



City of Palo Alto

COLLEAGUES MEMO

DATE: September 23, 2019

TO: City Council Members

FROM: Council Member Kou, Council Member DuBois

SUBJECT: Colleagues' Memo From Council Members Dubois and Kou Regarding Affordable Housing Plan to Advance Housing Goals That Address Socio-Economic Diversity and Affordability

Goal:

Palo Alto has a long history of affordable and diverse housing programs including inclusionary housing. We recommend prioritizing actions consistent with previously adopted housing goals to address diversity in housing options.

Issue and background:

In November 2017, City Council directed Staff to outline the process, priorities and staff resources to study and implement a number of specific proposals outlined in a Colleagues Memo to address housing production, affordability and preservation in Palo Alto. In addition, City Council directed Staff to explore strategies to assist community-based workers such as PAUSD and City Staff to reside in Palo Alto. In 2018 and early 2019, City Council enacted an ordinance making city-wide amendments to the zoning code that grant developers major new incentives and a streamlined approval process to build dense new housing, especially in transit, walkable areas such as Downtown, California Avenue and portions of El Camino Real. While these changes incentivize new market rate housing, there are areas that have not been addressed to produce affordability within the extremely low (0-30% Area Median Income (AMI)), very low (31-50% AMI), and low (51-80% AMI) income limits.

Recommendation:

We are proposing that we direct staff to address the following affordable housing items and that Council discuss and prioritize these efforts. We have listed them in our proposed priority order:

1. Applying/implementing an inclusionary Below Market Rate (BMR) program for rental units (Palmer Fix) Evaluate and recommend inclusionary percentage in the range of fifteen to twenty five percent of the units in rental residential developments with over 5 units (make same as ownership) must be affordable. Consider specifying income level requirements as well (percentage at each income range) Based on state law, affordable

rental units would remain affordable for at least 55 years; could come in phases if possible to implement Palmer Fix quickly.

2. Increase development impact fees to \$64 per square feet for commercial projects; explore leveraging recent nexus studies including Palo Alto's and Santa Clara County's study for the Stanford General Use Permit application to contain costs and time for an updated nexus study;
3. Clarify/update our ordinances to ensure that when density bonuses are applied to mixed use projects the bonus is focused on the housing portion to the extent legally permissible. Evaluate and recommend inclusionary percentage in the range of 20-25% of density bonus is applied to the project;
4. Explore feasibility of in-lieu fees or off-site replacement if existing residential units are removed from the housing stock;
5. Explore protections and regulations in low density zoning such as cottage cluster developments and existing duplexes in the R-1, R-2 RMD and commercial districts to preserve "missing middle housing" and preserve transitions between R1 and higher density; and
6. Explore citywide protections and regulations to prevent existing housing to be converted to commercial/hotel use.

Staff should bring individual items back to council when ready rather than as a package. Items such as the Palmer Fix and Impact fees should come as soon as possible. Other items should be referred to the Planning and Transportation Committee.

Resource Impact:

Many of the recommendations included in the Colleagues Memo represents work previously directed by City Council to Staff.

Updates to the BMR housing program are currently underway. It is anticipated that a draft consultant report will be presented to the Planning and Transportation Commission in October and draft ordinance by the end of 2019. The City Council would review the ordinance early in 2020. This study explores the feasibility of extending the inclusionary housing program to rental housing projects and possible adjustments to the inclusionary percentage, currently set at 15%.

To consider revising the impact fees, Staff would need to engage an economic consultant to update the nexus study previously prepared in late 2015.

The recommendation for clarification on the density bonus law and how it is applied to mixed use projects will require legal analysis and ordinance development through the Planning and Transportation Commission.

The remaining recommendations address various circumstances to preserve existing housing. The recommendation to propose an in-lieu fee or require off-site construction for displaced housing units is similar to direction to staff received to explore implementing a 'no-net-loss'

housing policy. Staff is only in the very beginning stages of this work effort, which will also require planning and legal coordination. This policy analysis is anticipated to extend into 2020.

Protections for low density zoning is similar to a Housing Work Plan item seeking to develop protections for cottages and duplexes in the R1 and R2 districts and mixed use zones. This policy analysis is related to work already completed establishing a minimum unit density in multi-family zones and touches on recent legislation being considered by the state to permit fourplexes in single family residential zones. Further effort on this task, however, is not currently resourced.

Establishing regulations to prevent housing units from converting to commercial or hotel uses requires some study, including legal analysis, and would likely require some form of waiver process where required to comply with state or federal law. Advancing either of these items now may delay other policy initiatives currently underway or planned.

City Council discussion on these recommendations would provide staff clearer direction on its interests, priorities and expected outcomes.