



City of Palo Alto

COLLEAGUES MEMO

DATE: June 21, 2021

TO: City Council Members

FROM: Council Member Filseth, Council Member Kou

SUBJECT: COLLEAGUES MEMO ON AFFORDABLE HOUSING COMMERCIAL IMPACT FEES FROM COUNCIL MEMBERS FILSETH AND KOU

Goals

Increase funding for Affordable Housing projects in Palo Alto.

Background and Discussion

While Palo Alto's share of Below Market Rate (BMR) housing as a percent of total housing is among the higher in the Santa Clara County (9.0% in Palo Alto vs the County average of 5.4%)¹, supply still lags demand. For example, fewer than 10% of PAUSD and City Staff actually live in Palo Alto, in part due to the high cost of market-rate housing here. Below Market Rate Housing can be produced either through BMR inclusion rates or through subsidies. To reach Palo Alto's presumptive RHNA Cycle 6 target of 3,465 Very Low-to-Moderate Income units at a 15% inclusion rate, roughly 20,000 new market-rate homes would have to be permitted by 2030. This is slightly less than 10X Palo Alto's actual 2030 market-rate RHNA target, and over 30X Palo Alto's current 2022 market-rate RHNA target; which seems unlikely.

In order to produce Affordable Housing without relying on the above mechanism, Palo Alto must find money for subsidies; State RHNA mandates do not provide the necessary funding. Since 2015 Palo Alto has dedicated approximately \$40 million in City affordable housing funds to the Buena Vista Rescue, the Wilton Court project, and the Grant Avenue Teacher Housing project. The City's Affordable Housing Fund is now nearly depleted and needs replenishing.

Since demand for housing, including housing affordable to low- and moderate-income residents, is driven primarily by job growth, it makes sense to fund Affordable Housing subsidies from that job growth, through commercial development impact fees which reflect that impact.

Palo Alto's current commercial office/R+D development impact fee for Affordable Housing is \$38.48/square foot. The Santa Clara County's corresponding fee of \$68.50/sf² was established during the Stanford GUP process and is based on a 2018 County nexus study indicating the full "Stanford Academic Space" impact at \$143.10/sf

and the full "Office" impact at \$113.40/sf³. A 2020 San Jose nexus study placed the full impact of "Tech Office" in that city at \$151.50/sf⁴. A 2015 Palo Alto nexus study showed an even higher office/R+D impact, above \$250/sf.

Recommendation

The City Council should vote to raise Palo Alto's Office/R+D development impact fee for Affordable Housing from \$38.48/sf to \$68.50/sf, in alignment with the Santa Clara County action.

Staff Impact

The last feasibility study prepared by the City analyzing potential increases to the commercial office/R+D impact fee for affordable housing documents a maximum feasible fee of \$60. The effort to update the commercial impact fee is included in the Planning and Development Services housing workplan and work is currently underway to secure a consultant to prepare a new feasibility study. The new study would update findings from six years ago and include an analysis of Santa Clara County's nexus study, make recommendations on different commercial and R+D subgroups, such as life sciences and medical office, account for other recent changes to City impact fees and current construction costs. The feasibility study is expected to cost approximately \$40,000 and will take about three months to complete. This effort is already funded using the department's Planning general contract expenses. Accordingly, staff anticipates this work can be presented to the Council in late September. While staff recommends the Council wait for the updated feasibility study prior to acting, if the Council decides otherwise, the fee should not exceed \$60 to be inline with the City's own prior studies.

References

1. SV@Home, "Existing Affordable Housing Assets" <https://siliconvalleyathome.org/resources/#existing-affordable-housing-assets>
2. County of Santa Clara, "Draft Affordable Housing Mitigation Fee Ordinance" http://sccgov.iqm2.com/Citizens/Detail_LegiFile.aspx?Frame=&MeetingID=9990&MediaPosition=&ID=92374&CssClasses
3. Keyser