy in.

16
17 Chair Fine: Thank you, Commissioner Tanaka. I'd like to make just a few comments before
18 going for another round. On the substantial issues I think would be helpful for us and for
19 Council next time this comes back to get a little background on some of the planning principles
20 behind some of these tradeoffs. I was looking at the lot size coverage and I was trying to figure
21 out like which is, what are the pros and cons of square feet versus percentage of minimum
22 coverage. I don't actually know and we could research it. So that would be kind of helpful in
23 terms of looking at the metrics and the different tradeoffs, what were like the planning
24 principles behind that? What's the best practice around that?

25
26 I think also staff's done pretty good work in terms of looking at some of these levers. I agree
27 with my colleagues we need to balance them against the impacts. We are missing one part of
28 the colleagues memo which is about bringing existing SDUs into compliance and so there's not,
29 it's pretty thin on terms of what is the current situation and how we might bring those into
30 compliance, how we even reach out to those folks.

31
32 I share some of Commissioner Alcheck's concerns about the survey. It may be a good way to
33 reach out to folks who are not in compliance and maybe figure out how they might be willing to
34 do so, but when I read the survey I was a little confused about is the survey trying to garner
35 support for changing these regulations or is it to discover what the public feels, is it ok to
36 change? I'd like to think it's more informative for Council that kind of matrix that we proposed
37 in terms of what regulation levers we pull and what the impact is on SDUs and impact on the
38 community. I also want to echo what Commissioner Tanaka said about special interests who if
39 the survey's on the public website you may get a lot of folks just piling on to it who have one
40 position or another that they'd like to push and just keep on taking the survey over and over.
41 So there are some worries for me there.

42
43 If we do proceed with the survey one thing I might recommend is showing examples. I think a
44 lot of folks may not be completely aware or knowledgeable about the different types of SDUs
45 that exist whether it's internal, attached, detached and I think one nice strategy might be to
46 show folks what these are. If they're local examples whether it's Palo Alto or nearby cities just

1 kind of letting folks know this is what it is, this is what they're used for, this is how you might
2 get one in your house, and providing some background about the current situation that this
3 many lots are excluded from building SDUs, this many are included, Council has directed us to
4 look at those numbers. So those are my comments for now. Vice-Chair.

5
6 Vice-Chair Gardias: Thank you. So since we talk about survey I will add my three cents. I think
7 that we should proceed with our discussion and survey should not be stopping us. Having a
8 survey it's not a bad idea given that it's not your focus and priority and so I for this reason I
9 totally agree with my colleague, Mike Alcheck, just to proceed. But I think that it's not a bad
10 idea just to do the survey in parallel because it will show the community that this is the focus of
11 the, of our work and also may elevate to us some risk. So this survey and any other documents
12 that we're going to issue will ultimately steer some comments in the community which will be a
13 good idea because it may alarm us about attitudes towards this potential change. So, but none
14 of the less I believe that we should proceed with our discussions, internal discussions about the
15 regulation.

16
17 There is the second comment I have is pretty much is about the data that you're gathering.
18 Ultimately what we should have, we should have pretty much it's so this is what you're doing
19 just by looking at other municipalities, studying the lot size, meaning lot size decrees and
20 potential minimum size or the maximum size of the SDU. This should result ultimately with
21 some regression analysis and then we should just pretty much have a mathematical equation
22 that would allow us just to plug in the numbers and just tell us ok with this number of the
23 change we will have that many units extra and that would be with a different change you will
24 have another. And so that's pretty much if you work already with some statisticians from
25 Stanford that's maybe extra work for them so they could address us and then different factors
26 may be taken into consideration that my colleagues already addressed. Thank you.

27
28 Chair Fine: Commissioner Rosenblum.

29
30 Commissioner Rosenblum: Yes after hearing the argument from Commissioner Alcheck I think I
31 agree that the survey doesn't feel like it should be a top priority and if the... again, you have
32 your own budget and you guys know how to spend your budget. My recommendation would
33 be not to do it. It doesn't seem like it gives us additional information for this this particular
34 decision. Particularly the survey towards those who already have a second unit because the
35 sample size is so small, but even the first survey asking people essentially do you support or do
36 not support, which is gauging community support, I think there are other ways to gauge
37 community outreach versus a citywide survey. Particularly the methodology used, which is
38 posting on the website which becomes sort of a contest of voices.

39
40 I was thinking about the earlier discussion though around the key piece of information we need
41 I think is if we relax regulations what do we think the result will be? So how many units will get
42 built and what will the problems be that emerge from those units being built? And so it so
43 happens that the San Francisco Bay Area Urban Research Center is doing a lot of research on
44 this right now. So that's highly relevant. They're based locally; San Francisco, Oakland, and San
45 Jose. Berkeley is undergoing an ordinance right now. Oakland just did. San Francisco did in
46 2014 and San Jose is also working on this. They cited in their report that Vancouver and

1 Portland are the two cities to watch that have been most aggressive in this. And Vancouver in
2 particular that 30 percent of rental properties are ADUs. So my ask would be to have staff
3 basically use this great resource. So this is something they're actively researching and probably
4 a few steps ahead of us in terms of the cause and effect of ADU regulations versus what
5 happens.

6
7 Chair Fine: Thank you. Vice-Chair Gardias.

8
9 Vice-Chair Gardias: Thank you, so one more thought if you don't mind. So just when I'm
10 thinking about this there is there should be ultimate goal in all this what we're doing. At the
11 end of the day there should be a no or negligible change to the neighborhoods. However we
12 going to just do it, whatever regulations we change, whatever we permit there's ways up from
13 the user's perspective from the neighborhood's perspective and citizen's perspective there
14 should be the change should be very minimal because otherwise it may backfire on all this
15 effort. So I think that if it's in the survey or if it's in the regulations we should just think about
16 this just having this ultimate goal that change should be very small. Thank you.

17
18 Chair Fine: I believe our last comment is Commissioner Alcheck.

19
20 Commissioner Alcheck: Yes, I just want to add in anticipation of the next study session on this
21 topic or the next meeting on this topic I can't find it, but I feel... it was my sense that staff sort
22 of came to the conclusion that the parking requirements were either perceived or are in fact
23 very restrictive. I don't know where my where the other Commissioners are in this, but in
24 moving forward I would suggest that our proposal make that requirement less onerous. I know
25 there's sort of discussion about what that means, but I would suggest that we should the next
26 the draft version of whatever we're going to recommend or whatever staff will put forward that
27 we can discuss at our next meeting to push on to City Council should essentially eliminate the
28 parking requirement altogether so that we can again create a dramatic incentive and see if we
29 can push the needle a little bit. And I make this suggestion because I think what will happen is
30 that whatever we recommend will be discussed by City Council and likely dialed back a little bit.
31 And so I think giving them sort of what I would call like the dramatic recommendation on every
32 potential lever will allow them to pick and choose the ones they're most comfortable with in
33 the political climate in which they operate and achieve the goal that they set out which is to
34 encourage the development of best use, right?

35
36 So again I want to just bring this back to I would like very much that by the end of 2016 we have
37 actually given our City Council a draft ordinance that suggests the changes that we have
38 identified as most likely to dramatically increase the development of SDUs and then they can go
39 down the list of changes and debate them as to whether which ones they're willing to adopt.
40 Does that make sense? That's where we should be at the next meeting. I mean yes, fine. You
41 want to do the survey? Do it. Do it concurrently, but I think at the next meeting let's just get
42 that proposal up and push it push it forward.

43
44 Chair Fine: So I tried to cut the discussion off too quickly. Vice-Chair.
45

1 Vice-Chair Gardias: Thank you. I think that maybe at the end of the day we should just give
2 staff just a clear direction on the survey because I think that some of us spoke differently. So
3 unless they already have the feeling how they should proceed, but I wanted to talk about
4 something else. So when we are addressing this colleague's memo because of the constraint
5 on the housing, but when you think about the secondary units throughout the world they are
6 used not only for housing purpose but also for the business purpose. And I just want to make
7 this comment because although it's a little bit outside of the scope, but it will maybe just trigger
8 some thoughts for the next meeting when we're going to discuss this regulation.
9

10 So secondary units are very valuable for us for housing businesses of certain professions:
11 doctors, architects, artists, and so forth, right? And they are throughout different
12 municipalities giving the regulations. So when we talk about this subject we can just maybe at
13 opening the use of those SDUs for the business purpose. And they are of course benefits like
14 for example, easing up traffic. If people don't have to go to certain places where their
15 businesses are located where they can have the business with the respect to their neighbors, of
16 course. That reduces number of trips. Then it distributes number of trips evenly throughout
17 the neighborhoods because not everybody goes to the same location where thousands of
18 offices are. So that's another benefit. And then of course there is number of other benefits
19 that you state. If you are a business owner is stay closer to your family, if you really conduct
20 yourself with respect to the neighborhood it may bring more interest to the vicinity where you
21 live. I just wanted to make this comment because it may become relevant once we are
22 discussing secondary units. Thank you.
23

24 Chair Fine: Commissioner Waldfogel.
25

26 Commissioner Waldfogel: Thank you. I just want to say I'm not unhappy with the track that
27 we're on. I mean I think that getting the best information is a good idea. I certainly
28 acknowledge a lot of the comments that my colleagues have made about how hard it is to
29 create a high quality survey with meaningful results, but I'm sure that you'll do your best to
30 generate meaningful results. And I think that I'd be pretty excited at just seeing some
31 sensitivity analysis on what different changes will generate. I mean I don't want to just go to
32 the close and say let's just relax all the parking requirements, which could have a double
33 whammy effect in some cases if a garage gets converted. And if a primary residence garage
34 gets converted into an SDU then we're losing parking for both units and that potentially some
35 impacts. Let's just understand the impacts, let's understand the sensitivity on those impacts,
36 impact on the neighborhood. If these become home offices those can also draw traffic, and I
37 mean an architect has clients who come to visit. And all these things just play off shifts in
38 neighborhood use patterns. So let's just be very methodical and thoughtful about disclosing
39 what those effects are so that everybody can make rational choices about what tradeoffs that
40 we want to accept. So let's not just jump to the close, let's line up all the ducks, get the
41 information, and then make some good decisions with that.
42

43 Chair Fine: So just to sum up I think the general feeling up here is we would love to see a bit
44 more as Commissioner Waldfogel just mentioned sensitivity analysis on the regulatory tools
45 that we have at our disposal and that we can show for Council. There's a couple specific issues
46 folks would like looked into. I think the Vice-Chair's question about we should be given

1 guidance on the survey is a good one, but I want to ask staff do you guys care or you're just
2 going to do it because doing civic engagement and public outreach is the right thing to do? I
3 mean do you want feedback on that or? Yes, and so I guess another way of asking it is: would
4 you be able to do the survey on time by winter so that we can still get this to Council and give
5 them some choices to make in terms of what they want to do with SDUs?
6

7 Mr. Lait: So... sorry. I tried to do two things at once here. So regarding the survey, we received
8 your feedback and there may be another follow up question that I have for you on that. I don't
9 know that the survey is really holding us up and producing some more work. We do have a
10 little more data to collect. It's not going to take eight or nine months. We're going to, we plan
11 on coming back I think in October with what we would anticipate is the next more substantive
12 hearing on this issue with some more data which admittedly is not, we're not bringing forth all
13 the data that we have at this meeting. I don't think we're going to be usually impacted whether
14 we do the survey or not. We think it could be helpful. We're trying to find ways to get more
15 data, but I share the concerns that we heard. I mean there's going to be self-selecting survey.
16 People who have an interest in this one way or the other will opt in and for one of the surveys
17 the data set will be small and I don't know at the end of the day what kind of conclusions we'll
18 be able to draw from it, but we won't be able to draw any conclusions if we don't do it. That I
19 know.
20

21 Chair Fine: Ok. I guess I would say if you can do it concurrently, but still keep the ball moving in
22 terms of writing the ordinance and figuring out those different levers that would be helpful for
23 us and for Council. Commissioner Alcheck.
24

25 Commissioner Alcheck: Yes, I just really quickly. When you're at your first show over the first
26 time you spoke mentioned office and then the second time we spoke you mentioned it again
27 and I didn't know where it came the first time and then the second time after sort of looking
28 through here I see there's a question in the survey that says something like what is the purpose
29 of your SDU used for and one of the options is for personal home business. I guess I'm a little
30 sensitive to that because we're really talking about affordable housing here and increasing
31 housing supply. And the notion that someone's building office space and then opening up their
32 architect's business and hosting... is there, is that a concern? I see that is there's one bulleted
33 question that sort of asks that and I'm wondering if there's a reason that staff has a concern
34 about commercial businesses setting up in these ADUs.
35

36 Mr. Lait: Well that happens actually today. I mean we do have code enforcement cases where
37 homes are being used for offices. I mean it is an issue and I think what we're trying to get at is
38 there could be a number of reasons why an individual may choose to create a new SDU. We're
39 just trying to understand the universe of what that might be. I mean I guess we're interested in
40 affordable (interrupted)
41

42 Commissioner Alcheck: I get it. I don't mean to interrupt, but there could be a number of
43 reasons why they would create an ADU, but a lawful one would not be to use it as an office,
44 right? That would be a code violation in which case there would be a code enforcement issue.
45

1 Mr. Lait: Let me just back... so yes, I mean you can't do an office use in a residential area unless
2 it's a home occupation. And you could do say an architect's office in a you know, like that, but I
3 would also say you don't need to create an accessory dwelling unit with a full kitchen and bath
4 facilities to create that unit. You could do that today in your home or in an accessory building.
5

6 Commissioner Alcheck: Right.
7

8 Mr. Lait: So they're apples and oranges a little bit.
9

10 Commissioner Alcheck: So let me just rephrase. The reason why I'm saying that is because I
11 think that it's particularly harmful to this discussion to suggest that we would somehow be
12 allowing our parcels to develop some sort of commercial office space. And I say that because if
13 the public sort of walks away from this discussion tonight with a fear that their neighbors are
14 going to open up startups in these ADUs that may result in some political opposition to this
15 again this notion of creating additional housing. And for all intents and purposes when we talk
16 about developing affordable housing units by permit we would be talking about units that were
17 really specifically set up to house people which would have a kitchen, an operable kitchen,
18 right? It would have essentially everything you need to live. And so I just if that, I wonder if
19 that question isn't problematic because it's asking somebody if they would use an ADU in a way
20 that we're actually not contemplating such a use. That's not to say that they couldn't do it, but
21 it's like on that television (TV) show Silicon Valley and they have this feud between this
22 neighbor who's basically running some sort of what does he call it? Yeah, yeah. That's not
23 what this is about. This is about sort of coming up with incentives to house your parents or to
24 potentially house as an individual who works in this community or wants to live in this
25 community and can't afford to, but they could afford to potentially rent a 400 or 500 square
26 foot unit. I just I don't want to sort of lose sight of that and I certainly the notion isn't to relax
27 parking standards so that somebody who is operating some sort of architect's office and I'm not
28 talking about a solo architect working out of his garage on an easel I'm talking about a real... I
29 just want to make sure that we're not encouraging some sort of fear in our survey of that sort
30 of result. Sorry.
31

32 Chair Fine: Thank you, Commissioner Alcheck. Staff is there anything else we can answer for
33 you/provide help with?
34

35 Mr. Lait: We're good. Thank you for your thoughtfulness and we're planning on coming back
36 again in October with a more robust discussion.
37

38 Chair Fine: Excellent. Well, thank you so much. Let's close this item and let's go to Item
39 Number 1. Good point. Let's take a five minute break. And thank you all for your patience I
40 know we flipped the items. Thanks.
41

42 **The Commission took a break.**
43

44 Chair Fine: I'd like to apologize. We accidentally skipped someone for their comment on the
45 SDUs. So Vice Chair if you wouldn't mind, let's get this comment on the record.
46

1 Vice-Chair Gardias: Of course. Sorry for this omission. And we have Doria Summa that's going
2 to just extend her comments to us on the topic that we just discussed of SDU. Thank you.

3
4 Doria Summa: Thanks. Thanks, Chair and Planning Commission. No worries. And just a
5 disclaimer, I'm President of the College Terrace Resident's Association and I'm also on the
6 Citizen Advisory Committee (CAC). And I do not live in R1, but so I wanted you to know that.

7
8 I wanted to thank staff for the report and I understand this is an ongoing event and you're still
9 gathering data and community feedback which I really appreciate. ADUs are already legal of
10 course, but have site and design requirements, setbacks, etcetera so that the accessory units
11 won't become a problem for neighbors mainly. I don't believe the correlation between building
12 more accessory units and more affordable units, meaning lower rent, has been established. I
13 think our understanding of the accessory existing ADUs might be understated as there are
14 many non-conforming units exist in most of these probably are garage conversions. So in that
15 sense they do affect parking and I don't think that making those units legal will either will
16 increase the number of units. I support staff's approach to getting a lot of community feedback
17 on this as I do think it is kind of a political issue of interest to neighbors.

18
19 Finally I do not believe that relaxing the standards for ADUs should be used as a workaround to
20 diminish the qualities of R1 zoning. I think many people want to live in R1 zoning. I don't, but I
21 don't live in R1 zoning, but I respect that many people do and it's a standard for a community
22 like this. I agree with many comments of the PTC that staff should continue to gather real data
23 with impacts before a decision or recommendation is made. Thanks.

24
25 Vice-Chair Gardias: Thank you very much.

26
27 Chair Fine: Thank You.

28
29 **Commission Action**: No action taken, Commissioners provided comment and suggestions.

- 30
31
32 1. The Planning and Transportation Commission will Consider a Recommendation to the City
33 Council for Adoption of a Draft Ordinance to Update the City's Below Market Rate Program
34 and Adopt Affordable Housing Impact/In Lieu Fees for Commercial and Residential
35 Construction by Repealing Municipal Code Sections 16.47 (non-residential projects) and
36 18.14 (residential projects) and Adding a new Section 16.65(Citywide Affordable Housing
37 Requirements) and Direction on Future Corresponding Changes to the Housing Element.
38 The Proposed Ordinance is Exempt From the California Environmental Quality Act (CEQA)
39 per 15378(b)(4) and 15305.

40
41 Chair Fine: So let's move on to the second item or previously the first item and this is our
42 consideration of a recommendation to Council for the adoption of a draft ordinance to update
43 the City's Below Market Rate (BMR) program and adopt affordable housing impact/in lieu fees
44 for commercial and residential construction. So this is a potential ordinance update to the
45 City's BMR program and the impact fees. In short it's consolidating the commercial and
46 residential fee programs into one so it's a citywide program. As I'm sure you all know this is a

1 big deal. Let's take our time and do our diligence and if staff wants to kick this off with their
2 report.

3
4 Eloiza Murillo-Garcia, Senior Housing Planner: Thank you, Chair Fine and Commissioners. My
5 name is Eloiza Murillo-Garcia and I'm the City's Senior Housing Planner. And I also have Sujata
6 Srivastava from Strategic Economics who is our City's consultant on the Nexus studies here
7 tonight and will be discussing as you said the commercial and residential housing impact fee
8 ordinance. So the purpose of today's hearing is to conduct a public hearing and receive public
9 input on the topic before you as well as to review the commercial and residential Nexus study
10 conclusions. Also to review the proposed fees that are described in the staff report and to
11 review the draft ordinance and make a recommendation to the City Council.

12
13 Just to give you a bit of background on this, the City currently has a 15 percent inclusionary
14 requirement for residential for sale development with five or more units. And in this situation
15 in lieu fees are applied to fractional units or when building affordable units is deemed
16 infeasible. The City currently charges commercial impact fees based on a 2002 Nexus study.
17 Thank you. And part of the reason that we've now updated our Nexus studies is because the
18 Housing Element that was adopted in November of 2014 called for updated Nexus studies. It
19 also called for considering an impact fee on rental housing and also called for inclusionary
20 requirements on developments of three or more units.

21
22 The City entered into a contract with Strategic Economics and Vernazza Wolfe Associates in
23 2014 piggybacking on a countywide collaboration in San Mateo County known as 21 Elements.
24 As part of this effort the City received two drafts or final drafts of the studies in November of
25 2014 and there are two studies. There's a commercial and residential. The results of the Nexus
26 studies were presented to the Finance Committee on two separate occasions on February 16th
27 and June 21st earlier this year. And with the Finance Committee's direction we have prepared
28 a draft ordinance that reflects the Finance Committee's direction. I'm going to turn it over to
29 Sujata now who is going to discuss the methodology for the two Nexus studies.

30
31 Sujata Srivastava, Strategic Economics: Good evening. So our analysis actually first began by
32 defining what types of commercial development would be most likely to happen in the City
33 based on market trends and discussions with staff. So we looked at office, Research and
34 Development (R&D), medical office uses as well as hotel uses for the linkage fee update. We
35 had to make some determinations about what the likely employee densities were so that the
36 whole idea of the linkage fee analysis is to be able to demonstrate that new workers occupying
37 newly built space some percentage of them will have a demand for affordable housing because
38 their wages are not sufficient for the household to be able to afford market rate housing. So
39 we start by quantifying how many workers occupy the space. We look at wage data to
40 establish what household incomes would be and how many of them would fall in the very low,
41 low, and moderate income categories. We also measure what the gap is between what those
42 types, those households at those income levels can afford to buy or rent relative to what it
43 costs to build a unit in Palo Alto. And so when you apply this gap to the worker household
44 needs you determine what that total, you quantify basically what that total demand is.

1 And that demand can then be divided by the square footage of the space that's being built. In
2 this case we used 100,000 square feet (sf) for simplicity and that leads you to a fee per square
3 foot. And that's the maximum fee that can be charged on new development. In almost all
4 cases we don't recommend jurisdictions adopt the maximum feet for a variety of reasons
5 including financial feasibility. So we conducted some analysis to see how these fees would
6 affect a developer's bottom line at different levels, and we also looked at other fees in other
7 jurisdictions in the Bay Area to provide some context, and looked at kind of the existing fee
8 structure in the City. So bundling all this together led us to the recommendations that you see
9 here.

10
11 On the Residential Nexus study methodology this is not, you do not currently have a housing
12 impact fee. Our methodology first begins with looking at again what types of development are
13 likely to occur and at what price points. The housing impact fee methodology is a series of
14 indirect linkages between the housing that is built, market rate housing, in a particular
15 community and the household spending that results from those renters and buyers that are
16 occupying the market rate housing. So somebody comes into the community as a new
17 household and is putting money into the economy in the form of purchasing goods and
18 services. This generates demand for new workers many of which are in service occupations or
19 other types of jobs that may be low wage jobs. So that relates to a demand for affordable
20 housing. So you first look at what's the household income of residents, how much spending are
21 they generating in the local economy, how does that translate into jobs indirectly? And then
22 based on those jobs we look at how many again using occupational wage data how many of
23 them would be very low, low, and moderate income households. We apply that same
24 affordability gap number that I mentioned before to calculate the total cost or the total need.
25 And then that is then can be translated on a per unit or on a per square foot basis based on
26 what the size of the units are.

27
28 Again we did some feasibility analysis for all the prototypes which I should mention include
29 single family detached, single family attached or townhouses, and condominiums and
30 apartments. And our fee recommendations are based on the results of our feasibility analysis
31 as well as comparison of fees in other cities and a look at what your existing fee structure looks
32 like as well as understanding how it compares to your existing BMR policy.

33
34 Ms. Murillo-Garcia: So to give you a summary of the recommended fees on the commercial
35 side, this table the first column has the City's existing fees for the three prototypes. We
36 currently only have one fee for all of the prototypes and the existing fee is currently \$20.37 per
37 square foot. As a result of the Nexus study the recommendation in February when staff went
38 to the Finance Committee was to increase the fees for office and R&D took \$35 a square foot,
39 increase the fee for a hotel to \$30 a square foot, and maintain the retail, restaurant, and other
40 at \$20.37 per square foot. Based on the Finance Committee's recommendation at that meeting
41 the recommendations were revised a bit. So the office and R&D recommended fees based
42 again based on the Finance Committee direction were increased to \$60 per square foot. Hotel
43 and retail remain the same as the February proposal.

44
45 And on the residential side the City as Sujata said we don't have impact fees. There is an
46 inclusionary program that has in lieu fees and the existing fees are 7.5 to 10 percent of the sales

1 price for each unit for single family detached, single family attached, and condo. And there are
2 currently are no fees on rental housing projects. The February proposal to the Finance
3 Committee was \$95 a square foot and \$50 for all the other prototypes. Based on Finance
4 Committee's recommendation at that meeting the fee was revised to \$50 a square foot for a
5 single family detached. So it's \$50 a square foot for all of the different prototypes.
6

7 And also based on the Finance Committee's direction a draft ordinance was prepared and the
8 draft ordinance consolidates both the commercial and residential fee programs into a single
9 uniform ordinance codified in a new Chapter which would be 16.65. And it repeals the current
10 Municipal Code Sections 16.47 on the nonresidential projects and 18.14 for the residential
11 projects. The ordinance also gives the City the ability to charge an impact for rental housing. In
12 2009 you may be familiar with the Palmer decision. The California Court of Appeal held that
13 requiring inclusionary housing in new rental housing projects violates the Costa-Hawkins Act.
14 So jurisdictions were no longer able to require inclusionary housing on rental projects. The
15 ordinance also gives the developers the opportunity to build affordable units rather than pay
16 the fee even for mixed use commercial development projects. And on the commercial
17 development side it differentiates the fee structure so there's different fees for different uses.
18 So there's as I mentioned before there is a fee for hotel, one for office, medical, and R&D, the
19 other for restaurant, retail, and other uses.
20

21 The draft ordinance also simplifies the in lieu fee for residential development. It's simplifies it
22 in the fact that there would be a fee charged per square foot rather than 7.5 percent of the
23 sales price. The ordinance also clarifies which projects would be exempt from commercial
24 impact fees. It adjusts the threshold for inclusionary units from projects with five units or more
25 to projects with three or more units. And this was something that was, that is stated in our
26 Housing Element and Program H 3.1.1. The ordinance is not proposing to increase the existing
27 inclusionary housing requirements to adjust the percentage of affordable units required at this
28 time. That is something that can be looked at a later date.
29

30 So the next steps after tonight's hearing, discussion, and recommendations are to go to Council
31 for their consideration of the draft ordinance along with the Commission's recommendations
32 and a concurrent consideration of a draft ordinance to establish the fees at the levels described
33 in the staff report. And that Council date is tentatively scheduled for September the 6th. We
34 are available to answer any questions that you might have.
35

36 Hillary Gitelman, Planning Director: Thank you Eloiza. Just add one thing, I'm Hillary Gitelman
37 the Director and I wanted to thank everyone at the table here for working on this long and
38 hard. It's been a long time coming. We did get a number of letters as you know from
39 interested parties and this is a public hearing. We'd love you to open the public hearing and
40 hear the testimony and then we're available to answer the Commission's questions and
41 respond to any questions that you might have after you hear that testimony.
42

43 Chair Fine: Thank you very much. I believe we have a number of speakers, let's kick it off with
44 them.
45

1 Vice-Chair Gardias: Yes, Mr. Chairman we have six cards submitted to us. So we would like to
2 hear from Lauren Bigelow who will be followed by Bonnie Packer. You have five minutes.

3
4 Lauren Bigelow: Good evening, Planning Commissioners, and thank you for giving me the
5 opportunity to speak tonight. My name is Lauren Bigelow and I am the BMR Administrator for
6 Palo Alto Housing. As you may know Palo Alto Housing administers the BMR program for the
7 City of Palo Alto and has done so for over 40 years. We are very happy to hear that the City is
8 interested in incentivizing developers to create more BMR housing. Most would agree that our
9 city needs more housing. However, as Palo Alto Housing is also one of the leading developers
10 for affordable housing in Palo Alto we are deeply concerned that the numbers proposed in the
11 ordinance will not incentivize more units. It is our belief that this ordinance will discourage
12 developers from building in Palo Alto when the fees are significantly lower in neighboring
13 jurisdictions. At that point we lose BMR units onsite and we lose the Affordable Housing Fund.

14
15 The Affordable Housing Fund plays a critical role in building affordable housing as we can
16 leverage the public funds to house more families. With BMR units onsite a property adds on
17 average between three to seven units to Palo Alto's inventory. With the Affordable Housing
18 Fund we can build a larger project that serves even more people. For example, when we built
19 Tree House in 2011, it's a beautiful 35 unit affordable housing building, we were able to
20 leverage the Affordable Housing Fund to successfully compete for low income housing tax
21 credits and thus build the project. Otherwise construction would have stalled out completely.
22 We need both BMR units and the Affordable Housing Fund to fight the housing crisis. Should
23 the City be interested in talking through our concerns our door is always open and we're happy
24 to work with you to find the best solution or solutions to the problem of affordable housing in
25 Palo Alto. Thank you so much.

26
27 Vice-Chair Gardias: Thank you, ma'am. We have Bonnie Packer followed by Jeff Levinsky.

28
29 Bonnie Packer: Good evening, Commissioner Fine and Planning and Transportation
30 Commissioner (PTC) Commissioners. My name is Bonnie Packer and I'm currently President of
31 the League of Women Voters of Palo Alto and I'm speaking on the League's behalf tonight. And
32 in this letter when I say the League I mean the League of Palo Alto.

33
34 The League applauds the City's continuing efforts to provide mechanisms for the provision of
35 housing for those with very low, low, and moderate incomes. The League has historically
36 supported both Palo Alto's inclusionary housing program and the assessment of housing impact
37 fees on nonresidential development for the Affordable Housing Fund. These programs have
38 provided many BMR rental and for purchase homes and have been a valuable source of funding
39 for very low, low, and moderate income housing developments in Palo Alto.

40
41 We are in a housing crisis. The City needs to create opportunities for far greater numbers of
42 housing units for those with very low, low, and moderate incomes than ever before. What is
43 the best policy to do this? To encourage the development of units for those with very low and
44 low incomes should the City encourage housing impact fees for a robust Affordable Housing
45 Fund rather than encouraging market rate developer provided on or off site units? Or to
46 encourage the development of units for those with moderate incomes should the City

1 encourage those market rate developer provided on or off site units rather than collecting
2 housing impact fees? The staff report states that the ordinance before you is designed to
3 create incentives for developers to provide units on or off site rather than paying the very high
4 housing impact fees that are being proposed. The League is concerned that this would mean
5 less funds for units with those with very low or low incomes.
6

7 While the League supports policies that allow for the provision of units for those with moderate
8 incomes where it is feasible for the developer to do so the League notes that this ordinance
9 may have the consequence of producing much less cash for the Affordable Housing Fund.
10 Today cash from this fund can be leveraged to obtain other sources of funding; for example,
11 through the federal tax credit program for the development of many more units than those
12 with very low and low for those with very low or low incomes than can otherwise be provided
13 when a developer is asked to provide units on or off site rather than paying the housing impact
14 fees. Thus this proposed ordinance may have the effect of creating tension between the need
15 for units for those with low or very low incomes versus those with moderate incomes. Is this
16 the policy the City wishes to implement?
17

18 In reviewing this proposed ordinance we urge you to consider the following: will the levels of
19 the housing impact fees on both office and residential development in the proposed ordinance
20 generate sufficient cash for the Affordable Housing Fund to support the development of many
21 more units for those with very low and low incomes? Are the requirements for determining the
22 infeasibility of providing units versus paying the fees too onerous? We note that the
23 methodology does not include the loss to the developer of income from sale or rental when
24 they are asked to provide the BMR units. Are the fees so high and the infeasibility
25 requirements so onerous as to discourage all types of development and thus reduce the
26 sources for these funds and units? Will the cost burden of the fees and/or the cost burden of
27 providing the units be passed on to the renter or purchaser thus increasing the market rate
28 rental for office or residential and purchase prices even more? Will the proposal to impose fees
29 on rental housing cause the high rates in Palo Alto become even higher thus making it even
30 more expensive to live here? Thank you for considering these critically important policy issues
31 tonight.
32

33 Vice-Chair Gardias: Thank you, ma'am. We have Jeff Levinsky followed by Peter Chu.
34

35 Jeff Levinsky: Good evening, Commissioners and staff. I have a handout for the Commissioners
36 if I could give that to someone? Thank you. First of all I'd like to thank Council Member Filseth
37 and the staff for looking at my comments about math errors in the report that was given to the
38 Finance Committee and then to this Commission. I generally agree with their conclusion, but
39 there they did not change the number about the cost of a condominium which shows and they
40 figure as you can buy a 2,100 condominium for under \$1.4 million dollars which I don't think is
41 really the case. There's a typo as well, but I won't go into it.
42

43 The main critical point in my letter remains unaddressed and that is that the policies that were
44 being proposed still undercut providing the City policy of onsite BMRs. So I put together
45 numbers for the Maybell project and I used numbers from the staff and I'll explain as we go.
46 The cost to the developer and staff said for providing the 15 percent onsite units comes to a

1 little under \$7 million dollars there and that assumes the fractional unit pays \$700,000. The
2 current 7.5 percent in lieu fee for that we agree would be \$4.2 million dollars. So by claiming
3 infeasibility the developer basically took away \$3 million dollars from BMRs. Who lost that \$3
4 million dollars? Well the losers are the people who would have gotten \$3 million dollars' worth
5 of affordable units. They lost by this what happened over this issue. It would have gone to
6 create some affordable homes on the site as well as the \$700,000.

7
8 The Finance Committee advocating switching to a \$50 per square foot approach as you see
9 here I calculate that at it would generate only \$2.1 million. I differ from staff because I believe
10 the ordinance says that existing square footage would not have to pay the fee and there is
11 existing square footage on that and most sites. So I subtracted for that I estimated so I come
12 out a little lower than the staff estimate for that, but as you can see it's basically half. So by
13 adopting the Finance Committee recommendation you would be again cutting the money for
14 affordable housing down. The Staff proposal mentions that you could go as high as \$95 per
15 square foot and by my calculation that comes out to still a little under \$4 million dollars.

16
17 So what's happening here is basically that the City policy is to encourage onsite BMRs. And
18 there are many reasons for that. One is that when you build the BMRs elsewhere you're
19 creating segregated communities. You're saying we're not, we don't want people who need
20 affordable units to live in the same place as people who can afford market rate. I don't think
21 that's really great city planning and I think that should be part of your discussion.

22
23 Secondly, when the money is given to a fund or something to develop BMRs elsewhere they
24 have to go out and find land and get permission to build elsewhere and as you know that can
25 be very, very hard. In fact Maybell is the perfect example of that of course. So those additional
26 costs aren't factored in to the equation here and for that reason I come up with a suggestion
27 that if you're not going to be able to build the onsite then you should pay more in lieu or per
28 square foot than otherwise. So my suggestion would be look at a 15 percent in lieu fee and
29 that would raise \$8.4 million which would exceed the \$7 million that it would cost them to build
30 onsite.

31
32 And finally I think it's wrong to have rules allowing developer to claim something isn't feasible
33 and then save millions of dollars. I hope that the ordinance changes will prevent that, but it
34 breeds distrust and lowers respect for our City government. And it's unfair to developers who
35 have been playing by the rules. So for all the reasons I've covered I urge you to advocate
36 upping the fee when onsite BMRs aren't built in developments where units are being sold.
37 You'll be helping both those who are eligible for the BMRs and our City as a whole. Thank you.
38 And I'm going to have to leave soon, so.

39
40 Vice-Chair Gardias: Thank you. We're going to have Peter Chu followed by Rebecca Byne.

41
42 Peter Chu: Thank you, Commissioners. My name is Peter Chu, a 30 years plus residents of Palo
43 Alto. I wanted to cite several things just to add to the discussion. Is, the first one is I think is
44 most important that is a single family and multifamily housing helps the housing versus job
45 imbalance rather than hurts unlike the commercial developments of the office building and
46 high tech. So they should not have to pay for the BMR in the first place. Now I think somehow

1 that has been forgotten and then we just keep referencing to this old rule of whatever, 9.5
2 percent. And that is fundamentally wrong in the first place, ok? So given that. Also if you recall
3 the whatever the percentage on the existing rule that includes the land price. As you know
4 land price increases until the builders cannot afford it. That's how the land price was
5 determined. So if you convert that into this 95 percent, \$95 a square foot if you compare it to
6 the real cost of people trying to give their family a better place to live that is the improvement
7 price rather than the total price. That come out to be roughly in my calculations 25 percent to
8 35 percent increase of their real cost. Just imagine if somebody buy a piece of land and trying
9 to improve it by building a new house that is very popular in here and that would basically kill
10 this whole idea.

11
12 So that go back to another a question on what we are trying to address. What kind of people
13 we are trying to address the focus has been on low and moderate income people, but the real
14 homebuyer residents are middle to high or low sort of middle higher income people who are
15 employees or a small business owner or have they have some stock therefore they have some
16 equity they can buy into it and then you wanted to increase their price, their cost even further.
17 I don't know how you can do that. And then also I read this residential part of this report saying
18 that a detached single family house you say ok, the income to be able to afford that is like
19 \$535,000 per year. What kind of people is that? Is that almost like a Chief Executive Officer
20 (CEO) of a mid-sized company or a university president and how many people are actually like
21 that? That means the fundamental concept is this I mean is people who can afford to buy a
22 regular market rate house in here have some equity built up and their income is far less than
23 that. So somehow you wanted to extract their disposable income to such an extent that they
24 would just say hey, Palo Alto is too expensive.

25
26 So what I want to say is not only you need to pay attention to affordability of lower income
27 people, but the middle class people. You don't want to kill the whole culture of Palo Alto so
28 that you end up with billionaires and venture capitalists and big developer only. That is not the
29 vision we want to go to. And also just look at the Facebook latest deal with Menlo Park, it
30 average to be \$6.55 per square foot. And that is a reference on what the deal they can put
31 together. So if you just add 15 times of that, that fails the smell test. Thank you.

32
33 Vice-Chair Gardias: Thank you. So we have Rebecca Byne. If I pronounce this correctly? Is she
34 on the floor? Followed by Herb Borock. We don't have Rebecca Byne on the floor, right? She
35 must have left. So Mr. Borock, please.

36
37 Herb Borock: Chair Fine and Commissioners I believe we should retain the current method of
38 calculating the in lieu fee by having it be a percentage of the sales price. And you should also
39 add language to the zoning code to implement Housing Program H point... H 1.2.1 says that
40 when a loss of rental housing occurs due to subdivision or condominium conversion approval of
41 the project shall require 25 percent BMR units. The equivalent in lieu fee should be 12.5
42 percent. That's what should've applied to 567 Maybell, but there was no implementing
43 language that staff could use to require that higher fee. However, if you choose a per square
44 foot BMR fee it should be applied to all the floor area built rather than just the floor area
45 counted against the allowable floor area amount. The consultant's report relies on a fictitious
46 prototype rather than actual sales prices per square foot. 567 Maybell subdivision example

1 relies on fictitious house sizes rather than the house sizes that will be built and also uses a
2 fictitious sales price rather than actual sales prices per square foot.

3
4 The Palo Alto Weekly this year's spring real estate edition shows that the average per square
5 foot sales price for a single family home is \$1,536. That compares to the consultant's report of
6 \$1,014 and the example for Maybell of \$1,167 per square foot. Consultant's report also shows
7 per square foot prices for attached single family of 900 of \$793 per square foot and for
8 condominiums of \$662 a square foot, neither of which are comparable to actual sales. For
9 example, compared to the \$1,536 average for last year there are two single family homes sales
10 reported in today's paper at 1413 Dana of \$1,560 per square foot and at 2572 Webster of
11 \$1,547 per square foot. Seven and a half percent of \$1,536 is \$115 per square foot. And that
12 price and the sales is escalating faster than any escalation factor you would put on a per square
13 foot fee that's being proposed by staff and the Finance Committee.

14
15 Also 567 Maybell assumes a 3,000 square foot house size. The average house size based on the
16 lots in that 60 unit subdivision is 2,529 square feet of allowable floor area. So that would be
17 basements averaging 471 square foot. Typically those basements would be half of the
18 allowable, at a minimum half of the allowable floor area. So you'd really get a house size about
19 3,800 square feet instead of 3,000 square foot. And the disparity before between calculating a
20 BMR fee based on sales price rather than the per square foot that's being proposed would be
21 even larger than is being shown in the examples.

22
23 Also in terms of single family subdivisions historically there have never been inclusionary zoning
24 for single family subdivisions that have BMR units comparable to the for sale units. When the
25 school district had single family subdivisions on surplus school sites they did the BMR
26 requirement by providing a duplex BMR and the rapid escalation in price of market rate housing
27 compared to those BMR units that are restricted in escalation indicates that it may be time to
28 focus BMR fees that would be used either to preserve existing affordable housing or to
29 purchase land that would be used for 100 percent affordable housing.

30
31 The original Council adopted guidelines for setting the price of BMR units in multiple family for
32 sale housing was to base the price on the incremental cost of building, constructing the unit,
33 and having all the land cost and soft core supply to the market rate units. But under the
34 previous City Manager Planning staff started setting the prices of BMR units based upon the
35 income guidelines which essentially gives developers profit on BMR units. So I think it may be
36 time to go back to the original one which is basing it on the incremental cost of constructing the
37 unit so that the land price is based solely upon the market rate units rather than also upon the
38 BMR units. The setting of the percentage sale price for a BMR fee was always been based upon
39 100 percent of the cost of building units rather than the developer's much smaller investment.
40 And to get a comparable amount of money based upon the sales price sources building BMR
41 units you should go back to actually calculating it based upon the investment, a return
42 investment rather than assuming it's a 100 percent investment. Thank you.

43
44 Vice-Chair Gardias: Thank you, Mr. Borock. So just want to make a comment, we established a
45 best practice with Mr. Chairman for this year to respond to the comments of the citizens and

1 the response should follow up immediately the comment that you just heard. So are you ready
2 to respond to Mr. Borock's comments?
3

4 Ms. Gitelman: Yes, why don't I start out; first, I want to respond to Mr. Borock's suggestion that
5 we implement that Program H 1.2.1 he cited about the loss of rental housing. And that's
6 actually in the proposed ordinance. It's on packet Page 219, Section 16.65.030 A3. So we can
7 check that one off. I think we carried that forward and that's a good comment and I'm glad
8 we've included that.
9

10 We had number of other comments as you heard maybe not all of them, some of them
11 expressing opinion that that maybe we don't need to respond to, but I wanted to make an
12 observation that we did hear two sides of an argument in the commenters. We heard from one
13 commenter that they would prefer that we collect fees rather than get inclusionary units onsite
14 in some cases because with the money that you get you can probably build more units at a
15 lower affordability level than you would if you just got the inclusionary units onsite. So that
16 was one perspective expressed. We also heard the opposite perspective from commenters
17 who wanted the units onsite even if they were very costly units the thought that a bird in hand
18 is worth more than a bird... then whatever that expression is. Anyway I wanted to point that
19 out. I also thought that we've heard from a number of commenters in writing and this evening
20 that their main concern was not the methodology and sort of what we're proposing, but the
21 actual fee amount. That we're going far above other jurisdictions and that's a notable
22 comment I think.
23

24 The other thing that I just wanted to point out, Herb brought this up and I think this was
25 inherent in Jeff's comments too, this methodology that we use currently about a percentage of
26 the sales price it is really hard to administer. I think one of our big objectives in going to a per
27 square foot fee is it makes all, first of all it makes all the fees we implement all the fees in the
28 same way and we implement them at the time a building permit is issued. So there's no
29 uncertainty about when the money's going to be collected, whether we're going to remember
30 to collect the money, whether we got the right amount of money. It's just pretty
31 straightforward you look at the plans how many square feet, you look up the fee, you charge
32 the fee, and you get the fee before the permit is issued. So that's one of our inherent goals
33 here.
34

35 So I think I got most of the questions except for the question about why we did this based on
36 prototypes instead of market data. If you want Sujata to go into that we could, we could do
37 that.
38

39 Vice-Chair Gardias: Yes, please if you don't mind. Just because there were just number of the
40 comments from Mr. Borock, right, about some discrepancies and (interrupted)
41

42 Ms. Srivastava: Sure.
43

44 Vice-Chair Gardias: Examples that he provided.
45

1 Ms. Srivastava: I mean I think first there's mentioning that the data was collected in 2014 and
2 the market has changed. And this is kind of a constantly moving target when you're looking at
3 sales prices and rents particularly in this market. So the purpose of setting the sales prices and I
4 think I heard the comment that we're looking at \$1,000 per square foot for single family
5 detached and today it's something closer to \$1,500 for certain properties. We actually did do a
6 survey of recent transactions at the time, so it's not based on just one or two transactions. It's
7 actually based on what we were able to collect for that period of time, but the purpose of
8 collecting that information is to then be able to run an economic impact model that will then
9 measure what those households are spending in the local economy. So the results are actually
10 more conservative in terms of the maximum fee which puts you in a stronger position in terms
11 of being able to implement that without facing potential challenges. So we typically take a
12 conservative approach and we set the prices that these fees are based on so that we're not
13 overstating the market. Understanding that the market is constantly changing we don't want
14 to set things at the peak market conditions, but rather something that can be a little bit more
15 moderated.

16
17 Vice-Chair Gardias: Thank you, this concludes the hearing.

18
19 Chair Fine: Thank you. Thank you to all the speakers. That was very helpful. Do we need to do
20 disclosures on this one?

21
22 Cara Silver, Senior Assistant City Attorney: This is a legislative matter so you don't legally have
23 to do disclosures.

24
25 Chair Fine: No? Ok. I'll just say I did speak with somebody from Silicon Valley at Home about
26 some of these issues, but it was all in the email they sent as well. Let's open it up. Let's start
27 with questions. Just go around. I know there's going to be a lot. And then we'll get more into
28 comments. So the first light was Commissioner Downing.

29
30 Commissioner Downing: So one question I have is with regard to the Nexus studies and what I
31 want, what I would like to here is when you do Nexus studies for both commercial development
32 and residential development how do you afford, how do you deal with double charging?
33 Because on the one hand you're charging people on the commercial side for the jobs that
34 they're creating and the housing which those people in those jobs will then, but at the same
35 time on the residential side you are yet again counting the housing and then the jobs that will
36 create and then the housing that that will need. How do you not get stuck in an endless loop
37 when you were doing this data?

38
39 Ms. Srivastava: That's an excellent question. There is some potential for overlap if you were to
40 charge the maximum fee for both of both the housing and the commercial linkage fees because
41 then you're really doing 100 percent of each. There's a potential that you are counting two jobs
42 for both sectors particularly I think this may happen for certain types of service jobs in the retail
43 sector and restaurant sector perhaps. Many of the jobs that are associated with hotel or office
44 and R&D would not overlap as much as the ones that may be associated with retail and
45 restaurants. And we're not looking at retail and restaurants for this particular Nexus study so
46 that's another area where we're minimizing overlap, but one of the reasons we don't

1 recommend the maximum fees for either, any of these prototypes, is to be able to minimize the
2 potential for overlap.

3
4 Commissioner Downing: Ok. And then I want to make sure I'm really getting this point correct,
5 but with respect to market rate rentals like an apartment building, with respect to their impact
6 fee there's nothing they can do about that. There's no escaping that impact fee, right?
7 Because they can't offer BMR instead can they?

8
9 Ms. Gitelman: I think there are alternatives that they could pursue if they chose to in the
10 alternative section. So there's a basic requirement that's the fee, but then in Section 16.65.080
11 there are alternative means of compliance. So they could choose to provide some units onsite,
12 provide some units off site or take advantage of one of these other alternatives.

13
14 Commissioner Downing: For rental they could provide?

15
16 Ms. Gitelman: Pardon me?

17
18 Commissioner Downing: Like BMR rentals they can provide onsite?

19
20 Ms. Gitelman: Correct.

21
22 Commissioner Downing: Ok. And what are those numbers look like?

23
24 Ms. Gitelman: Pardon me?

25
26 Commissioner Downing: What are those numbers look like? Are we also looking at the same
27 percentages as for sale properties?

28
29 Ms. Gitelman: Well, I'd have to look at that. It's on packet Page 224. Oh no, sorry. It's in this
30 whole section so I'd have to think, I'd have to look carefully at what the alternatives look like
31 and what that would mean. If you want to give me a minute I'll...

32
33 Commissioner Downing: Yeah, yeah. You do that we'll go to some other question askers.

34
35 Chair Fine: Commissioner Rosenblum.

36
37 Commissioner Rosenblum: Thank you. First question, what was the goal of the proposed
38 ordinance? I'm not talking about the Nexus study per se which I understand, but what is the
39 stated goal? And a couple possibilities would be are we trying to maximize City revenues from
40 the impact fees to fund more affordable housing or are we trying to make it more difficult to
41 build housing and offices in general? Do we think there's just too much and this is a way of
42 restricting additional growth? What is a stated goal and so what is the function we're trying to
43 maximize?

44

1 Ms. Gitelman: I think we're trying to increase the funds for affordable housing and we're trying
2 to increase the stock of affordable housing. So we're also trying to make this fee program
3 easier to administer rather than the current in lieu fee program.
4

5 Commissioner Rosenblum: Ok. So this is to me the main thing that's missing from the
6 calculation is that we are substantially raising the fees in most cases and there's the fear that
7 you will just get no or very little new development and therefore will decimate the total fee
8 base. And so it's hard to gauge from the study because the study uses words like between 2013
9 and 2015 the City received an average of \$1.65 million annually from Commercial Housing Fund
10 and then makes an assessment it says, but of course this will have to do with the desirability
11 developing under these scenarios. And so it's difficult to estimate what you think will actually
12 happen under these fee structures. So first just noting that to the extent that I have a
13 recommendation and our colleagues will have other questions a big one is sort of elasticity of
14 building demand given these fee structures. My gut is because we now are it's level so much
15 higher than neighboring communities the total level of development on both commercial and
16 residential will go down and the calculation has taken into account.
17

18 So then my second question is related to the answer on the goals. So the goals of the program
19 is to maximize total impact fees, maximize affordable housing, and simplify. Is that?
20

21 Ms. Gitelman: I didn't say maximize.
22

23 Commissioner Rosenblum: Ok.
24

25 Ms. Gitelman: I said increase. I mean I think the way the Nexus study is structured they've
26 actually calculated what the total justifiable fee would be and we're not suggesting that.
27 They've done a subsequent analysis of what the maximum feasible would be taking into
28 account the world according to the developers' perspective and they've also done a comparison
29 to adjacent jurisdictions. So those additional analyses have informed the recommendations.
30

31 Commissioner Rosenblum: Yes, I'm struggling with that one a little bit because I understand
32 that if you say our goal is just to increase then the level is just any... a dollar above today, but it
33 does feel from the study that what we're trying to do, what would be a reasonable thing to do
34 is to try to get the maximum funds to help build affordable housing and that would include the
35 impacts. So in terms of the desirability to build in this area would be taken to account. So if the
36 maximum fee that was supported by the Nexus study was not recommended for that reason
37 that you wouldn't get anyone or it would be very difficult to get anyone to actually build
38 anything, but I was actually asking about something a little bit different which is did you
39 distinguish between residential and commercial from a policy standpoint? Meaning we're
40 trying to address an issue of lack of housing stock and in particular lack of affordable housing
41 stock and so was the desirability of increasing development fees on any housing development
42 in particular rental housing development an issue of discussion with staff? And if so I'd love to
43 hear a bit about your thoughts there. Because one thing that struck me is if we are concerned
44 about affordability of the region that anything that lowers desirability to develop housing
45 should be called, should be subject to scrutiny. And in raising development fees for rental
46 housing or any housing, market rate housing also increases more market rate housing, more

1 housing stock, increases the affordability of the region not just for low income, but for all
2 income. So my question is: was there consideration not to impose development fees for
3 housing because we're in a housing crisis?
4

5 Ms. Gitelman: That raises some interesting thoughts. First the Finance Committee spent quite a
6 bit of time talking about both residential and nonresidential and particularly how they should
7 be balanced. On the nonresidential side there was really a concern that the more we add
8 employment and people and increase housing demand those new projects with new
9 employment should be paying for their impacts. So there was a real desire to have robust fees
10 on the nonresidential side.
11

12 Commissioner Rosenblum: Yeah.
13

14 Ms. Gitelman: And then the committee had a concern about sort of the balance between
15 residential and nonresidential fees. They wanted the residential fees to be quite a bit less than
16 the nonresidential fees and that's why you saw the fee for single family detached go down from
17 February to the Finance Committee recommendation from \$95 to \$50 a square foot.
18

19 But let me get to the question about whether charging impact fees to rental housing increases
20 the cost of rental housing. We were talking about that before the hearing this evening because
21 several of the written comments make this point or raise this question. And I'll let Sujata speak
22 to it a little, but I wanted to point out that we kind of know something about this relationship
23 because of what happened with the Palmer decision. We used to be able to impose an
24 inclusionary requirement on rental housing. So 15 percent of the market rate projects had to
25 be BMR units and that provision was eliminated by the courts in 2009 or thereabouts and we
26 did not see the cost of rental or the rents go down as a result. So I think the opposite is true; if
27 you impose a fee on rental housing it's going to affect the cost of the land, but we're not
28 necessarily going to see the rents go up just as we didn't see the rents go down after Palmer.
29 So Sujata do you want to add to that?
30

31 Ms. Srivastava: I think we've heard this from developers as well that when they look at a site.
32 They're calculating what the maximum rents or revenues are that they can generate from that
33 site and then they're subtracting the cost. So this if you increase the costs which in fact this is
34 what you're doing here the way that we model it is that what when you subtract the costs from
35 the revenues you end up with what the effective value of the land is. So developers have told
36 us when they look at potential projects they're factoring that into what they think that they'd
37 be able to offer for a property. So as long as that land value is consistent with what current
38 market value expectations are in a community then you could consider that that fee would be
39 financially feasible to implement. So that's really what we're modeling.
40

41 I think I would also point out that I think for rental housing you are implementing a new fee
42 that doesn't currently exist, but for the ownership housing we actually did a comparison to the
43 existing cost of either providing the units onsite or paying the in lieu fees. And the fee levels
44 that are being proposed are actually not an increase over those existing policies.
45

1 Commissioner Rosenblum: Yes, but my main concern is imposing a fee for market rate rental
2 housing. So I would like for my colleagues to also be able to ask their questions and voice their
3 concerns, but so I asked a couple of questions. The concern I have already is given the goals of
4 the project or this whole program it seems counterproductive to me to impose a new fee on
5 market rate rental housing and it feels counterproductive to increase fees to the extent that we
6 are proposing even for office/hotel because I think that will be counterproductive. It seems
7 suspicious to me that we can get away with charging multiples of our neighboring communities
8 and expect that we will still have development here which is what fills the coffers right now of
9 the Affordable Housing Fund. But let me I'll stop there and let my colleagues take...

10
11 Chair Fine: Thank you, Commissioner Rosenblum. Vice-Chair Gardias.

12
13 Vice-Chair Gardias: Thank you. So of course we are just discussing the numbers of the
14 recommended fees and I just want to ask about the legality, right? I mean because specifically
15 this number of \$60 per square foot stands out. Is it really legal just to impose any fee that
16 actually it's not supported by any substance? What it seems to me because there was a
17 proposal from the consultants was \$35 a square foot which must have been based on some
18 economic analysis just looking at the name of your company and then we have the
19 recommendation from the Finance Committee pretty much just to double it. So I would like to
20 understand the reason. There must be some reason behind this, right? Which would be
21 supported with some economic analysis that would be the reason and, but if there is no reason
22 can we just charge any fee? What about, what's the why 60 not 70 or 80. What about a
23 hundred.

24
25 Ms. Silver: Yes, thank you; Cara Silver, Senior Assistant City Attorney. So I think you're referring
26 to the \$35 a square foot for office and R&D that was recommended originally by staff and it
27 was increased to \$60 a square feet on the recommendation of the Finance Committee. That
28 \$60 came from the Nexus study. It is supported by the Nexus study. It is the amount that is
29 justifiable and so when you go through all of the full analysis of all of the costs you come up
30 with a total justifiable amount of \$60 a square foot. Oh, justifiable is even higher? Ok, ok. Ok,
31 I'm sorry.

32
33 So the \$60 is the feasible amount. So actually the Nexus study recommended or provided
34 evidence to support an even higher fee. And so that is certainly the baseline. You can't impose
35 a fee that is higher than that which is supported by the Nexus study. What we'd like to see
36 though is a fee that is not only supported by the Nexus study, but also is actually feasible. So
37 when a developer comes in they can make a profit and that addresses some of the comments
38 that Commissioner Rosenblum made about supporting the overall need for housing in the
39 region and the comment that Commissioner Downing made about double counting. So once
40 you... you need to take into account those types of things and so we hover around the feasible
41 fee. And of course you can also charge a fee that is less than the feasible fee.

42
43 Vice-Chair Gardias: Of course, but that's interesting. So thank you very much for this
44 clarification, but that's interesting piece of information that you offer. So it seems to me that
45 here there is a column that's missing in this presentation because apparently there was a Nexus
46 I mean in the Nexus study which is of course in the body of the attachment, but it would be nice

1 to pull it out and just show it to us. There should have been a column that would be saying that
2 that Nexus study recommended this and this fee. So then we would be able to compare truly
3 what is the economic analysis for this fee and then that's Finance Committee recommended fee
4 would be of course at their discretion, but it would be benchmarking against those analysis. So
5 could you just show us the page were those numbers are?
6

7 Chair Fine: Page 17 of the packet.
8

9 Ms. Gitelman: And if you'd want to just kind of cut to the chase in the staff report itself on
10 packet Page 185 or staff report Page 5 we kind of summarize the methodology and the
11 conclusions of the commercial Nexus study and report the maximum justifiable as well as the
12 feasible and the original recommendation. It's on the top of page, packet Page 185.
13

14 Vice-Chair Gardias: I am also looking at Page Number 5 which is 17 of 237 that shows that
15 maximum justified fee for office and R&D is \$264, right? So pretty much from this benchmark
16 the Finance Committee truly elected just to go with \$60.
17

18 Ms. Gitelman: That's correct. And it's because \$60 was calculated as the maximum feasible. So
19 it's the point at which the developer would still get a return on investment. And we advocated
20 as staff strongly that we not go above that amount or we'd end up in the situation that
21 Commissioner Rosenblum pointed out which is you just won't have any development and you
22 won't get any fees. So the committee recommended that highest amount.
23

24 Now I should say that all of this is policy decision so the Council could ultimately go lower than
25 any of these fees that have been recommended. And in fact it wasn't a unanimous vote at the
26 Finance Committee. One of the Finance Committee members wanted to go lower on the
27 residential rental fee. Instead of \$50 they wanted \$30, but it was a 3-1 vote and the
28 recommendation of the committee as a whole was \$50.
29

30 Vice-Chair Gardias: Understood, but my expectation was that this \$264 a square foot would still
31 provide the return reasonable rate of return on investment for developer.
32

33 Ms. Gitelman: That is not the conclusion of the Nexus study. The Nexus study says it's \$60
34 where the developer would still get a return.
35

36 Chair Fine: Just a comment to kind of answer that as far as what I've studied. The justifiable fee
37 is the total impact to the community in terms of affordable housing that the project generates.
38 The feasible is what developers could support in the current environment. So we could charge
39 the \$264, just nobody would built anything, right? We could charge I've heard actually from
40 other parties on the street who charge more than \$264. You're just going to get sued.
41

42 Vice-Chair Gardias: Great, thank you very much for the clarification.
43

44 Chair Fine: Do I have any lights down this way? Commissioner Waldfogel.
45

1 Commissioner Waldfogel: Thank you. It's a great study. I mean I think at some point we should
2 consider having a study session on methodology behind these kind of studies because I think
3 there are a lot of other things we could build into it, but I don't want to quibble about
4 methodology today. Not the right time or place.

5
6 A couple things, I'm a little puzzled by Jeff Levinsky's comments. Unfortunately he just left the
7 room. Timing is imperfect, but he seems to be suggesting that the \$50 per foot proposed fee
8 would generate less revenue than in this example than what we would get with the current fee
9 structure. Can you... is there anybody who can comment on that? Or am I understanding him
10 correctly?

11
12 Ms. Gitelman: Yes, you are. And in fact that's the subject, one of the subjects of the at places
13 memo that we provided. We have a slightly different calculation than Jeff, but it reaches a
14 similar conclusion that at \$50 a square foot the project we're using as our guinea pig here
15 would generate less in fees than the current 7.5 percent of sales price methodology. But if we
16 use the \$95 a square foot and remember we're talking about the single family detached
17 prototype. So if we use the \$95 that was originally recommended by the Nexus study we would
18 be higher we believe than the current calculations.

19
20 Commissioner Waldfogel: But the \$95 is largely off the table or at least that's not what Finance
21 forwarded to us.

22
23 Ms. Gitelman: Correct. The Finance Committee wanted the \$50.

24
25 Commissioner Waldfogel: Wanted the \$50. Ok, so the assertion that this will discourage
26 development doesn't seem to be true if this, if Jeff's analysis is right.

27
28 Ms. Gitelman: Well again Jeff is talking about the for-sale housing projects and they are
29 currently required to meet this 15 percent inclusionary requirement. So that's an existing
30 requirement and you're right if we transition to a \$50 per square foot fee they're actually going
31 to ultimately pay less.

32
33 Commissioner Waldfogel: We did that project already.

34
35 Ms. Gitelman: If they get approval for to pay the in lieu fee. Now the ordinance sets a pretty
36 high bar and I think Jeff referred to this as well. You're required to provide those 15 percent
37 units onsite unless it's infeasible to do so. And in the current ordinance there's not a good test
38 about what's feasible or not. And we've tried to strengthen that in this ordinance so it's easier
39 for the City to say uh uh, we want the units onsite and the developer really has to demonstrate
40 that it's infeasible to do so. So I can find that section of the ordinance (interrupted)

41
42 Commissioner Waldfogel: That's ok. I don't, I think there's a lot of detail here to wade through,
43 but I think that's helpful. I'm looking at some trends on office, on per square foot office sale
44 prices. And over the last couple of years, I don't know exactly what this is measuring, but this is
45 this is Palo Alto statistics, Santa Clara County. Office sale prices have gone for \$250 a foot
46 according to this staff to \$400 a foot and yet there seems still seems to be demand for office

1 space. So I'm not as worried that these kind of numbers, \$50, \$60 a foot of fees will
2 dramatically change the desirability of developing in this community. I mean I think that when
3 the business cycle shifts we'll have a lot of people pointing at this as an excuse, but that's the
4 way that these things go.

5
6 But I am struck by one other thing which is the justifiable number shows \$264 a foot of impact
7 of affordable housing impact and if we accept this then best case we're still spewing out \$204 a
8 foot of impact for every square foot of office that we develop. That's what this shows. We're
9 showing (interrupted)

10
11 Commissioner Rosenblum: That's not. That's if you have 100 percent of the people all living
12 here. That's how they calculate it.

13
14 Commissioner Waldfogel: But that's what this study shows. We're not here to debate the
15 methodology tonight. And if we accept the methodology this methodology shows \$204 a foot
16 of impact is caused by each square foot of office. And so that's why I think we should have a
17 study session on the methodology. But I mean that's what we're discussing and this isn't
18 counting traffic impact, it's not counting other types of impacts that these square feet of office
19 can be causing. So it's this is actually really startling. So \$60 is a pretty darn good deal for
20 mitigating \$264 of impact. Anyway that's all I've got to say about this.

21
22 Chair Fine: Commissioner Rosenblum can you give a counterpoint that you were... I'd like
23 (interrupted)

24
25 Commissioner Rosenblum: I just I think it's important clarify because I spent a lot of time
26 looking at the methodology and I think you've misinterpreted a bit what they're doing. So they
27 have an assumption that says what if 100 percent of the people that are in this office will live in
28 our city. Under that scenario how much housing given assumptions about variability of income
29 would we need to provide? And that's how they come up with the maximum number. And
30 they say well, not 100 percent. And correct me if I'm wrong on this, I believe this is the
31 methodology. Clearly we have a lot of studies about what proportion of people who work in
32 Palo Alto live in Palo Alto and it's not even close to 100 percent. In fact I think it's less than a
33 third. So then they adjust it to that and then look at developer return on investments to try to
34 set the feasible number, but the maximum justifiable number says if you assume the maximum
35 number of people from this project that could live here, here is that number. And so it's purely
36 a math exercise. It's not saying we believe these projects will cause \$270 worth of impact, but
37 (interrupted)

38
39 Commissioner Waldfogel: I would like to hear, I'd like to hear the consultant comment about
40 that.

41
42 Ms. Srivastava: I think that it's true that you are making an assumption that those workers are
43 going to demand housing within the jurisdiction and so the maximum justifiable fee is based on
44 the idea that the development occurs in your jurisdiction is also the workers are being housed
45 inside your boundaries, but we didn't do any adjustments to that. Our reductions are based on

1 what we think that the market can bear. What a developer could provide and that's a reduced
2 feasible fee.

3
4 Commissioner Waldfogel: But if they're not provided in our jurisdiction are we just saying we'll
5 lay this problem off on our neighboring jurisdictions around the Bay Area? I mean at some level
6 this has to get, this has to balance.

7
8 Ms. Srivastava: I think that's an interesting point that came up because as you may have been
9 aware this was part of a 21 elements for all the jurisdictions in San Mateo County as well that
10 you all kind of joined in on partly with the idea that this was a collaborative approach. And so
11 we took 100 percent for every one of those jurisdictions. We didn't reduce anything with an
12 assumption that a smaller number of residents would demand housing within each of the cities
13 partly because we understood it to be a regional issue.

14
15 Chair Fine: Commissioner Tanaka.

16
17 Commissioner Tanaka: So I have kind of more of a broader question which is can staff go over
18 what are the current impact fees? So this is just one of many. So can staff talk a bit about kind
19 of like what are the overall different impact fees involved and how have they changed because I
20 noticed that some of these development fees changed in 2014 in Palo Alto. So I would be
21 interested in hearing staff's kind of because what I'm trying to think about is what is the
22 cumulative impact of all these impact fee changes? Can staff talk a little bit about that?

23
24 Ms. Gitelman: Thank you, Commissioner Tanaka. I think you're talking about just the cost of all
25 the fees that are currently charged and we have that in one of the exhibits. I think it's in the
26 packet Page 233 is a table that shows existing fees and permits by prototype. So its showing
27 based on the prototypes we've analyzed the existing City fees and permits then the commercial
28 linkage fees and total combined City fees and permits by scenario. Is there anything I could add
29 on that?

30
31 Ms. Srivastava: Are you looking at the residential or the commercial?

32
33 Ms. Gitelman: I was looking at the commercial. Did you did you find that? So this is in one of
34 the attachments, Attachment F.

35
36 Commissioner Tanaka: Ok, so these are all the fees that the City is charging development to
37 mitigate impacts, correct?

38
39 Ms. Gitelman: This is also permit fees.

40
41 Commissioner Tanaka: Ok.

42
43 Ms. Gitelman: So just processing fees, user fees, and impact fees.

44
45 Commissioner Tanaka: Ok. Are there fees around school impacts?

1 Ms. Gitelman: Pardon me?
2
3 Commissioner Tanaka: School impacts.
4
5 Ms. Srivastava: There is a school impact fee, yes.
6
7 Commissioner Tanaka: Because I don't see it on this list here.
8
9 Ms. Gitelman: I think they're grouped in a line that says total combined fees. We didn't call
10 them out separately.
11
12 Ms. Srivastava: Right, so the second line in that table is called "Existing City Fees and Permits"
13 which does not include any existing linkage fees that the City has in place on for affordable
14 housing. So we're just looking at all other impact fees and cost of development within the City.
15 So it includes schools, it includes infrastructure, includes any traffic impact fees, etcetera.
16
17 Commissioner Tanaka: Ok. And so how many fees, how many of these fees are already
18 updated, how many of them plan to be updated in terms of... I'm just trying to understand what
19 are the plans, what are the current changes and where are the ones that are coming up again
20 that are going to be updated in terms of they're going to be increased or changed. Do we
21 know?
22
23 Ms. Gitelman: The City has a practice of reviewing its fee schedule every budget cycle and so
24 we typically will increase our fees to reflect the cost of living with the adoption of an annual
25 budget. So we just went through that process in addition just this past year on the, in the
26 Planning Department we did a separate fee study and adjusted some of our user fees. So it
27 happens on a regular cycle and this examination of impact fees again we haven't done this on
28 the commercial side since 2002. So it's a little overdue on the commercial side and on the
29 residential side I don't know what the last time frame was.
30
31 Commissioner Tanaka: Ok. So I guess what I'm trying to understand is because I'm just trying to
32 think of it in terms of what all the developed what are all the impact fees are changing where
33 are they right now? Like which ones are fully updated, which ones aren't, and what is the rate
34 of increase? Do we have a table like that somewhere? Or can you speak about it?
35
36 Ms. Gitelman: We don't have a table like that, but we do as I say adjust all our user fees and
37 impact fees on an annual basis to reflect cost of living increases.
38
39 Commissioner Tanaka: I thought you just said there was an impact fee that wasn't updated
40 since 2002.
41
42 Ms. Gitelman: That's the last time we did a comprehensive study and adjusted our commercial
43 linkage fees, but since then every budget cycle we review our fee schedule and the Council
44 typically adopts an increase based on the cost of living.
45

1 Commissioner Tanaka: Ok. I just want to make sure I heard this correctly. So basically the fees
2 have been updated year by year by year and there hasn't been any fee that hasn't been
3 updated since 2002.

4
5 Ms. Gitelman: I apologize for not explaining this correctly. I mean if you want to do a kind of in-
6 depth examination of your fees and prepare a Nexus study it allows you to take a kind of
7 comprehensive look at the impact that you're trying to mitigate and set a fee. 2002 is the last
8 time we did that for commercial linkage fees. We're doing it again here. In the intervening
9 years you can adjust that fee to reflect cost of living increases and we've done that.

10
11 Commissioner Tanaka: Ok, I see. I see. So we've done kind of minor cost living adjustments,
12 but this hasn't been looked at in several decades? Ok. Understood. Thank you.

13
14 So can you speak about like which fees have increased and which like and by how much?
15 Because I'm trying to understand because right now we're looking at one impact fee in isolation
16 and I kind of want to understand the bigger picture here in terms of what have all impact fees
17 been doing. Do we have a picture of that?

18
19 Ms. Gitelman: I would have to research. That would take a bit of research to give you the full
20 picture.

21
22 Commissioner Tanaka: Because I think when we look at impact fees and we look at them in
23 isolation because this is just one of a big list of stuff that they're changing. It would be very
24 helpful to know like what are all the... how do all these fees add up? So that's what I'm trying
25 to understand.

26
27 Ms. Gitelman: Yes, well that is shown in this table. We've calculated all those fees and we
28 haven't outlined exactly what they are, but they're all (interrupted)

29
30 Commissioner Tanaka: No, no. I guess what I'm trying to understand though I see ok so for
31 instance I may be looking at the wrong page. It's 233? Is that right?

32
33 Ms. Gitelman: Yes. 233.

34
35 Commissioner Tanaka: Of 237? Is that the right page I'm looking at?

36
37 Ms. Gitelman: 233 of 237. That's right.

38
39 Commissioner Tanaka: Ok and it shows like a prototype, a 10,000 square foot prototype, right?

40
41 Ms. Gitelman: Right, right.

42
43 Commissioner Tanaka: Ok, so I'm looking at my page then. So what I don't understand though
44 is how it's been changing over time. Like have these fees been like this since the beginning of
45 time? Has it just changed yesterday? Are we going to change it tomorrow? Like that's what I
46 don't get.

1 Ms. Gitelman: Ok, so it changes periodically. For example, last year the City instituted a public
2 facilities fee. We hadn't had a public facilities fee in the past. Last year the Council adopted
3 one. It's now included in this number. So on occasion we update our fees.
4
5 Commissioner Tanaka: Ok.
6
7 Ms. Gitelman: And then on a regular basis we adjust them for the cost of living.
8
9 Commissioner Tanaka: Because I mean my point is I get a static snapshot of one point in time
10 right now, but I don't have any historical context.
11
12 Ms. Gitelman: That's correct.
13
14 Commissioner Tanaka: I don't see what it's done before and I don't see what it's projected
15 going forward.
16
17 Ms. Gitelman: That's correct. We've given you the baseline of today and what it would look like
18 in the future.
19
20 Commissioner Tanaka: Because we're trying to make a decision here in terms of what the fee
21 should be and we're looking at just one... and maybe you could do the math for me. What in
22 terms of all the fees that are paid on a project what is what percentage is this fee compared to
23 the rest of the fees?
24
25 Ms. Gitelman: We can answer that based on the data in this table if you give us a few minutes.
26
27 Commissioner Tanaka: Sure, if you guys tell me what it is.
28
29 Ms. Gitelman: Yes.
30
31 Ms. Srivastava: Well, yes, if you look at your existing let's do this on a per square foot basis
32 because that's easier.
33
34 Commissioner Tanaka: Sure, what's 100,000 (interrupted)
35
36 Ms. Srivastava: [Unintelligible] numbers.
37
38 Commissioner Tanaka: One decimal point over.
39
40 Ms. Srivastava: So your existing fees are about for office and R&D and medical office excluding
41 your linkage fee is \$37 per square foot, so \$3.7 million. If you add in the linkage fees and these
42 are outdated they don't include that cost of living adjustment the CPI Index.
43
44 Commissioner Tanaka: Well I think when we look at these fees we should look at (interrupted)
45
46 Ms. Srivastava: Right.

1 Commissioner Tanaka: Like what it is right now.

2
3 Ms. Srivastava: Well let's say \$20, right? Because they're it's \$20 and thirty something cents.
4 \$20.37. So if you add that to \$37 that's a \$57 that would be your existing that's your existing
5 fees on Office/R&D \$57 per square foot. So with your potential increase to \$60 per square foot
6 you would now be going from \$57 to \$97 dollars per square foot.

7
8 Commissioner Tanaka: So what percentage is that of the total fees today?

9
10 Ms. Srivastava: So that's what a 40... 60 percent increase? I'd have to...

11
12 Chair Fine: I just want to combine a couple comments I've heard here per Commissioner
13 Tanaka's comments I think it would be helpful to see trend lines of all these fees broken out:
14 school fees, the new public facilities fee, things like that. But then also I want to kind of bring
15 back Commissioner Rosenblum's point about the elasticity of demand that there may be some
16 relationship here between the amount of square footage built and affected by these fees over
17 time and we may be able to begin to tease out what that elasticity is based on these, based on
18 those two lines, right? So one is the trend line of these impacts fees on different levels and the
19 other was kind of the built space over those years.

20
21 Commissioner Tanaka: I think the other thing that would be good to understand is this like, like
22 someone, like you said no real comprehensive study has been done since 2002 so maybe some
23 of these are really out of whack. Maybe some of these aren't really recovering the cities cost or
24 maybe some of these are just way over what it cost us. I don't know, but it would be really nice
25 to know like where does it lay because when we're adjusting this fee which we're talking some
26 pretty big changes here it would be really good to understand the context of what else is going
27 on with other impact fees.

28
29 Ms. Gitelman: I take your point. I mean we could certainly see what we could do about
30 developing some trend data. I'm not sure how easy that's going to be, but we can look at that.
31 I just want to make sure that we're clear that we are talking about impacts fees here so we're
32 not talking about the cost of delivering service. Those fees are also adjusted on a regular basis,
33 but where it comes to impact fees you're right. The longer between the study, the Nexus
34 studies, the more kind of "out of whack" you are in terms of what you're charging compared to
35 the level of the impact that's being generated. So the fact that it's been since 2002 is a real
36 signifier that we're due for some kind of adjustment.

37
38 Commissioner Tanaka: Sure, I think that's clear. I guess the thing is that I'm just trying to make
39 sure that we don't, we're looking at one fee here, one of many fees and I just wanted to make
40 sure of we're not missing the forest by looking at just a tree. And that's what I'm trying to
41 understand what else is going on here and I understand on 233 we have kind of the example,
42 but it's hard to really know what's going on by just looking at this static picture, this one
43 snapshot in time, which some of our consultants say is not fully updated either. So it's hard to
44 fully appreciate how will this change... because I think for the I think probably from the
45 developers point of view they probably look at this not in isolation. They tend to think about it
46 in terms of all the cumulative fees that add up towards a project. They don't just think of well

1 ok, just affordable housing impact fee. They probably think about all the fees, right? Am I
2 misunderstanding this or are people exempt from some fees and not others? I'm sure
3 everyone has to pay all these fees, right? You can't just pick what fee you're going to pay. So I
4 think from that context I think it's super important before we make big decisions about this to
5 understand all of that.

6
7 Ms. Silver: So I can provide some historical backdrop on the fees. We have several categories of
8 fees. We have our community service, libraries, and park fee. And we did recently have a
9 consultant look at those fees and the consultant determined that those fees were even though
10 the Nexus study had been done quite a while ago the fees were still reflective of market
11 conditions and didn't recommend doing a Nexus study to update those. Then as Hilary
12 mentioned we did a Nexus study for public safety building fee and that just has recently been
13 implemented. Public safety building and I think other government buildings. And then the
14 third major category of fees are transportation impact fees. And I think that we are looking at
15 some of those fees and we have a consultant on board that is going to look at those, but that is
16 that the transportation fee is the one area that is probably due for update and other than the
17 housing impact fees. So I think that you're taking an action on the housing impact fee is very
18 helpful and we will also be bringing back the transportation impact fee in the near term.

19
20 Commissioner Tanaka: Ok, that's helpful. I'm just trying to make sure we make the right
21 decision just, but we I think we have to understand what else is going on because it seems like a
22 lot of other fees are getting updated and it would be good to know like so which ones are super
23 old which ones are kind of fresh, and it's not clear by looking at this table which is which. And I
24 realize we're just looking at one fee, but I think the danger of looking at just one fee in isolation
25 is that you may think you have a lot of room on it but not if all of the other fees also just jump
26 up suddenly, right? So I think that I personally would love to get this kind of data before we
27 make some major decisions here.

28
29 Chair Fine: Thank you. Commissioner Alcheck.

30
31 Commissioner Alcheck: So a lot has been said. I'll just try to summarize some of the issues that
32 I think are worth repeating. In a city like San Francisco where there's a tremendous
33 amount of multifamily luxury housing being developed and not a lot of affordable housing
34 being developed you get the impression that increasing market rate housing fees would be a
35 productive way of creating some capital that could be used to develop affordable housing units
36 should those developments not wish to pursue the kind of development that would include
37 affordable housing onsite. I think the concern that Commissioner Rosenblum raised about a fee
38 and having increasing the fee for market rate housing, multifamily market rate housing
39 development is worth consideration because we don't actually have that sort of scenario. We
40 are not developing in our City lots of multifamily housing.

41
42 One of the, one of the changes which would be modifying the requirement so that it's triggered
43 when there are even fewer units being developed that to me is very productive. Because what
44 I think we've seen is housing developments that they literally shrink the number that they could
45 do just so that they don't fall into that group. And I think we've gone down to three and maybe
46 two is just like impossible, but it always seems like a shame when you see a development that if

1 this if that if the rule was eight would they have built eight? And the answer is probably yes.
2 How do we get that and then so they decide we're just going to build five and they're making a
3 calculated assessment there that foregoing the benefits of building more housing is worth the
4 headache of not having to deal with the impact fees or the requirement or the encouragement
5 of having onsite affordable housing.
6

7 Look, I think there's a misconception, I think that there is in the public there's a misconception
8 that whatever we don't take from the developer he takes. And I don't think that's what's
9 happening in the marketplace. I think landowners are benefiting because they see the action in
10 the market and when they see the product the final product go for X like for example, we had a
11 speaker tonight talk about 1500 named sites that were sold for specific square footage
12 numbers. When people in the marketplace see that they go wait a minute the cost to develop
13 per square foot of let's just say these are single family homes that were used for the example so
14 I'll use the single home example. They will do their own math, ok? Well if it's \$400 or \$500 to
15 develop a single family home then my land's worth \$1,000. So I think what's happening is
16 property, the market, the notion that developers are reaping massive rewards makes the
17 assumption that the developers have the land for longer than they have and they haven't. And
18 so what we're really talking about is when new when new development is evaluated in this
19 current market space they're looking at a land acquisition cost and then they're trying to figure
20 out how to develop it to the greatest extent they possibly can to maximize the risk they're
21 taking, right?
22

23 I appreciate the comments that were made regarding the concern for or the like the concern
24 about the likelihood that the funds will do will diminish. So my background's in land use
25 development and I have a lot of exposure to I've had a lot of interaction with developers in my
26 field and there's this they often make this example about how you don't require your local
27 supermarket to have an aisle of food like imagine your cereal aisle, right? That this half of the
28 aisle has the same carton of Frosted Flakes, but this one is half the price if you qualify as a lower
29 income individual, right? The supermarket doesn't bear that burden of providing its goods at a
30 lower price for individuals who can't afford the higher priced good, right? And they make that
31 argument to suggest that we're requiring on the private side the responsibility of bearing the
32 burden of creating housing at a lower cost.
33

34 Not very many people have sympathy for that argument understandably, but I think that maybe
35 there is maybe in this discussion and maybe in this draft ordinance there is space for us to
36 recommend some greater level of subsidization by the City to promote affordable housing, to
37 subsidize this fund that theoretically may or may not be depleted by the increase in fees. And
38 this is a, this isn't something that was put on the table tonight, but how do people with lower
39 incomes afford food? They have a food stamp program. That food stamp program is paid for
40 by all the citizens in a community based on taxes, right, tax revenues. So I do feel like as a city
41 we could potentially participate in a greater way regardless of the impact fee collection in the
42 subsidization of affordable housing.
43

44 I don't know who the members are on the Finance Committee and I don't know how the City
45 Council will review this, but I think it would be worth their consideration to suggest that if for
46 example we in effect this ordinance at these rates there be an automatic review within 12 or

1 maybe 24 months where if we've seen depletion of our Affordable Housing Fund dramatically
2 that either the City subsidize the difference which would not be cheap, but would be a clear
3 indication that we give a darn about affordable housing. Because again, we are not really
4 developing that much multifamily here and if we aren't paying more than lip service to this
5 discussion then I think we have to not only be concerned about the fund, we have to do both.
6 We have to promote onsite development and we have to in theory create a greater source of
7 revenue, but if that fails we should come right back to the drawing board.
8

9 So we've had that before. We've had sunset provisions in our ordinances which require us to
10 come back. It doesn't, this isn't going to be something that like can get away from us for 10
11 years and we've done nothing to address it and our fund has lost all this money. So I think, I
12 think instead of sort of going down the road of saying we're very likely to destroy our fund let's,
13 I would encourage us and I would encourage City Council to basically create a fallback situation
14 where we would either subsidize half of the difference and potentially roll back the increase if
15 the result was dramatic. I think that's we all have a little bit of a fear here because we don't
16 know what's going to happen. And I think part of this is fueled by the fact that feasibility and
17 likelihood of development are not the same thing and I think part of this has to do with the
18 general sense that maybe we are approaching a moment in time where development is about
19 to slow down and if that happens then we're talking about then the word crisis is going to be an
20 understatement for the housing situation, right?
21

22 So if for example, come November or December or 2017 whatever people are projecting
23 there's some sort of plateau then what happens? I think that's I would be concerned about
24 that too if I was... let me just say this, in the event that things are really uncertain and the
25 market plateaus that would be a good thing for non for profit affordable housing developers.
26 They are waiting for the market to slow down a bit because they can barely compete in this
27 marketplace for land. And so they need the private developers to get a little skittish and go ok
28 and then they can come in and maybe they can get with their subsidized grants some sort of
29 development. But it would be a shame if at that same time they had no more money.
30

31 And so I think one way that we can accomplish the goal of raising these impact fees and not feel
32 like we're dooming the system is by creating a sunset clause that requires either in-depth
33 review of what has happened to the fund within 12 months or 18 months' time and then even a
34 suggestion could even suggest returning to the previous impact fees until such time as we have
35 demonstrated that we have in fact increased our affordable housing supply stock in that
36 timeframe or we have increased the relative size of the funds that have been collected as a
37 result. That sort of language I think would go a long way to sort of appeasing some of the
38 concerns regarding the uncertainty of the result.
39

40 So one of the, I think other takeaways that I just want to say is this suggestion that we can't
41 really enforce onsite affordable housing development. And one of the bullets is to sort is
42 introduce other provisions to encourage developers to provide affordable housing rather than
43 pay the fees. I think in a city like Palo Alto that is an appropriate goal. And I'm wondering if
44 there are, is it diverse would be a little bit more concrete do we have anything more concrete
45 than just the conception for how we can do that in a day I mean we've all we basically reduced
46 the number of units that would qualify. I think that's a very good thing because now you're

1 now somebody who's now somebody who's looking at an opportunity to build maybe they
2 could have built eight units and they that they're going down to five is a lot more appealing
3 than going down to three. So I think that's a good start, but I'm wondering if there is more in
4 your mind that we can do to also encourage onsite development?
5

6 Ms. Gitelman: Well clearly for sale housing we're trying to perpetuate our requirement for
7 onsite except in the case where that's infeasible and making it much more clear what we mean
8 by infeasible. So that's reflected in this ordinance. In terms of incentives for rental housing and
9 for mixed use or nonresidential projects to build units onsite instead of offsite we have this
10 whole section on alternatives that lays out some options for developers instead of paying the
11 fees. I don't know how many of them, I don't know how attractive they'll be, but we are kind of
12 flexible. We talk about building units offsite. We talk about the potential for deed restricting
13 rehabilitating and deed restricting existing units as affordable. So a developer, a commercial
14 developer could buy or have existing market rate units that they agree to deed restrict as
15 affordable and meet the requirement. And there's some potential for a developer to be kind of
16 creative and propose a plan in some instances reflected in this ordinance so that that's how we
17 try to address that.
18

19 Commissioner Alcheck: Ok so I have sort of one additional question. I would because not all
20 commercial projects come through this Commission or commercial projects in particular come
21 through this Commission I feel like we have a good grasp of this, but I think it would be helpful
22 if we understood better how much multifamily residential housing has been built in the last
23 decade in Palo Alto. Because I think the number is very low. I don't count five units as
24 multifamily because that is the amount that they could build without subjecting themselves to
25 the requirement. I think it used to be five, right? That was the number that you could get away
26 with building without being subject to these affordable housing fees and that was... that's like
27 I'm building something I might as well build five units because I'm allowed to do that without
28 actually being affected by it. So I'd be interested to know how many five plus six plus
29 multifamily developments have been built in the last 10 years not including by our housing
30 company. Because if that number is really low then I think we know we can get a sort of a
31 sense for what to expect and I think it would that would help me. I think, I don't know that
32 we're going to meet again on this before it goes to City Council, but maybe they could be
33 presented with that information and they could see like they can know well here's what we're
34 talking about. Ok, thank you.
35

36 Chair Fine: Thank you. I want to take a few minutes. There's been a lot of good comments
37 about impact fees in general about how we encourage onsite affordable. Those are all good
38 discussions, but I do want to keep us focused on the specific policy which is the commercial or
39 residential linkage fee. I'm going to start with the big one which I'm not sure I'm comfortable
40 making a decision of a certain fee giving a thumbs up or thumbs without kind of knowing that
41 elasticity issue. And so my question is what do other cities do in terms of judging that? If
42 you're in Milpitas and they're upping it from \$17 to \$18 like how do they make that decision?
43

44 Ms. Srivastava: It's really typical for folks to do a pro forma financial analysis similar to what we
45 have done in our study. They also often look at what their neighbors are charging and compare
46 themselves to other places. So we have provided that information. The other thing that they

1 do is they look at how much they're increasing total fees overall. So to go to the point of how
2 do you contextualize this within the your existing cost structure which we also have provided
3 here so that you understand how much your total fees would go up, which is 70 percent by the
4 way, if you were to adopt a \$60 per square foot commercial linkage fee. So I think that those
5 are the types of analyses that they do which is, but I think that ultimately it tends to be more of
6 a policy question and then it is because as I think Cara mentioned the Nexus justifies a fee that
7 is much higher than what is being recommended here.

8
9 Chair Fine: Right. I mean with all due respect that's just not very satisfying. I'd like us to have a
10 bit more of a guide in terms of determining how we do I think Hillary laid it out pretty well in
11 terms of we want to support affordable housing funding. We also want to support onsite and
12 you want it to be administratively more simple. Like those are all good guiding North Stars I
13 just don't have a way of balancing those first two, right? The administrative thing like I get it,
14 sure if you move to this new regime it's a little easier for the department and City to administer
15 and estimate what's going to come in. I don't see us having good data on determining what the
16 Affordable Housing Fund will look like or what will be built onsite and I think those are both
17 important goals for the City. I also want to echo what Commissioner Alcheck said is like we are
18 likely approaching recession and that changes the game here too. So that's something I just
19 want to lay out there, I think we need more data there and I'm on the fence about moving this
20 forward.

21
22 A couple other comments and questions in different areas; one, I'm in general in support of
23 some of the stakeholder feedback about phasing in the fees over the time whatever we do.
24 That was one of the points so maybe over a couple years I don't know what's standard practice
25 there, but that seems to make sense in terms of stepping them up slowly. I'm wondering if the
26 City could also further segment office, R&D, and small business development on Page 20 it
27 shows San Francisco does that. That San Francisco looks at a number of different more
28 granular fees based on the type of use. That may be helpful for Palo Alto and I think that also
29 kind of addresses the issue of that the Housing Element isn't looking to... it's not looking to look
30 at the generation of construction out right it's more looking at the employment generated by
31 construction, right? And these different uses vary pretty radically. So I mean it's nice to see
32 hotel broken out, but office, R&D, and medical like those are all really different. I think it would
33 do us well to look at those and see what the different segments are.

34
35 On top of that there's also the issue of the employment densities and if they're correct. I
36 believe they're based on federal and then region wide averages. So I just put it to my
37 colleagues that maybe those are appropriate for Palo Alto, maybe not. I think it was like 333
38 square feet per employee in office. At least my experience and my work at a tech company
39 that's probably not that's probably too generous. I don't have that much space. I wish I did.

40
41 Ms. Srivastava: It's a conservative assumption.

42
43 Chair Fine: Yes.

44
45 Ms. Srivastava: Because I think if you used a higher density you'd have higher demand and
46 result in higher fees.

1 Chair Fine: Right. And one other question that would be nice (interrupted)

2
3 Ms. Gitelman: I'm sorry; I just wanted to link that back to your other comment about
4 differentiating. It's also higher than we're used to because office, R&D is lumped in with office
5 in this instance. And if we wanted to desegregate those and medical office we'd really have to
6 revise the Nexus study. We'd have to sort of redo this calculation to pull to tease that apart.

7
8 Chair Fine: Yep, which the City may or may not do. Another comment I'm kind of in agreement
9 with Commissioner Rosenblum that charging impacts fees to housing projects is questionable.
10 There's like a weird feedback loop as Commissioner Downing pointed out and it's also just it's
11 raising the cost of housing, right, overall across the market. There's a few more lights here, but
12 I would like to sort of hear from folks, it's nine o'clock whether we think we have an idea about
13 how we'd like to move this forward, whether we are looking for a more data in terms of things,
14 but anyways let's go through the newest lights. Commissioner Downing.

15
16 Commissioner Downing: I want to start with a couple of kind of specific points and then talk a
17 little bit more to the general issues that have been raised by this Commission. So one of the
18 specific points I'd like to make is I've been on this Commission for almost two years. I don't
19 think I've ever seen a housing project come in front of me that's purely housing. I don't think I
20 had, we've had a housing project that has come before me and then my time on the
21 Commission. I have only ever seen mixed use projects come here. I've never seen a building
22 that's just plain apartment buildings or just plain condo buildings. I haven't seen it. It hasn't
23 happened. So what I have seen is mixed use projects where in order to avoid all these fees and
24 avoid extra requirements what they're doing as part of mixed use is they're building
25 penthouses. They're building 3,000 square foot apartments. And I don't think that's going to
26 go away even with these regulations especially combined with our parking requirements.
27 We're going to see more of that.

28
29 So one recommendation that I have is if we're going to reduce the number of units, if we're
30 going to say oh this applies when three units happens that's probably not going to work unless
31 we also have minimum density requirements, right? If you're 15 RM then that's what you build.
32 If you if there's a density that can be allowed you can build it apartment buildings and that's
33 what you have to build. I think those two things have to be paired because otherwise this
34 doesn't work. It doesn't actually get us more housing. It doesn't actually get us more
35 affordable housing. So that's one point I would make.

36
37 The other point I would make is that picking a number like \$50 is really problematic because
38 you don't do automatic adjustments for the economy. As the economy wanes, as things get
39 worse, right, you're still asking for \$50 a square foot, but without regard for where the
40 financing now is. Without regard for how much that unit will actually sell for. You're putting
41 yourself in a position where you may get to a point where with that fee you're just going to
42 have empty units because the developer can't sell it at the price that it would take him to
43 recoup his fees. And you're going to get distortions happening in the market. If you guys don't
44 want to go back to like the percentage because that's too hard to calculate there needs to be
45 an automatic adjustment within the ordinance to change that \$50 number up or down
46 depending on the economy. And I think you just have to write it in. Like that should be just

1 something that you calculate every time you take that fee. It shouldn't be something the
2 Council has to come and update every month. You can create formulas for this. You can tie
3 this to the markets. There are rates you can use just like the banks use to do this. So that's my
4 other kind of specific on this.

5
6 I want to talk about sort of the broad policy that's being expounded here and I do want to talk
7 about the purpose. Because ostensibly we're here to talk about affordable housing and about
8 affordable housing fees and supposedly all this is so that we can raise affordable housing fees
9 so we can build more affordable housing. But honestly I'm looking at the fee increases and just
10 looking at how massive and aggressive they are I just can't help but feel like everything in this
11 packet is actually about how do we not build any more housing ever again in Palo Alto. That's
12 what this is actually about. And why do I say that? I say that because if you are actually truly
13 interested in maximizing the number of funds we have for affordable housing the answer is to
14 allow people to build higher, the answer is to allow people to build more square feet, right?
15 More sf gets you more money into Affordable Housing Fund, but that's not being proposed.
16 That's not on the table. There's not even a whisper of that anywhere here. And in fact I think
17 you have a major problem when the people who actually administer affordable housing are
18 here in the room telling you that this is going to decimate their fund. I think that's outrageous.

19
20 And I'll go back to say it again, we don't build housing in Palo Alto. I haven't seen an actual
21 housing project here in two years and we definitely don't build affordable housing in Palo Alto.
22 Within the last Regional Housing Needs Allocation (RHNA) cycle, so seven year cycle, we built a
23 total of 156 units for low income people. That was 12 percent of our target, ok? 12 percent.
24 So 156 units over a population of 65,000 people, ok? So my point on this is that even if you
25 raise all the affordable housing dollars in the world I have a very hard time imagining that we're
26 actually going to build a significant amount of housing with that money. We have a City Council
27 that trembles at the thought of a four story apartment building, ok? So even with all the money
28 in the world I do not find it credible that we will actually spend it on affordable housing. And I
29 don't see the Council actually talking about potential sites for this affordable housing, potential
30 places where they could up zone for it, where they could allow it for. I've never heard that
31 conversation happen in all the time that we've been talking about these fees. So where that
32 housing is going to go and whether or not this Council is actually going to approve it I find that
33 all very dubious.

34
35 And then I'll say more about this, the supply of affordable housing even with everyone's best
36 intentions even if this Council was doing everything they could possibly do to actually add
37 affordable housing, which I don't believe is the case here, but even if they were it would still be
38 extraordinarily limited. Every time there's an affordable housing project that's built up and
39 down the peninsula there are literally thousands of people who apply for every single unit.
40 Thousands of people who apply for every single unit. So what does that tell us? That tells us
41 that the vast majority of people who are lower income individuals they live in market rate
42 housing. They pay market rate prices. So let's talk about what that means, right? So let's talk
43 about 1,400 square foot condo. That's a moderate sized two bedroom condo, right? At the
44 fees that you guys are proposing, not you guys, the Council. At the fees that they're proposing
45 that's an extra \$70,000. So you're talking about people who are already barely making it who
46 are already scraping to get by, right? And you're asking for another \$70,000. That's enough to

1 buy you an entire house in other states. So and you're asking for this extra \$70,000 from the
2 people who can already barely afford it and you're calling that affordable housing. I don't really
3 see what's affordable about that.

4
5 What you're doing is you're decimating the middle class. That's what you're doing, right? And
6 you're ensuring that the only people who can come here and who can afford that extra \$70,000
7 are super rich people. And then of course on the other side when it comes time to actually
8 build something with that Affordable Housing Fund we're going to see the City not actually
9 build it and not actually approve it. So I struggle. I struggle with Palo Alto's sincere regard for
10 affordable housing while on the other hand Palo Alto continues to take actions that make sure
11 that more and more of its residents are going to require handouts instead of standing on their
12 own two feet. I find this problematic. I don't like the fee increases. I don't like the legislation
13 that's being proposed here and I find it... I find it unthinkable in a time of housing crisis.

14
15 Chair Fine: Thank you. Commissioner Rosenblum.

16
17 Commissioner Rosenblum: I have a little bit of different, I usually agree with Commissioner
18 Downing, but I think I'm approaching this slightly differently. I agree with most of the
19 sentiments, but around this, this is about the fee structure so just concentrate on that fee
20 structure in this more narrow task. I think we've all had a round of questions so it's ok I just
21 wanted to give some input where I'd like to see this go.

22
23 So the first is I do think that the formula we should be trying to is we should be trying to
24 maximize funds for affordable housing. So to the extent that there's an analytical framework
25 that we're using it should be maximize funds to build affordable housing. That's my
26 recommendation. I know that wasn't what the objective was, but I think it's a good objective.
27 So with that in mind in order to do that you would need some sort of I guess supply elasticity
28 analysis in order to do that. So you have set the optimal point where you think for each
29 category the decrease in development desirability will be offset by the increase of fees to
30 maximize the pot. So that would be my ask is that when this gets developed further if it does
31 there needs to be some assessment of where the maximum point is before your coffers decline.
32 Do you understand what I'm asking?

33
34 Ms. Srivastava: I'm just trying to understand how that would be different from a feasibility
35 analysis.

36
37 Commissioner Rosenblum: Yes, I believe the feasibility analysis took two things to account. One
38 was the maximum justifiable impact fee which we already had a discussion about. And the
39 second was an assessment for developer return on investment where a reasonable return could
40 be expected for the developer. That's different from the maximum point where developers
41 would want to apply for additional development dollars. So the methodology used for example,
42 you could say well it's reasonable we've calculated a 7.2 percent return or whatever the cost of
43 capital that you guys use. I forget exactly what you use for as your assumption, but seven or
44 something percent return on capital for (interrupted)

45
46 Ms. Srivastava: It depends on the product type.

1
2 Commissioner Rosenblum: Ok, yeah. And it would be a reasonable return, but that's not
3 necessary the maximum return. Meaning what is there's some point where the maximum
4 number of units being built times the expected value of the impact fees is at its maximum. And
5 so I'm asking for that, an assessment of that number. If you believe it's the same, first it's weird
6 to me that would be the same, but if your answer is it's probably the same or we just don't do
7 this then that's another matter. But my ask and again in the interest of time I'm just going to
8 say I would ask that that be included, some sort of analysis of what the maximum point is for
9 filling the coffers for affordable housing.

10
11 Then next I'm going to steal an idea from Commissioner Alcheck, which is that we're worried
12 that if you set the fees too high that no one will build anything and then you won't have money
13 for affordable housing. And so my additional request is if there is a way for the City to
14 guarantee funds for affordable housing and so basically saying well, if we set these fees really
15 high and therefore we didn't get any development we will guarantee that the Affordable
16 Housing Fund shall not go below this number which was set based on 2016 levels. So that
17 would address Commissioner Downing's concern that this is all like a Trojan horse to stop all
18 development for example. That if in the case there is no development the City then has to fund
19 affordable housing directly. I'm not sure if there is such a mechanism, but this would certainly
20 address some of that concern that we're setting these irrationally.

21
22 And then finally around the actual fees for each like I said I think to many of us this fee is
23 important. I think setting any fee for rental, for residential rental doesn't make sense given the
24 goals of this whole program. That's a new fee and it's the kind of housing that we probably
25 need most. And so again my personal recommendation would be that that not be considered.

26
27 And then finally just a question and then probably response to it depending on the answer: the
28 analysis that Mr. Levinsky gave is interesting. He has the 15 percent of onsite as BMRs
29 calculated as cost of \$6.96 million. My question there is: is it the case that when you have a
30 BMR unit as part of this 15 percent carve out are they equivalent to the non BMR units? So
31 Herb Borock made the point that in for example I used to live on Ortega Court when we had our
32 duplex there that was the BMR unit. It was not identical to the other units that have been
33 constructed the street. So is it the case that he assumed an average price of \$3.5 million per
34 house which is how he came up with the \$7 million of value. Is the case that the 15 percent set
35 aside are identical to the others and therefore this is a fair assumption? In which case his math
36 seems to be right which is that the current method seems to maximize value in terms of just
37 pure housing value.

38
39 Ms. Gitelman: There is a provision in the ordinance related to the comparability of the BMR
40 units. I think originally it said that they have to be comparable, but there are some product
41 types in which a smaller unit is allowed.

42
43 Commissioner Rosenblum: Ok.

44
45 Ms. Gitelman: And I'll have to find it in the ordinance, but there is some flexibility.
46

1 Commissioner Rosenblum: Ok, so then I'll finish my comments with actually either way it's a bit
2 perverse, like you don't necessarily want BMR to have I would much rather have 10 smaller
3 more affordable units than two \$3.5 million houses. And so in that case I still favor the in lieu,
4 but I also recognize that anything the formula that reduces the value is also suboptimal. And so
5 again, the current 7.5 percent in lieu fee seems to be a better situation than the proposed \$50
6 fee.

7
8 Ms. Gitelman: The provision that I mentioned is on packet Page 221 and 222. It's talking about
9 the standards for the affordable units that are provided and it says they are going to be, they
10 have to be comparable in exterior appearance and overall quality and then paragraph two is
11 the size has to be comparable, but it says that in except in a single family detached
12 development where the Council or the decision making body may allow smaller affordable units
13 or duplex units.

14
15 Commissioner Rosenblum: I see.

16
17 Ms. Gitelman: If permitted by the zoning.

18
19 Commissioner Rosenblum: Ok, well then I guess to finish that off the certain terms of the fee
20 structure it seems like the 7.5 percent in lieu fee offers both the flexibility to find and build
21 appropriate housing for folks like Palo Alto Housing Corp or others and has the maximum value
22 compared to the \$50 dollar per square foot or \$95 per square foot based on that, the model
23 used. And so anyway so just to wrap up my comments if we are asked to weigh in on the
24 different fee structure possibilities that seems to balance the flexibility of where you can use
25 the funds with the maximum dollar amount which is like I said I think the function we're trying
26 to solve for is to get the maximum amount into the coffers for affordable housing. That's it for
27 me.

28
29 Chair Fine: Thank you. Vice-Chair.

30
31 Vice-Chair Gardias: Thank you. So when I first spoke about the fees in that table I'm going to
32 just come back to this comment that I made. So those fees and my colleagues just address it,
33 they were addressing different things, but they touched up on this numbers. They just pretty
34 much when you look at the numbers like 50, 60 what else? And 9, 50, 60, and 30. They, the
35 numbers just they look too round to be true, right? That's the first thing. If you dilute the
36 numbers, right, you know that this is got to be true. So for this reason, but I understand that
37 you just did some scenarios and those numbers are pretty much reflected in the scenarios. You
38 didn't do the true analysis because the number could be falling somewhere between, the real
39 number, the true number that would maximize the return on the investment. You just have
40 certain distinct scenarios.

41
42 Ms. Srivastava: Yeah, we created some fee scenarios.

43
44 Vice-Chair Gardias: Exactly, yes. So you're going to be leaving some money on the table, right?
45 Or just pretty much or you incentivize developers if you have a gap, right?

1 Ms. Srivastava: I think it's that's possible. I also think that a pro forma analysis like this is just a
2 tool to help you get close to what we could, would consider an economically reasonable
3 number. But as you know the prices shift constantly. There are constant fluctuations. So I
4 think it would be I don't think it would represent the analysis accurately for me to say that you
5 could solve down to the last cent exactly what that number should be.
6

7 Vice-Chair Gardias: Right, but that's not what I said. I mean these numbers are too rounded I'm
8 not asking about a cent. I'm just asking you to develop the real number. So and then when you
9 look at your analysis the great document that you created. That there should be a first page of
10 this should be really just showing us the maximizing the funds fees or I would rather set not the
11 fund, maximizing the fund, but maximizing the stock of the below markets units per some
12 markets fee that provides developers with the competitive rate of the return which also looking
13 at your when I read your paper you disclose that pretty much just hiking the fee to \$60 and I'm
14 talking about the office puts us at a competitive disadvantage against other municipalities. So
15 developers in seeking their return they would be going to Menlo Park. What John Carlton did
16 and everybody would be gone and the others would be going to Mountain View because there
17 were, this is where they can build. They would not be coming to Palo Alto to develop. So the
18 first cover sheet of your study should just show us the linkage between the maximizing the
19 funds or the stock of the below market units, market rate units, and the fees that you would be
20 proposing. So that's just an observation that I have in general.
21

22 I would like to just spend a moment on the other items. There is in terms of the and I just don't
23 expect that the answer it seems to me that we may return to another session because there
24 were so many different observations that we may need to have farther input before we just
25 make recommendation to the policy. So let me just give you a couple of study points. So in
26 terms of the office and R&D fees we have two different types of the office locations. One is the
27 Stanford Research Park where large corporations are located and then there is anything else
28 where there is lots of small business. I would like to know if we can differentiate the fees to
29 sustain this small property owners and make sure that they can develop the properties within
30 their means from the large corporations that can scale and then can develop their facilities
31 based on different economic models. So that's my comment to this office \$60 a square foot.
32

33 In terms of the retail I believe that correct me if I'm wrong, but I think that the retail if we have
34 a retail in the ground floor and then office upstairs that pretty much is that the total fee is a
35 composite of the separate of separate fee based on the ground square footage for retail and
36 the office on the upper floors. So what I would like to understand having our interest on the
37 that was expressed in the prior sessions and couple of resolutions that we had, can we change
38 the fee for retail development to allow to incentivize more retail space that we truly need on
39 the ground floor level in certain zones especially along El Camino corridor and some other
40 commercial districts. So my first guess would be maybe as opposed to keeping at the same
41 level maybe it should go down. So that's the question that I would have for another session.
42

43 And the last point was on (interrupted)
44

45 Ms. Silver: Commissioner Gardias?
46

1 Vice-Chair Gardias: Yes.

2

3 Ms. Silver: Just one point on that last comment. The ordinance currently has an exemption for
4 smaller retail businesses of less than 1,500 feet.

5

6 Vice-Chair Gardias: Ok, so it's already addressed. So thank you very much. So then skip this
7 item. I thought it was still an interesting observation. So yes, so let me just stop at this and I'm
8 sure that my colleagues have other comments. Thank you.

9

10 Chair Fine: Thank you, Vice-Chair. Commissioner Tanaka.

11

12 Commissioner Tanaka: I was just thinking that of this list to my fellow Commissioners and it
13 seems like everyone has there are still some open questions given the data that we have right
14 now and I was just thinking about whether we think we can actually arrive at a coherent motion
15 or recommendation or whether we should at this point in time given the time whether we
16 should give staff some clear direction on what kind of homework they could do to make this a
17 easier decision on our part. So I wanted to just put that out there because I know I for one
18 could use some better information to make a good decision. And it sounds like almost at least
19 from what I've heard everyone else also would like that as well. So I think we have a choice of
20 we could go for the marathon session tonight to try to use what limited information we have or
21 maybe give some homework to staff to try to develop this into a better shape so that when it
22 goes does go before Council they are better informed as to what decisions you're making.

23

24 Chair Fine: I'm in agreement with that and I want to take a quick crack to set this up for folks. I
25 think the major thing this Commission would like to see is how the impact fees will affect the
26 ultimate outlays for the Affordable Housing Fund and onsite housing production. There was
27 also some interest in whether the City can guarantee affordable housing fees or sunset these
28 fees if they're not working out for us in the right way. There were a few questions about
29 exemptions, about employee density figures, whether we can further segment these fees by
30 location or different use types. I had my comment about phasing the fees in over time. Am I
31 missing anything?

32

33 Commissioner Tanaka: I mean just what I was started with at the beginning which is I just want
34 to understand how to do these fees fit in with all of the other fees happening and just like you
35 said trend lines. I just I want to make sure we see the bigger picture because if we're stacking a
36 bunch of new fees on top of really fees that are going to bump up again I think that's super
37 important to know.

38

39 Chair Fine: So I think I'm willing to make a Motion to have staff look into these issues.

40

41 Ms. Gitelman: Chair Fine. Can I just try and clarify because what we obviously want to get this
42 to the Council. It's long overdue and they're very interested in the subject as I appreciate you
43 are. And I want to give you the information you need. I just want to be realistic about what we
44 can do and what is maybe not possible. So I think we can give you some additional assessment
45 about how we think the recommended fees would affect the housing funds and the production
46 of housing. So we can do a little more on that. Again, you're going to get our opinions based

1 off assumptions and we'll do our best. And we can also do our best to develop some
2 information for you on the last I don't know five years or so of our fees at the City and how
3 they've changed over time. Would do you think going back five years would be sufficient?
4

5 Commissioner Tanaka: You know more the better and I think it would also be good if you could
6 break these fees out so we could see...

7
8 Ms. Gitelman: We can do that.

9
10 Commissioner Tanaka: Yes, and the percentage of each. Just so it's really clear and easy for us
11 to see where the trends lie on.

12
13 Ms. Gitelman: Yes.

14
15 Commissioner Tanaka: And also like when things got updated because like if you're planning a
16 major increase tomorrow it's really good to know about that.

17
18 Ms. Gitelman: Yes, ok. So we can do a little more research on that. I think we can also take a
19 look at the feasibility analysis that we did in light of Commissioner Rosenblum's comments. I'm
20 not sure that it's really that much different than what you're asking, but let us give that some
21 thought and see if we can go deeper there.

22
23 I think I can tell you right off the bat we're not going to be able to differentiate by use any
24 further than we have without redoing the study. We also, I think can't really provide you with
25 any more information about triggers or phasing or what, but I thought that someone on the
26 Commission suggested that we pursue a phase in and then that would give the Council or the
27 City the opportunity to that basically stop the train. If after phase one you see detritus results
28 and you don't want to go any further you cannot implement phase two. You can stop the
29 phase in. That might be an alternative to a mechanism to backfill the... I just didn't see how we
30 could build something in to backfill with General Fund revenues that starts to get super, super
31 complicated. So maybe when we bring this back the Commission could recommend to the
32 Council some kind of phase in strategy and this was on the table at the Finance Committee.
33 They never really focused on it, but it's an idea that's been out there and you could advance
34 that as part of your recommendation without us having to do a lot of additional work.

35
36 I think we can also provide the Commission with some background information on or just the
37 City's track record of units produced. I'm not sure we can get to the level of detail of how many
38 were in projects of less than five units, but we'll see what we have. And did I miss anything on
39 your list?

40
41 Chair Fine: I think that would be pretty good and some of those other ones we've mentioned
42 could be as recommendations to Council to look into. As you mentioned some of them are a bit
43 more complicated and messy and kind of ancillary to this in a way.

44
45 Ms. Gitelman: I did want to point out that with the exception of the yes/no on whether to
46 charge fees for rental housing almost all of the issues that you're talking about have to do with

1 actually setting the fees rather than the ordinance that we put in your packet for your review
2 this evening. The ordinance actually doesn't have the fee amounts in it. That's going to be in a
3 separate table that's adopted by the Council in a separate ordinance. The ordinance really talks
4 about administration of the in lieu program, administration of the impact fee program, what
5 applies to mixed use projects, what applies to for sale, what applies to rental. So I just make
6 that observation that when we come back together again we may want to separate these two
7 ideas because we've spent 95 percent of our time on the fees and 5 percent on the kind of
8 procedural structural things that are just addressed by the ordinance.

9
10 Chair Fine: Ok. Thank you. Commissioner Downing I see a light.

11
12 Commissioner Downing: I think we would be remiss if we left this session today and didn't
13 strongly send a strong message about housing fees on market rate rental housing. We know
14 those fees are going to be directly passed off onto renters who are in fact the most vulnerable
15 people in our community. So I'm not sure how we can leave here and not send a strong
16 message on that. Lots of people on this Commission have talked about that tonight. That
17 should be in writing. That should be in our Motion.

18
19 I also think that we really like the idea of a security package for the affordable housing. If the
20 true intention of this ordinance is to increase Affordable Housing Funds then I like the idea of
21 asking the Council to make up the shortfall if this policy decision doesn't end up being a good
22 bet. It's the poor and the lower income in Palo Alto shouldn't be paying for that bet, it should
23 be the City. So those are two things I would add to our Motion and there's two things I'd like to
24 see happen before I leave tonight.

25
26 Chair Fine: Thank you. So I'm going to open the floor to Motions. I've always found it's always
27 open and willing to entertain... Commissioner Tanaka.

28
29 MOTION

30
31 Commissioner Tanaka: I'd like to make a Motion for us to continue this item to a date
32 uncertain.

33
34 SECOND

35
36 Vice-Chair Gardias: Second.

37
38 Chair Fine: All right, so we have a Motion on the floor to continue to a date uncertain with a
39 second. I believe staff has a fair read on what we'd like to see at the next session. Any
40 comments? Would you like to speak to your Motion?

41
42 Commissioner Tanaka: I think I already said my piece so I'm fine. Thank you.

43
44 Chair Fine: Speak to your second?
45

1 Vice-Chair Gardias: Yeah, I think that given the amount of the comments it's self-explanatory;
2 although, I still would like to just get some at least approximation about my request for
3 differentiating of these fees between Stanford Research, large corporations, and the rest of
4 Palo Alto. But otherwise I think that there was for the amount of the material that we would
5 expect from the staff so for this reason it would be nice to have another session.
6

7 Chair Fine: Commissioner Alcheck.
8

9 Commissioner Alcheck: I just want to make a quick comment why I think this is a good idea. I
10 understand that they're waiting for it. It's not often that we get a lot of feedback in this room.
11 But this is a big deal and I will assume that the reason why we are not hearing from any private
12 developers tonight is because they're either very busy or on vacation. I just it's just struck me
13 as a bit odd that we didn't get a lot of we didn't get a significant number of emails on the topic
14 and we didn't really have a lot of speakers here tonight considering the impact of the change.
15 And I think that despite I know your goal to sort of move this down the road I think there's a
16 part of us that I think that what you're seeing here is that we need a little bit more time to deal
17 with this. I would have appreciated more feedback from the development community in
18 understanding this.
19

20 I really appreciate all the effort that our hired consultants have provided, but I hope that this
21 will be somehow acceptable that we can at least have another session to get into more depth
22 on some of these issues and hopefully get a little bit more feedback. One of the things that we
23 don't, one of the things that we're not going to have, I hope that the individuals that spoke
24 tonight that had concerns will come to our next session and address some of the suggestions
25 we've made and how those relate to their concerns. Whether that appeases some of the
26 concerns or whether you've got some other suggestions on how we could move this forward
27 because unfortunately that doesn't get to be a conversation. So I would like to know if some of
28 the suggestions we've made are making a difference in the eyes of the individuals who have
29 expressed concern. And that would be nice if there was a little bit more input. I think that
30 would help. So hopefully this won't (interrupted)
31

32 Ms. Gitelman: I just want to make sure that you have we should have probably done this at the
33 beginning, run through the list of the letters that we received prior to this meeting. We did get
34 a letter from the BIA and we did get a letter from another development center. So we've had
35 some input from the development community. It was interesting to me that their comments
36 focused mostly on the amount of the fees suggesting that the \$60 is too high that we should be
37 more in line with adjacent jurisdictions.
38

39 Commissioner Alcheck: There are a few developers in our local community who are very active.
40 They're self-interested, but they're very, very active, right? I feel like in the Planning
41 Department you can probably think of two names that have developed over 10 parcels in
42 Downtown Palo Alto alone, right? I just wonder this goes hand in hand with the comment that
43 Commissioner Downing made and sort of my request for understanding how many multifamily
44 developments have we had in the last 10 years. I'd be interested if we... look it's not our jobs to
45 reach out to them for input, but it would be, I would have been interested to hear from
46 individuals in our community who are a little active in this space. I know NAIOP (National

1 Association of Industrial and Office Parks) I'm very familiar with NAIOP but they're regional I
2 mean they're more than regional. But it would just be interesting to speak to a few of the, to
3 have a few of the developers in the space. Maybe they would not give you the feedback that
4 you want to hear, but at least it would give perspective. And I'm not suggesting that we need
5 to wait for that. I'm just saying I think that having another session would have, will be
6 beneficial for that purpose and that's why I'm going to support this.

7
8 Ms. Gitelman: We did have a stakeholder meeting that was very well attended by some local
9 folks and we sent them notice of this. We sent them a link to the staff report, notices of this
10 meeting so they're aware of it. I should mention too that there are a bunch of projects in the
11 pipeline which is part of the reason that the Council is interested in getting this ordinance
12 sooner rather than later and I'm not begrudging the Commission the need for another hearing.
13 I think we should give you the information that you need, that you've requested, and we'll do
14 our best to do that expeditiously. But the Council is eager I think to (interrupted)

15
16 Commissioner Alcheck: When you say pipeline you mean apply or (interrupted)

17
18 Ms. Gitelman: Well there, there's at least one rental housing project in the pipeline. There's
19 the for sale housing project that was discussed this evening that was recently entitled and
20 there's some nonresidential development in the pipeline that could pay these higher fees if
21 they are enacted.

22
23 Commissioner Alcheck: Ok. I imagine those people in particular would be interested in this
24 discussion. Ok, so I don't want to slow this down. I just, ok.

25
26 Chair Fine: Vice-Chair.

27
28 Vice-Chair Gardias: Just in the same perspectives I would like to just ask Ms. Bigelow, thank you
29 very much for staying that long and Chairman allowed me just to reopen this communication
30 because we typically just close the public hearing at some point of time. But you made a
31 comment when you spoke that there are some tax credits or there are some credits. And I
32 think that we didn't discuss this in depth, but we would be interested if you could just for the
33 follow up session if you could gave some perspective on those credits to the staff and to
34 consultants so maybe when they are just updating their models they could also account for
35 those stock credits or some other credits from your perspective would they would help in
36 building of the stock of the below market units. Thank you.

37
38 Chair Fine: All right. I think we're ready to vote. The Motion (interrupted)

39
40 Jonathan Lait, Assistant Director: I'm sorry Chair. If you, we think will be ready by August 31st.
41 So if you can continue to a date certain, August 31st, that would be helpful.

42
43 Commissioner Tanaka: For me it's really staff's work. I mean I think what's most important is
44 for this Commission to have a really high quality work product so that Council can make a good
45 decision. So it's really if staff thinks I mean I think just about every in fact every single
46 Commissioner had kind of a ask from a staff and there was a lot of asks. So I just want to make

1 sure that staff has enough time to kind of fulfill these asks because I think we don't want to do
2 is slow things down and I think it's important that we've got a lot of comments from just about
3 every single Commissioner about more information for this. I think if August 31st is you guys can
4 do it I think that's great, but if you guys can't I think it's good to pick a date that you guys can do
5 this because otherwise this this will cause delays. We'll have another meeting and there will be
6 the things that we've asked for wasn't done and it will cause more so I just I guess just I'm not
7 so hung up on a date. I don't know how my other fellow Commissioners are in terms of a date,
8 but I don't want to make staff like if you guys can't do it by then I don't want like...

9
10 Ms. Gitelman: Well I think we're saying that we'll try and do it by then. Obviously if we don't
11 get it done we'll ask for you to continue it rather than hold the hearing.

12
13 Commissioner Tanaka: Well I'll leave that up to the Chair in terms of like when you guys maybe
14 during your, you guys agendize items you guys can see and make sure it's ready.

15
16 Chair Fine: Ok.

17
18 Commissioner Tanaka: So that we don't use our time, we use our time wisely as well.

19
20 Chair Fine: Ok. I think let's trust the August 31st date. If it doesn't work out that's too bad, but
21 it's soon but if staff can do that that would be great to move it forward quickly.

22
23 Ms. Gitelman: And if Commissioner Tanaka's concerned about it maybe we should confirm
24 once again the additional information we're bringing back because I mean I know there's work
25 here, but I didn't see it as maybe as complicated as you, as you were suggesting. I mean we
26 we're going to do some additional thought about let's just make sure we're on the same page if
27 you don't mind?

28
29 Chair Fine: Sure.

30
31 Ms. Gitelman: So we're going to give some additional thought to how the fees will affect the
32 fund balances and housing production generally; just some more thoughts on that. We're going
33 to look at the trends of fees that have been adopted by the City over the last five plus years if
34 we can. We're going to (interrupted)

35
36 Commissioner Tanaka: Actually I'd like to just add maybe also in comparison with other cities.
37 So we could see a trend line.

38
39 Ms. Gitelman: I'm not sure that we can do that. I mean that is that ton of work to go back to
40 these other cities and we've done that twice so to go back and look at their track record I think
41 would be an extraordinary ask. Do you really think that that is a necessary?

42
43 Commissioner Tanaka: I guess it's kind of like we're not Palo Alto's not Island, right? We have
44 what we do here also kind of affects what people do in other places and so if we look at our
45 City in isolation I think we don't have the complete picture. So like for instance if everyone else
46 was charging \$1 in impact fees and we're charging \$100 that's kind of meaningful. So I guess

1 that's why it's good to have a complete picture about what's happening. I'm not talking about
2 like all the cities in California, I was talking about like the local ones so we could see that how
3 we're doing, how everyone else is doing, and also like when certain fees are getting updated or
4 which ones are really old which ones are 2002 vintage? Which ones are (interrupted)
5

6 Ms. Gitelman: I'm just being honest with you. We have that information for today and so you
7 have a comparison to adjacent communities to go backward in time for those other
8 communities is an extraordinary amount of work and we just have to allocate our resources in a
9 smart way. I just I mean if the majority of the Commission feels like that's a critical piece of
10 information we can try, but that certainly means that August 31st is not going to work.
11

12 Commissioner Tanaka: Yes, I mean for me it's I think it's important, but I would love to get other
13 Commissioners opinions as to whether that's important or not. If not then that's fine as well.
14

15 Commissioner Rosenblum: I'm personally not as concerned with that as a [unintelligible]. I'm
16 actually more to me the two things are a honest attempt at what I'm calling supply elasticity.
17 So basically where they think the maximum point for filling the coffers would be. And then
18 second I think that you were dismissive of this, but I do want to throw it back out. Staff should
19 figure out if there is a mechanism for the City to give some guarantee for housing funds. So this
20 is the concern we have here is that we're going to raise fees to an extent that we end up with
21 no development and then no fees. And so if that can be taken off the table that fear then I
22 think people are much happier.
23

24 Chair Fine: I'm going to chime in that I think the fee schedule in general for the City is helpful. It
25 would be nice to have other communities, but it's not critical to me.
26

27 Ms. Gitelman: Just to continue on the summary. This question of elasticity of supply I think
28 we'd like to talk to you briefly after the meeting to make sure we understand because we're,
29 we kind of feel like the feasibility analysis we've done is getting at that same issue. So maybe
30 we could just talk offline for a minute and make sure we understand.
31

32 With regard to the idea of backfilling I mean I guess we can give that some more thought about
33 how that might look like. It's I don't really know how we would do that. And then you also
34 asked for the track record of units produced and projects over the years. And we can scrounge
35 that up too. Did I get everything?
36

37 Commissioner Downing: I would like to make a brief comment on the sort of research we're
38 being, we're asking the Council to do. So it makes me think about your comment when you
39 talked about the Palmer decision and you said we got rid of these BMR restrictions on
40 apartments, housing prices didn't get cheaper. Ok, but the problem is at the same time we
41 weren't building anything and hundreds of thousands of people were coming to California. So
42 you're going to like whatever analysis they do is going to tell you the same thing. Like the fee
43 impact you're not going to be able to disambiguate from the fact that supply compared to
44 demand has not lined up. That the housing shortage has gotten more and more dire. So you're
45 not going to get any data that you want from that, from the impact fee analysis. Do you

1 understand what I'm saying? Because it's all going to be confounded by the shortage. So I
2 don't know, take that into account.

3
4 VOTE

5
6 Chair Fine: Alright. I think we have a Motion on the floor. It's almost 10:00. So this is a Motion
7 to continue to August 31st with a number of points for staff to look into as Hillary's outlined
8 and we will try to help you in terms of understanding what we'd like in the elasticity issue. So
9 everybody ready to vote? All in favor? That passes unanimously. Thank you very much. That
10 closes that item.

11
12 MOTION PASSED (7-0)

13
14 **Commission Action:** Commissioners provided comment, moved to date certain of August 31,
15 2016. Passed unanimously

16
17 **Study Session**

18 Public Comment is Permitted. Five (5) minutes per speaker.^{1,3}

19
20
21 **Approval of Minutes** Public Comment is Permitted. Five (5) minutes per speaker.^{1,3}

22 1. June 29, 2016

23
24 Chair Fine: We have approval of minutes from June 29th. Do I have a Motion?

25
26 MOTION

27
28 Commissioner Rosenblum: I move to approve the minutes.

29
30 Chair Fine: Thank you, Commissioner. And...

31
32 SECOND

33
34 Vice-Chair Gardias: Second.

35
36 VOTE

37
38 Chair Fine: We have a second. All in favor? Everyone. Thank you. Let me just write this down.

39
40 MOTION PASSED (7-0)

41
42 **Commission Action:** Commissioner Rosenblum motioned to approve the Minutes of June 29th,
43 Vice-chair Gardias seconded the Motion. Motion approved unanimously.

44
45 **Committee Reports**

46

1 Chair Fine: In terms of committee reports Citizen Advisory Committee (CAC) is still going along.
2 I think we all want to get home tonight so nothing major, but...

3
4 Vice-Chair Gardias: No, in terms of CAC I think that we going to have an update at the following
5 meeting, right? On the CAC. We talk about this at the pre-Commission meeting that at the
6 next meeting we would have the schedule of all elements coming up to our, to the Planning and
7 Transportation Commissioner (PTC).

8
9 Jonathan Lait, Assistant Director: Right. We can give you a schedule for that. Our next
10 summary update on the Comp Plan which will include a CAC discussion is I think scheduled for
11 September, but we can provide some information about where we are relative to the elements
12 being reviewed by the CAC.

13
14 Vice-Chair Gardias: Very good, thank you. And one minor comment I think that we may remove
15 the midtown connector study from the subcommittees based on the Council's decision, this
16 body I think naturally dissolved.

17
18 Chair Fine: Good point. Thank you.

19
20 **Commissioner Member Questions, Comments or Announcements**

21
22 Chair Fine: So no questions/comments, but Kate I just want to thank you again for everything
23 you've done this Commission. We've all enjoyed serving with you. We will miss you and there's
24 some cake in the back so maybe we can talk about elasticity of these impact fees over some
25 cake if you guys are interested.

26
27 Commissioner Downing: That's a fine send off.

28
29 Chair Fine: Good point. Thank you all. This meeting is adjourned. It's 9:50.

30
31 **Adjournment: 9:50PM**