

“Meeting the Challenges of Palo Alto’s Tomorrow”

State of the City

Mayor Liz Kniss

April 18, 2018

Thank you, Greg, for that introduction and thanks to all of you for being here tonight. And, thank you to Oshman Family Jewish Community Center (OFJCC) CEO Zack Bodner and his staff for hosting us tonight. Typically, the State of the City is held at the beginning of the year, but I really felt that it was important to get a few things accomplished first, as we have done, most certainly with our housing work plan, action on our affordability overlay plan, and other efforts. As I am now in my third term as Mayor of Palo Alto, I welcome the chance to share my perspectives tonight. Throughout the year, I will also be eager to hear your thoughts on the opportunities and challenges facing our community. Thinking back over my many years in public service has provided me with a long-term view on what has changed and what has stayed constant in Palo Alto.

For many of us, having a sense of belonging in a community and a place that feels like home, where we can be with our family, is central to who we are and how we live our lives. Many of you know that my family is integrated into every aspect of what I do – they are my support system. My husband Rick and my kids, grandkids, as well as my family from the East Coast –all contribute to a sense of personal comfort. My sister Jayne is here tonight and I am so glad she is able to be with us. They are my north star. Those of you who know me realize how central they are to who I am as a person and in my various public roles. For me, there is no separation.

The reason why many of us chose to come to Palo Alto to make our homes, raise our families and enjoy a wonderful quality of life hasn’t changed. In the 1950s and 60s, much of this area was apricot orchards, and as the post-war boom continued during a period of extreme growth, we saw the emergence of wonderful neighborhoods. Tree-lined streets, bike boulevards, lots of parks, great schools, located near Stanford, plus family-friendly museums and more created the special character of this city called Palo Alto. We moved here looking for

a special quality of life and connection with neighbors, friends, and schools. We shared a cup of coffee with somebody on our block, said hello to our children's teachers and made a life in this city. I remember when Rick and I first moved here, I rang all of my neighbors' doorbells to make sure there were kids on the block for my daughters to play with. And, some of us are still here on the same block, even though our kids are all now grown adults and have children of their own. Many of you come to our City Council meetings and tell us about the wonderful 50 years you have lived in our community – those memories are very important.

There are many others who want to create such a life here in Palo Alto, but are increasingly being shut out because there is nowhere they can afford to live. It's not about "making room for more" – it's about supporting the needs of the next generation who will move into a home, have a family with kids who attend our excellent local schools, graduate and contribute to sustaining the quality of life in Palo Alto.

To do that means we are going to have to be creative, think outside the box and change our definition of what a house – or home – should be like. We need and should build more homes, not necessarily all in the official category of income-restricted "affordable," but various sizes and types of units so that more people in a range of incomes can be part of a vibrant Palo Alto.

When we preserved the Buena Vista mobile home park, it wasn't just the housing that was our concern. It was having the people--the children who attend our schools, the mothers and fathers, sisters and brothers who live there-- add to the fabric and wonderfully diverse tapestry of our community life. It was personal, it was human, and it was us.

Where we are tonight – the Oshman Family JCC at the Taube Koret Campus - is a shining example of creative thinking about housing. It has become an "urban village" where multiple generations from varied income levels live, go to school, play, exercise, learn, connect, and build a community. It's amazing to see the vibrancy, culture, energy and sense of belonging that is here. Yes, it took some doing to make this unique intergenerational project a reality, but I think we can all agree when we look around that it was worth it.

You may not realize that on and adjacent to this site are market-rate townhomes, affordable rentals for low-income seniors, as well as a continuing care retirement community that includes a below-market-rate (BMR) program. The Moldaw Residences is part of the City's BMR program, with 24 of its 193 units designated to make them more affordable. We worked hard together to make this happen and we are very proud of it. I would like to acknowledge a very active civic leader in our community who lives at Moldaw, Veronica Tincher. Veronica has been involved with the League of Women Voters for over 50 years, helping to educate and inform people in our community about a wide range of issues that are important to all of us. The Executive Director of the Moldaw Residences, Alexander Ben-Israel, is here tonight along with Jean Blackburn, who is president of the Resident Association Committee, and many others who are part of this wonderful community.

So, now I ask you-- what's it going to take to help more older people and young families who are counting on us to do more than we have done so far to meet the housing challenge? If the past is any prediction of the future, we're going to need to speed housing production up – way up. We do have sites available—it's not that we have nowhere to build. And as you can see looking at the senior living units across from where we are tonight, it can be done with a sense of vision and creativity.

Let's talk for a minute about who we are:

We are still 25 square miles, pretty much the same today as it has been and will continue to be. While we have grown to nearly 67,000 people, much of that has been since the beginning of the 21st century (and we are becoming an older city, if you look at the changing age distribution of our population). The population in 1920 was climbing toward 6,000 and more than doubled at the time of the next census in 1930. The population in 1950 surpassed 25,000 before doubling again in 1960. Growth then slowed before declining in 1980. In 1990, the population was on the rise again, and has continued to grow ever since. Recent population estimates show that it has grown a little over 4% since the last census in 2010.

55% of Palo Alto households live in homes they own, while 45% are renting. We are similar to California but that's a lower percentage of home ownership than is found nationwide. And,

about 8% of our housing is designated as below market rate housing (or “BMR”) that is affordable to households that have from extremely low to moderate incomes. I’ll explain what that threshold is in a moment. Unfortunately, for every BMR unit that becomes available, there is a very long waiting list.

It may surprise you to hear that 40% of Palo Alto homeowners have assessed values of less than \$600,000 and they pass less than \$800 a year in property taxes to the City. Why? Because they are long-time residents of our community whose taxes have remained low due to Proposition 13. The reality is that this impacts our City budget.

However, our total property tax has grown steadily at the rate of at least 7% annually. Property tax is among the 5 important streams of tax sources (including sales tax) that generate 60% of Palo Alto’s General Fund revenue. It probably will not surprise you to hear that our median home price is now over \$3.1 million. Over the past 18 years, the City has permitted 3,165 total units. 752 of those units (or 24%) were officially designated as affordable housing, meaning that potential buyers or renters must meet financial eligibility criteria.

We have over 92,000 jobs in our city, which is why we continue to hear a lot about the “jobs/housing imbalance.” Our daytime population is about 126,000—and if you include our esteemed and highly valued neighbor Stanford University, the daytime number increases by about 27,000 to 154,000. Silicon Valley job growth has continued strong, at 3% year over year.

Our income profile has certainly changed over the years. The median household income in Palo Alto is about \$137,000 (which is considerably higher than the \$110,000 regional median reported in the latest Joint Silicon Valley Index). And, the State Franchise Tax Board reports that for 2017, households in just ONE of our ZIP codes paid \$944 million in state taxes on a total gross adjusted income of nearly \$9 BILLION.

These numbers help explain what we are experiencing. They provide important context for decisions about where we are headed as a community, and how we should focus our efforts and resources. No discussion about changes in Palo Alto can be comprehensive, however, without recognizing that we are part of a dynamic and growing region.

Our neighboring communities are experiencing significant population growth. Mountain View is projecting to increase its population substantially over the next decade. As a city, they have about 12 square miles, only about half our size, yet they are making very different decisions than we are about land use. Not surprisingly, every publication I read these days has major stories and headlines about the housing crisis and what to do about it.

When we talk about a housing crisis in Palo Alto, we have to recognize that it is impacting all of us who already live here, as well as our friends, our neighbors, our colleagues and our children.

If you are a long-time resident, you may be worried that you will not be able to retire here because the availability of affordable senior housing is extremely limited.

If you are a parent of school-aged kids, you are undoubtedly aware that very few of your children's teachers can afford to live here. Long commutes threaten the high quality of our public schools, making it difficult to recruit and retain teachers. A beginning teacher here earns about \$55,000 a year. That means that many new teachers need access to below-market-rate (BMR) or what is known as "workforce" housing to be able to live here and be part of the life of our community. Recently I met someone in the City Hall garage who commutes all the way from Modesto, which I think is really hard to even imagine.

If you are a grandparent (or hoping to become one!), you may be confronting the reality that your adult children and grandchildren can't even consider living here due to the high cost of housing. Some parents even go as far as putting their children's names on the very long waiting lists for affordable housing in Palo Alto years in advance, so that when they get their first entry-level job, they just might have a place they can afford to live.

And if you are a Palo Alto resident of any age, you should also be asking yourself how the people we all depend on—both in day to day life and in public safety—from police officers and firemen; to city employees; to service workers in our restaurants, hotels and stores, can make the economics of this area work for them and their families.

We are confronting a huge challenge. Like many of you, I have been dismayed that our efforts to address this issue have met with limited success. However, just last week, the Council took a very important step in approving the Affordable Housing Combining District, a zoning tool that will allow for the development of 100 percent affordable housing for residents making up to 120 percent of the area median income, which would be about \$102,000 for a family of two. We have not approved an affordable housing project in Palo Alto in almost a decade, and this could help to clear the path toward more production of affordable units. Absent that, we cannot expect our community to maintain its diversity, which I think we all agree is of great importance.

Palo Alto is a highly ranked, environmentally- friendly city with 36 parks, extensive bike lanes, and a highly educated and international community that is passionate about the quality of its schools and neighborhoods. We need to be equally passionate, however, about making it possible for people to live here and to stay here. We have taken an important step, but there is much more work to do.

As Mayor this year, I want to propose an approach that I think has great potential to both bring us together and get us moving. Palo Alto is recognized worldwide as a city infused with a spirit of entrepreneurship in technology. We are justifiably proud of the startup culture here and the drive to innovate that has made Palo Alto synonymous with the digital age. I would like to see us become equally known for our culture of social entrepreneurship—applying the same determination, creativity and innovative thinking to meet our housing needs, while retaining the quality of life here that we all treasure. I know that there are social entrepreneurs in Palo Alto—some of you who are here today are among them.

For example, the company Toms has applied this social entrepreneur mindset to how it approaches its shoe business. When Toms sells a pair of shoes, a new pair of shoes is given to an impoverished child. Toms' business model is known as the "one for one concept", which refers to the company's promise to deliver a pair of free shoes to a child in need for every sale of their retail product.

It was social entrepreneurs who created this exciting intergenerational campus where we are tonight and where more than 550 people now live, not to mention the hundreds of preschoolers, school-aged children and high school students who have brought this unique place from vision to reality.

Like many cities in Europe, the way we live is more like a “village” where people can walk, shop, worship and live together as a community. Facebook is now looking to do that as they contemplate building housing, some affordable, into a village complex. We have changed the way we work, and must now adapt to how and where we live.

There are three characteristics that social entrepreneurs share:

- Believing that everybody can contribute meaningfully to economic and social development
- A driving passion to make something happen
- Looking at a social problem using market principles and dogged determination to be able to put social benefit first and take risks that others wouldn't dare.

What would we do differently by adopting a social entrepreneur mindset as a community? First, we would look beyond the stereotypes of who lives in affordable housing and recognize that it serves our friends, neighbors and even our own families. Did you know that among the current residents of affordable housing in Palo Alto are retired doctors and dentists, as well as a police officer, teacher and many young people in their first jobs? Second, we would engage and involve Palo Alto residents who are committed to finding creative solutions, willing to understand the tools local government has available, and how they can be used effectively. Third, we would develop a plan and move ahead with implementation, tracking our progress with the same vigilance a startup applies toward meeting its milestones.

We have made some headway toward this with the recent adoption of the Housing Work Plan, which recommends concrete steps that can be taken during the next two years to address housing production and affordability in Palo Alto. Thinking locally of social entrepreneurship, we have areas in our City where the village concept could be explored. We are about to start the Ventura working group and perhaps a village concept could be part of their discussion.

If we do not do this, my friends, the reality is that others will decide for us.

A bill that was introduced in the State legislature, but yesterday was held up in committee, would have superseded local zoning on new housing built near transit hubs. It was a “by right” bill that could have allowed less parking, higher density and possibly greater height than Palo Alto would otherwise require. We formally opposed this bill, and will continue to advocate for local control. The bill may return in some form at some point and we will monitor closely. We may need to be open to elements of a bill that could possibly help us.

We also need to secure our share of the funding for affordable housing that the voters authorized in Measure A. Our community voted overwhelmingly in support of Measure A, the Santa Clara County Affordable Housing bond, but we must get projects into the pipeline and work effectively with the County to make this important investment possible.

We will also continue to make progress on the other priorities identified by the Council for this year – transportation, our long-term budget and finances, as well as rail corridor grade separation – but we must keep housing front and center. To do that will require community vision and commitment to expand housing choices for people of different incomes, generations and needs.

In 2019, we will mark a major milestone-- Palo Alto’s 125th anniversary. It will be a time to celebrate how far we have come and the quality of life here that we cherish. I am very pleased to announce that former mayor Judy Kleinberg has agreed to chair the planning effort. I know that with Judy’s leadership, great things will happen and I thank you Judy for stepping up at this exciting time. We expect the anniversary year will launch on the newly established official Palo Alto Day in 2019, with a date to be finalized soon. This special anniversary year is an opportunity to make social entrepreneurship as much a part of Palo Alto’s culture as technology entrepreneurship is today.

Thank you all for being here this evening. I am eager to hear from you and welcome your feedback as we continue the important work ahead. This concludes the program for this evening and now let’s all enjoy refreshments.