



Planning & Transportation Commission

Staff Report (ID # 11932)

Report Type: **Meeting Date:** 4/28/2021

Summary Title: Community and Economic Recovery: Diverse Retail Mix

Title: Staff recommends the Planning and Transportation Commission (PTC) hold a Study Session to Discuss and Provide Feedback on the Proposed Scope of Work for Items Referred by the City Council to the PTC Regarding the Community and Economic Recovery Plan; Specifically: (1) Quickly Evaluate and Propose Changes to Enable More Diverse Uses in More Sites, (2) Evaluate ways the City Can Curate a Strong Retail Mix, (3) Evaluate and Propose Changes to the Geography of the Retail Preservation Ordinance, and to (4) Refine Restrictions on Dining Establishments.

From: Jonathan Lait

Recommendation

Staff recommends the Planning and Transportation Commission (PTC) hold a Study Session to Discuss and provide feedback on the proposed scope of work for items referred by the City Council to the PTC regarding the Community and Economic Recovery Plan; Specifically: (1) Quickly Evaluate and Propose Changes to Enable More Diverse Uses in More Sites, (2) Evaluate ways the City Can Curate a Strong Retail Mix, (3) Evaluate and Propose Changes to the Geography of the Retail Preservation Ordinance, and to (4) Refine Restrictions on Dining Establishments.

Executive Summary

The City Council seeks to support a recovery from the economic recession; a recovery that leads to vibrant shopping areas, active ground floors, thriving small businesses, and diverse uses that serve Palo Altans. To aid in that recovery, the City Council has asked the PTC to (1) quickly evaluate and propose changes in local regulations that enable diverse retail and retail-like uses, (2) quickly evaluate ways the City can curate a strong retail mix, (3) undertake a review of the geography of the Retail Preservation Ordinance, (4) define restrictions on dining establishments.

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This report and associated study session serve as a foundation for undertaking this work. Staff seek feedback regarding the proposed scope of work and the process by which the PTC can accomplish these tasks.

Background

There are two primary reasons the PTC has been asked to evaluate and propose changes regarding retail in Palo Alto. First, the COVID-19 pandemic and associated economic recession have led to the closure of many local retailers and other businesses. Second, longer-term changes in consumer preferences and behaviors have led to declining in-person purchases.

The background section provides reflections on these larger trends that have precipitated this topic coming to the PTC. In addition, the section provides a summary of past City Council actions regarding this topic, including the referrals from the Council to the PTC.

Past Council Actions Regarding Community & Economic Recovery

The Council has discussed these topics over the course of several meetings, summarized below in chronological order. In addition, the following table summarizes formal direction to the PTC, excerpting relevant language verbatim from Council motions.

Date	Table 1: Council Direction to the Planning & Transportation Commission
11-9-20	<p>Item: Discussion & Potential Direction on Community & Economic Recovery Strategies</p> <p>A. Direct Staff and the Planning and Transportation Commission to quickly evaluate and propose changes to enable Diverse Retail Uses in more retail sites, including food, medical, educational, financial and professional office uses citywide or by district, and evaluate ways the City can curate a strong retail mix; and</p> <p>C. Direct the Planning and Transportation Commission to evaluate and propose the geography of the Retail Preservation Ordinance in Palo Alto.</p>
3-8-21	<p>Item: Adoption of a Temporary Ordinance Amending Title 18 (Zoning) of the Palo Alto Municipal Code to Broaden Permissible Uses and Raise Thresholds for Conditional Use Permits for Some Land Uses Throughout the City.</p> <p>E. Refer to the Planning and Transportation Commission the evaluation of the most appropriate way to define restrictions on dining establishments;</p>
3-22-21	<p>855 El Camino Real (20PLN-00252): Adoption of an Ordinance Amending Chapter 18.16 of Title 18 of the Municipal Code to Allow Some Ground Floor Medical Office use With a Commensurate Increase in the Overall Office use Allowed at the Site Subject to</p>

	Limitations.
	A. Direct the Planning and Transportation Commission to review the proposed Ordinance for inclusion of a retail health definition and a two-year limit to execute a lease; and
	B. Direct Staff to bring the Ordinance back to Council for consideration before the Council's summer break.

On *September 14, 2020*, the Council directed staff to take actions to address community and economic recovery.¹ This included directing staff to: “explore options and return to Council with: D. Temporarily suspending the Retail Preservation Ordinance outside of the commercial cores... F. Allowing diverse retail uses in all retail sites.”² The November 9, 2020 meeting followed up on this direction.

This was followed by an *October 19, 2020* discussion of the City's financial status and a preliminary discussion of the formal “Community and Economic Recovery Strategy.”^{3,4} Attached to that report is a recovery document from Silicon Valley Leadership Group entitled “Building a Better Normal” that provides overall guidance for recovery in a number of sectors.

On *November 9, 2020*, the Council discussion and actions focused on short-term and long-term economic recovery strategies.⁵ At that time, City Council gave the PTC the referrals listed in Table 1.

On *January 25, 2021*, the Council voted to support a Community and Economic Recovery Strategy.^{6,7} On *January 30, 2021*, at the City Council Retreat, the Council selected Economic Recovery as its number one priority of 2021.⁸ The Council endorsed the framework below:

¹ Staff presentation: <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/current-year/2020/09142020-item-10-presentation.pdf>

² September 14, 2020 Minutes: <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/city-council-agendas-minutes/2020/september-14-2020-city-council-meeting-sense-minutes.pdf>

³ October 19, 2020 Staff Report: <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/current-year/2020/id-11596.pdf?t=58347.05>

⁴ Minutes from October 19, 2020: <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/city-council-agendas-minutes/2020/october-19-2020-city-council-meeting-action-minutes.pdf>

⁵ Staff Report: <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/current-year/2020/id-11702.pdf?t=49936.29>

⁶ January 25, 2021 Staff Report: <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/current-year/2021/id-11967.pdf>

⁷ January 25, 2021 Action Minutes: <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/city-council-agendas-minutes/2021/01-25-21-ccm-action-minutes.pdf>

⁸ January 25, 2021, Action Minutes: <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/city-council-agendas-minutes/2021/01-25-21-ccm-action-minutes.pdf>

CITY COUNCIL 2021 PRIORITIES	<ul style="list-style-type: none"> • Climate change, protection and adaptation: Work continues through the Sustainability/Climate Action Plan (S/CAP) • Housing for social and economic balance: Work continues through the Housing Element and Housing Workplan • Social Justice: Work continues through the City's 17 Race & Equity initiatives adopted through CMR #11754 with quarterly updates to Policy and Services • Economic Recovery: Community and Economic Recovery (CER) workplan projects outlined below
CER: Manage through the Pandemic	<ul style="list-style-type: none"> a) Maintaining services while managing daily pandemic needs such as testing, contact tracing, exposures, and other tasks necessitated by COVID-19 is currently the highest need of the City. b) Continue high-volume public communications and enhanced community engagement on managing through the COVID-19 pandemic to the City and the Community c) Provide an updated clear comprehensive Workplace Activation Plan (including remote staffing models) (\$500k)
CER: Community Wellness & Wellbeing	<ul style="list-style-type: none"> d) Support Community Wellness and Wellbeing through development of a series of community events, presentations, and engagement opportunities e.g. Wellness Wednesdays
CER: Focused Business Support	<ul style="list-style-type: none"> e) Continue, and further promote, Uplift Local and other retail supportive strategies f) Provide technical support for workplace environmental upgrades to mitigate risks for local businesses g) Refine the scope and breadth of the City's economic support activities (+\$\$\$)
CER: City Priority Initiatives	<ul style="list-style-type: none"> h) Further accelerate Fiber to the Home (FTTH) and pursue expanded community engagement (\$200k) i) Downtown redesign for cars, pedestrians, and bicycle travelers and visitors (\$150k, design work only) j) Exploration of potential ballot measures (+\$\$\$) k) Initiate and return to Council with recommendations for an updated Foothills fire protection plan and required resources

On *March 8, 2021*, the Council considered an ordinance to “broaden permissible uses and raise thresholds for Conditional Use Permits for some land uses throughout the City’ via ‘reasonable modifications that would be appropriate post pandemic and when economic conditions have recovered.”⁹ In relation to this ordinance, members of the local business community provided feedback regarding the definitions for intensive retail service and eating and drinking service. As a result, the City Council referred to the PTC: “E. ...the evaluation of the most appropriate way to define restrictions on dining establishments.”¹⁰ Specifically, this related to defining “eating and drinking service” by noting such services have a full commercial kitchen. The Council wanted PTC to further discuss how to define and distinguish different commercial uses, in particular food service-related uses. The Council adopted the temporary ordinance.

On *March 22, 2021*, the Council considered a text amendment for 855 El Camino Real (Town and Country Village). As part of the consideration, the Council directed the PTC to “review the proposed Ordinance for inclusion of a retail health definition and a two-year limit to execute a lease.”¹¹ This item will be considered distinctly and separately by the Council after the PTC

⁹ March 8, 2021 Staff Report: <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/current-year/2021/id-12054.pdf>

¹⁰ March 8, 2021 Action Minutes: <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/city-council-agendas-minutes/2021/03-08-21-ccm-action-minutes.pdf>

¹¹ March 22, 2021 Action Minutes: <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/city-council-agendas-minutes/2021/03-08-21-ccm-action-minutes.pdf>

considers the item on May 12th. The use, once defined, would be permitted at Town and Country. Subsequently, through this project, the PTC may choose to propose allowing that use in other locations.

Pandemic & Recession

The global COVID-19 pandemic has created an ongoing public health emergency and triggered a global recession. Locally, the pandemic has impacted Palo Alto residents, businesses, and community organizations. In particular, the decrease in daily visitors (employees), the limited on-campus student population at Stanford, and the decrease in global business and leisure travel, have led to a significant decrease in brick-and-mortar retail activity and a decrease in hotel occupancy. The limited retail and hotel activity has led to significant decreases in the City's budget, with the Council making difficult service reductions in the FY 2020-2021 budget. Additional reductions are anticipated in the FY 2021-2022 budget. Further, many retail and other service-based businesses (personal care services, restaurants, event venues, movie theaters, etc.) had to cease operations for much of 2020 and many have closed completely.

As the pandemic enters its second year, Californians have reason for optimism—and Palo Altans especially. Santa Clara County and the state have made marked progress towards vaccinating the general population against COVID-19. The County maintains a goal of vaccinating 85% of the County's eligible population by August 1, 2021. As of this report's writing 60.4% of Santa Clara County residents have received at least one dose of vaccine. Up to date information can be found at the vaccine dashboard: <https://covid19.sccgov.org/dashboard-vaccinations>. The level may provide herd immunity—depending on the vaccination rates in the region and of those who visit the Bay Area.

At the time of this report's publication, Palo Alto and Santa Clara County are in the "orange" tier, indicating moderate spread of the virus is occurring. The orange tier is the second least restrictive tier in the State of California's "Blueprint for a Safer Economy." Under this tier, some indoor business operations are allowed with modifications. Governor Newsom stated that if progress continues to be made, then California may fully re-open by June 15, 2021. To reach this milestone, the state must continue to have (1) vaccine supply sufficient to serve all who wish to be inoculated and (2) hospitalization rates that remain low and stable.

While the end of the health emergency appears to be within sight—notwithstanding variants, surges, or any other variables that can change the course of the pandemic—the economic recovery has yet to fully begin. Nationally, the end of pandemic restrictions has led to decreasing unemployment and increasing economic activity; causing some economists to forecast that the end of the health emergency will be followed by an economic boom. For the many small, large, and medium sized businesses that rely on in-person services or purchases, the end of restrictions may be followed by an economic boom.

Still, it may take communities several years to fill all the vacant store fronts in once-vibrant retail corridors. Palo Alto is facing dozens of ground-floor vacancies across the city. While the

City cannot open stores and fill the vacancies directly, the City can adjust regulations to further the local recovery.

Shifting Retail Trends

Retail is alive and well. In fact, before the pandemic, Americans were buying more goods than ever. What has shifted significantly over the past decade, though, is how shoppers purchase their goods. Retail is reorienting to more efficient platforms that give customers one-stop shopping that is seamless.¹² The platforms include online, mobile, applications, subscriptions, and more. This reorientation challenges brick-and-mortar retailers, particularly smaller businesses and certainly those without an online presence.

The pandemic has accelerated these changes, pushing more stores and more shoppers online. The pandemic has increased the percentage of Americans who have used a new method to purchase goods; this might be online, smart phone, app, etc.¹³ Many consumers report that they plan to continue to use these new methods once the pandemic subsides, meaning a rebounding economy may not necessarily mean rebounding in-person sales.

McKinsey offers “The Great Consumer Shift: Ten Charts that Show How US Shopping Behavior is Changing.” The report identifies five pandemic induced changes that are likely to stick: (1) flight to online (2) shock to loyalty (3) need for hygiene transparency (4) back to basics and value (5) rise of the homebody economy.¹⁴ Under back to basics, the report notes that, as a result of the pandemic, 40 percent of US consumers have reduced spending. The recession, unemployment, and uncertainty continue to depress consumer optimism and their expenses. Lastly, under rise of the homebody economy, many Americans are spending more time at home—and many expect to spend more time at home even as the economy re-opens.

These trends and early indications suggest that the importance of “experience retail” may increase in the future. David Greensfelder, in *Retail Emerging Trends 2019*, noted that the shift toward enjoying experiences more than purchasing goods will continue to move retail stores toward selling experiences rather than selling goods.¹⁵ While a delivery truck might be able to bring a gallon of milk to your door or deliver furniture, nothing can replicate the experience of being with friends and family, browsing, or sampling goods. This type of unique experience will continue to separate successful retail areas from those that fade. Shopping centers, commercial districts, and cities must adapt to the myriad of changes in retail to succeed.

¹² David Greensfelder, Retail Emerging Trends, https://www.siliconvalleyonline.org/wp-content/uploads/2018/11/retail_trends_handout.pdf

¹³ Survey: US Consumer Sentiments During the Coronavirus Pandemic, prepared by McKinsey & Company; <https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/global-surveys-of-consumer-sentiment-during-the-coronavirus-crisis>

¹⁴ <https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/the-great-consumer-shift-ten-charts-that-show-how-us-shopping-behavior-is-changing>

¹⁵ David Greensfelder, Retail Emerging Trends, https://www.siliconvalleyonline.org/wp-content/uploads/2018/11/retail_trends_handout.pdf

In addition to the shifts in consumer behavior, the pandemic has also caused a number of businesses to close completely. This has led to numerous vacancies in a number of categories—from offices to retailers to event and performance spaces. Filling these vacancies is important for providing goods and services locally, for job creation, for providing local tax revenues, and for the sense of community and place many of these now shuttered businesses provided. In addition, those businesses that remain open can be caught in a downward cycle that vacancies can precipitate. Without sufficient foot traffic, those business that have held on can be challenged.

While the changing trends and the associated challenges can be daunting, communities across the US have found and are continuing to devise strategies to overcome them. Through this focused effort, Palo Alto can make progress towards addressing these changes.

Discussion & Analysis

Staff seek the PTC's input regarding how the City can approach the tasks given to the PTC by the Council. Staff have prepared a high-level proposal that focuses the scope of the project.

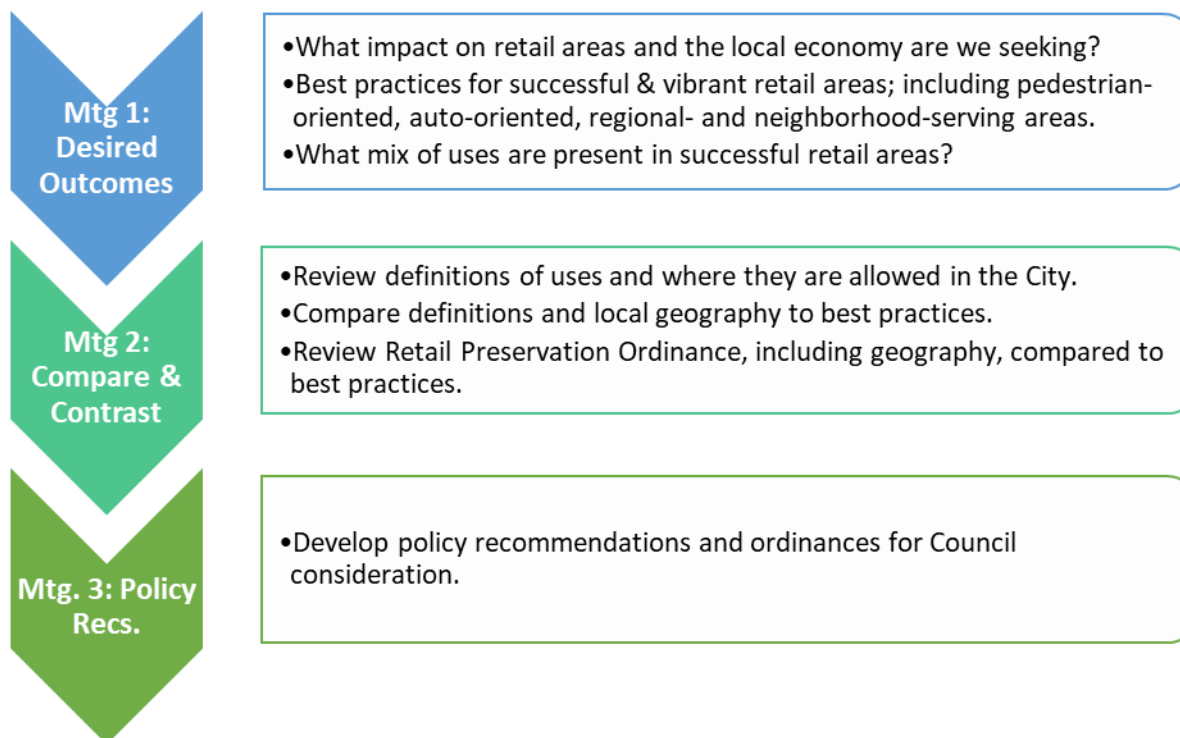
Council Referral to the PTC

The Council's referrals to PTC are:

- (1) Quickly evaluate and propose changes in local regulations that enable diverse retail and retail-like uses;
- (2) Quickly evaluate ways the City can curate a strong retail mix;
- (3) undertake a review of the geography of the Retail Preservation Ordinance;
- (4) Define restrictions on dining establishments.

Proposed Approach

To address these referrals and the larger context in which the referrals were made, staff propose the following steps, which are illustrated in Figure 1 and further elaborated below.



Identify the desired outcomes by beginning with the end in mind. The PTC must identify the ideal future for Palo Alto's ground floor uses, especially ground floor areas in retail corridors and shopping centers.

Council has provided some direction through its discussion and deliberation. The Council has demonstrated that recovery and filling vacancies are important; having vibrant and dynamic retail areas are important. Through the discussions of the recent ordinance, Council demonstrated a desire to maintain California Avenue and University Avenue as prime, retail destinations. Council also identified a few shopping centers that may also serve as prime retail destinations, while indicating openness and flexibility outside of some core areas.

To further root the desired outcomes in the real world, the following information may help:

- Best practices for successful & vibrant retail areas; including pedestrian-oriented, auto-oriented, regional, and neighborhood shopping areas.
- Case studies of successful shopping areas and/or revitalization efforts; understanding the mix of uses present in successful areas.
- Learning from local business owners and property owners regarding what has worked, what may continue to work, and what remains challenging.

Compare and contrast our current regulations against the desired outcome. The central focus is understanding how current regulations for ground floor uses in different parts of Palo Alto enable or inhibit implementation of the best practices. This portion of work includes reviewing definitions of uses and where those uses are allowed; changes may be necessary in order to

promote a healthy mix of uses in commercial areas across the city. Changes may include updating definitions, adding new definitions, and altering what uses are allowed in different areas of the City.

Another central task is to review the Retail Preservation Ordinance. The Retail Preservation Ordinance seeks to preserve retail by requiring replacement of demolished retail spaces, and the continuation of retail and retail-like uses in tenant spaces previously in retail use. Early review of best practice literature suggests that spreading retail across the city may be less effective than concentrating retail in specific areas. Focusing the applicability of the preservation ordinance may strengthen its impact on retail.

Develop policy recommendations to implement best practices that have been tailored to Palo Alto. Based on the desired outcome, relevant data about how other cities have achieved the desired outcome, and a comparison to local regulations, the PTC can recommend definitions of uses and where those uses are allowed in Palo Alto. The recommendation may include other development standards that need to be adjusted for those uses (such as the maximum or minimum sizes, when a CUP is needed, etc.). Ultimately, the recommendation will help to (1) curate a healthy mix of uses and (2) propose any necessary changes to the Retail Preservation Ordinance.

Throughout the above process, the PTC may check in with the Council through information reports or other means to ensure alignment between the PTC's scope of work and the Council's direction.

Constraints

The two main constraints to this task are time and resources. As the state moves towards re-opening, more entrepreneurs and business owners may be considering starting businesses, opening new locations, or adjusting their current location and/or business model. Completing this work in a timely manner is critical to filling vacancies and advancing Palo Alto's economic recovery.

The City and Planning & Development Services Department remains resource constrained. The coming budget may further reduce resources, including capacity to utilize consultant expertise. While some limited resources are available for understanding trends, mapping, and some policy analysis, the PTC should not expect availability of significant external resources. Internal department resources are also constrained as the Long-Range Planning Team focuses on the Housing Element, Housing Work Plan, and additional policy initiatives directed to PDS by the City Council.

The PTC and Department need to moderate the scope of the project to be aligned with the resources that are available. The PTC is encouraged to provide feedback on items that are "must have" for this project to succeed versus items that are "nice to have." While the PTC may not be able to accomplish this project to perfection, the City can make good and meaningful efforts to use our regulatory authority and processes to advance the community and economic

recovery in Palo Alto. Staff encourage the PTC to follow the adage of “not letting the perfect be the enemy of the good.”

Discussion Questions

The following questions are intended to guide the discussion portion of the study session. PTC feedback and input will be used to finalize the scope of this project and prepare for the subsequent meetings.

Reflection & Desired Outcomes

- (1) As a result of this project, and assuming it succeeds, what tangible changes would we see and experience in Palo Alto?
- (2) To successfully and efficiently respond to City Council’s referral, what information do you *need*? What information do you *want*?
- (3) Thinking of your experience as a Palo Alto resident, what areas have historically been successful retail areas? Have you noticed changes in those areas pre-pandemic? If so, can you describe them? Have you noticed that has changed since and during the pandemic? If so, can you describe the changes?

Proposed Scope of Work, Scope of Inquiry, Data, & Deliverables

- (1) Based on the overview provided, what questions do you have regarding the scope of work?
- (2) For you, which aspects of the proposal are “need to have” and which aspects are “nice to have”?
- (3) Do you have any suggestions or preferences for how the PTC engages this project? For example, access to industry experts, advisable outreach methods or tools, information sources, etc.

Public Notification, Outreach & Comments

Specific outreach for this topic will be undertaken once the scope of work has been defined.

Environmental Review

The requested discussion is not considered a project under the California Environmental Quality Act and environmental review is not required.

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