



# Planning & Transportation Commission

## Staff Report (ID # 11892)

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**Report Type:** Action Items **Meeting Date:** 1/13/2021

**Summary Title:** NVCAP Alternatives - Response to Commissioner Questions

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**From:** Jonathan Lait

### Recommendation

This is an informational report responding to questions raised by the Planning and Transportation Commission (PTC) during the public hearing held on December 9, 2020. That hearing was continued. The staff recommendation remains the same as stated in the December 9, 2020 report.<sup>1</sup>

### Report Summary

This report responds to questions raised by the Planning and Transportation Commission (PTC) during the public hearing held on December 9, 2020. During the continued hearing on the North Ventura Coordinated Area Plan alternatives on January 13, 2021, staff will be available to elaborate on the answers provided or respond to further questions.

### Background

On December 9, 2020, the PTC conducted a public hearing regarding the recommendation on the preferred plan alternative for the North Ventura Coordinated Area Plan (NVCAP).

The staff report from the December 9, 2020 hearing is available online. The report provides details on the prepared alternatives for the NVCAP. In addition, the video recording<sup>2</sup> of the hearing and draft excerpt minutes<sup>3</sup> are also available online.

During the December hearing, the staff presentation was given followed by the public comment portion of the meeting. The PTC heard public comments from 18 participants and then provided a round of questions and or comments for staff. The PTC then voted to continue the hearing to January 13, 2021.

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<sup>1</sup> PTC Staff Report, 12/09/20: <https://www.cityofpaloalto.org/civicax/filebank/documents/79522>

<sup>2</sup> PTC Meeting Video, 12/09/20: <https://midpenmedia.org/planning-transportation-commission-63-1292020-2/>

<sup>3</sup> PTC Draft Excerpt Minutes, 12/09/20: <https://www.cityofpaloalto.org/civicax/filebank/documents/79772>

## Follow-up Items

The following questions/comments were noted from the PTC members. Staff has responded to each item as diligently as possible, given the time and resources available.

### 1. Update the Development Potential Table to include the 200 Portage Avenue development proposal.

#### Staff Response:

On November 18, 2020, the City received a SB 330 pre-application for the development of townhomes on a portion of the site generally known as 340 Portage (or colloquially as “the Fry’s site”). The proposed redevelopment of the site would result in demolition of approximately one-third of the existing commercial square footage and the addition of 85 dwelling units, including 13 units affordable to moderate-income households.

Table 1 and 2 below reflect the adjusted development potential of the three plan alternatives; to see the calculations without these adjustments, see pages 12 and 13 in the 12/09/20 staff report. Overall, the proposal reduces the number of housing units and the amount of office and retail development anticipated on the subject site, as well as across the planning area. A portion of 340 Portage is demolished for the townhome construction; the remaining 140,000 square feet are proposed by the project sponsor to become office space.

City staff have revised the potential development calculations in Table 1 to reflect these changes as well as the population and job outcomes in Table 2. The previous assumptions anticipated additional parkland dedication as a result of redevelopment at 340 Portage. These assumptions have been scaled back in line with the proposed project.

**Table 1: Potential Development, by Alternatives, with 200 Portage Proposal Included**

<b>Land Use</b>	<b>Existing Development</b>	<b>New Development</b>		
		<b>Alt #1</b>	<b>Alt #2</b>	<b>Alt #3</b>
Net New Housing Units	142			
Realistic Potential <sup>1</sup>	-	460	850	1,000
Maximum Potential <sup>1</sup>	-	820	1,300	1,640
Commercial Development (sq. ft.)	855,200			
New Office	-	9,100 <sup>2</sup>	20,500	107,500
New Retail	-	6,900	12,800	15,000
Net Change in Commercial	-	-129,100	-111,800	-22,700
Parks and Open Space (potential approximate acres)	0	0.9	2.6	3.1
# of Potential Redevelopment Sites (Range = Realistic to Maximum Sites Turning Over)	n/a	16 to 23	37 to 41	37 to 52

<sup>1</sup> Assumes 1,000 to 1,500 sf average unit size

<sup>2</sup> Limited professional office use allowed in new mixed-use development

Source: Santa Clara County Assessor's Office Data, Realquest.com Data, City of Palo Alto GIST Data, Accela Data, and City of Palo Alto, Planning and Development Services Staff.

**Table 2: Metrics Based on Realistic Potential with 200 Portage Proposal Included**

<b>Metric</b>	<b>Existing (Estimates)</b>	<b>Alternative #1</b>	<b>Alternative #2</b>	<b>Alternative #3</b>
Below-Market Rate Housing Units (assumes 15% of total) <sup>1</sup>	23	70	130	150
Residential Population <sup>2</sup>	340	1,120	2,070	2,420
Jobs <sup>3</sup>	2,660			
New Office Jobs	-	30	70	370
New Retail Jobs	-	10	20	30
Net Change in Jobs	-	-420	-360	-70
Jobs/Housing Ratio (Housing Units Needed to Support New Jobs)	170	50	110	480
Parks and Open Space (acres/1,000 new residents) <sup>4</sup>	0	0.8	1.2	1.3

<sup>1</sup> The City requires new for-sale units to locate BMR units on-site; new rental housing pays an impact fee only.

<sup>2</sup> Population estimates based on current household sizes in Palo Alto (2.55 persons/household) from 2014-2018 American Community Survey 5-Year Estimates. Assumes 5% vacancy rate of housing units.

<sup>3</sup> Valley Transportation Authority (VTA)'s Congestion Management Program (CMP) ratios for the year 2019. Numbers represent estimates.

<sup>4</sup> Parks and open space estimates based on 3% to 20% of land area on opportunity sites, as a function of the realistic development potential; includes landscaped setbacks, parks, plazas, and creek improvements.

Source: 2014-2018 American Community Survey 5-Year Estimates, City of Palo Alto GIST Data, Accela Data, and City of Palo Alto Planning and Development Services.

## 2. What are the implications of the SB 330 application at 200 Portage Avenue?

### Staff Response:

Effective January 1, 2020, Senate Bill (SB) 330<sup>4</sup> made several changes to existing State housing law, including the Housing Accountability Act and Permit Streamlining Act, as well as creating new law known as the "Housing Crisis Act" (Gov. Code § 66300). For the purpose of the proposed project at 200 Portage, the law has the following implications: It requires that the City review the project pursuant to the ordinances, policies and standards adopted when a complete pre-application is submitted. The City may not issue a moratorium on residential development in the planning area nor subject the project to policy ideas expressed during the NVCAP process that have not yet been adopted.

<sup>4</sup> SB 330 Information: <https://www.cityofpaloalto.org/gov/depts/pln/current/projects/sb330.asp>

As of this writing, the project has submitted a pre-application only, which the City has deemed incomplete on December 16, 2020. The project sponsor will be required to resubmit a complete pre-application, followed by a formal application within 180 days following the pre-application. At that time, the City will conduct its typical review, including reviewing the project for compliance with objective standards and making a historic resources determination. The City is then limited to five public hearings on the project, including any continued hearings and hearings for appeals. If the project is ultimately approved after adoption of the NVCAP, the project would still only be subject to rules that were in place at the time that a complete pre-application is submitted.

**3. Functional analysis of the odd shape parcels near the park/creek is required. Can buildings be constructed on those parcels? Walk through the process. How will buildings be devised?**

**Staff Response:**

Parcels of all shapes and sizes may be developed depending on market conditions and the desires of the property owner; experienced architects and engineers can successfully design for the majority of unique conditions. For the purposes of the development potential analysis, City staff have only assumed that properties with lot sizes of at least 10,000 square feet may redevelop. With regards to the development of a Creekside trail, that could be accomplished within the existing 60-foot easement. Improvements beyond the existing easement may be financially and physically challenging for some property owners depending on how they want to use their property.

**4. For Alternative #3 why did the office space quadruple to get couple hundreds of housing units? Explore other ways of making housing possible without addition of office space.**

**Staff Response:**

Overall, the alternatives reflect different perspectives of Working Group members. Even though all alternatives are not financially feasible, they are presented to the PTC to honor the robust dialogue of the past two years.

Alternative 1 envisions office space being eliminated from the plan area over time. No new office space is allowed. Thus, the office space totals in Alternative 1 are less than Alternatives 2 and 3. This alternative has been deemed infeasible by Strategic Economics. In addition, property owners have indicated that elimination of existing office space will lead to retention of existing office buildings, preventing the development of housing as proposed.

Alternative 2 proposes to allow the retention of office space, even if the square footage is in a new building. That is, a 10,000 square foot office building could be demolished and replaced by a building with 10,000 square feet of office as well as housing. This alternative has been deemed infeasible by Strategic Economics.

Alternative 3 proposes to allow new additional office floor area in exchange for the provision of residential units and other community benefits. This responds to the market conditions identified in Strategic Economics' January 2020. Office uses in Palo Alto generate higher rents and lower construction costs compared to residential uses on a square foot basis, which may make office uses more attractive to a property owner or developer. Alternative 3 seeks to identify the amount of additional office space required to yield the desired housing development. City staff have not identified the precise ratio for office-to-residential development that would generate these benefits. The financial feasibility analysis that will be conducted on the preferred alternative could identify this threshold.

There are other options for how to generate housing, using "carrots and sticks." This could include:

- Amortizing existing office uses that do not comply with underlying zoning. This is likely to be unpopular among property owners and could expose the City to lawsuits, but would eliminate non-conforming office uses.
- Acquiring and redeveloping sites. The City could raise funds to purchase sites. This is expensive, but would fulfill below-market rate housing goals.
- Modifying residential zoning to meet market needs. Update zoning standards to align with market conditions. This could include streamlining housing approvals to make the process less risky for developers and matching development standards to market demand. As shown in financial feasibility analysis of the three alternatives, Alternative #3 was the only viable alternative, in part because it generated the higher densities and lower parking requirements that are more financially feasible.

**5. What are the circumstances that led to cut-through traffic? What improvements can be made at the ECR/Page Mill intersection, such as the inclusion of a right turn lane at that intersection, that could improve flow there?**

**Staff Response:**

This intersection is one of the busiest in Palo Alto. Due to the large demand of vehicles, traffic signal cycle lengths are long. Drivers who want to turn right from northbound ECR to Oregon Expwy who want to avoid the wait use Olive, Pepper, and Ash to access Oregon Expwy.

The ECR/Page Mill intersection is under the jurisdiction of Caltrans and the County, so any improvements would need to be approved by both agencies. There is an upcoming County project at the intersection that will remove the SW corner free right turn (making it safer for bicyclists and pedestrians), add a NE corner right turn lane, and add bike lane slots and receiving bike lanes to Page Mill/Oregon Expwy. The project will occur in the coming 12 to 18 months after review and approval by Caltrans.

Because there is no additional right of way available to widen ECR, adding a right turn lane would require re-purposing the curb lane so that all northbound traffic would be funneled into two lanes instead of three. This would substantially increase delay at this intersection. In

general, Adaptive Traffic Signal Coordination, Emergency Vehicle Preemption, and Transit Signal Prioritization can enhance corridor performance, and Caltrans is using these to optimize flow as appropriate on ECR. Shifting vehicular trips to other modes, for example, by improving transit performance and adding bicycle facilities, is a goal of long-term regional transportation planning to increase mobility on the corridor.

## **6. Research the plume contamination issue and the suitability of development.**

### **Staff Response:**

Within the NVCAP boundary, the impacts of an existing contaminated plume must be factored in with any new development. The contaminated plume emanates from the former HP site (620-640 Page Mill Road) and combines with contamination from two other locations: the former Varian Medical Systems, Inc., facility at 601 California Avenue and the former HP facility at 395 Page Mill Road.

All new development within the NVCAP study area requires project specific environmental review; this analysis ensures that any hazardous condition is understood and mitigated appropriately. It is typical of new construction, specifically those with any significant excavation and grading, to include construction mitigation measures to address vapor intrusion associated with the existing underground plumes. It is commonplace, with the incorporation of proper mitigation, to have new commercial and residential development on sites that have contaminated soil. A few recent developments that included vapor intrusion mitigation measures that were constructed or recently approved in the NVCAP vicinity include 2747 Park Blvd (commercial), 3001 ECR (mixed-use), 3225 ECR (mixed-use), and 3045 Park (commercial).

Links to two EPA resources are provided to explain more about [vapor intrusion](#)<sup>5</sup> and [clean-up information](#)<sup>6</sup>.

## **7. Explore which option for Olive Avenue, R-1 or R-2, provides more housing.**

### **Staff Response:**

The R-1 and R-2 zoning would result in the same number of units: a primary unit, 1 accessory dwelling unit, 1 junior accessory dwelling unit. The reasons relate to standards for R-2 lots as well as local application of state ADU laws.

Under current development standards, the 24 R-1 zoned parcels along Olive Avenue from El Camino Real to Park Boulevard do not meet the size for 2-unit development under R-2 zoning. Current R-2 standards require a lot size of 7,500 sq feet. The majority of lots are approximately

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<sup>5</sup> EPA Citizen's Guide to Vapor Intrusion Mitigation: [https://www.epa.gov/sites/production/files/2015-04/documents/a\\_citizens\\_guide\\_to\\_vapor\\_intrusion\\_mitigation.pdf](https://www.epa.gov/sites/production/files/2015-04/documents/a_citizens_guide_to_vapor_intrusion_mitigation.pdf)

<sup>6</sup> EPA Clean-Up Information: [https://clu-in.org/issues/default.focus/sec/Vapor\\_Intrusion/cat/Mitigation/](https://clu-in.org/issues/default.focus/sec/Vapor_Intrusion/cat/Mitigation/)

5,900 square feet. If this standard remains, then the R-1 and R-2 zoning yield the same number of units: a primary unit, 1 accessory dwelling unit, 1 junior accessory dwelling unit.

Even if the lot size requirements were amended (citywide or in the plan area), the local application of state ADU laws does not allow an ADU or JADU on parcels that contain two dwellings. Thus, the lots would be limited to 1 primary unit, 1 ADU, and 1 JADU. This is based on the "single-family use," "two-family use," and the provisions of PAMC 18.10.030.

**8. What are some proposals to achieve City Council Goal #1; specifically developing housing for low- and very low-income households?<sup>7</sup>**

**Staff Response:**

Public policy intervention and subsidy is needed to support affordable housing because the cost of constructing affordable housing exceeds the rents and/or purchase prices that a low or very low-income household can afford to pay. The federal government deems that a household can afford a housing unit if the household spends 30% or less of their income on housing costs (rent and/or mortgages). Therefore, in affordable housing developments, the rents or purchase prices are capped and not sufficient to finance the construction of the affordable housing. The lower the income of the households served, the greater the subsidy required to fill the gap between the housing costs and the lower amount of rent a household can pay. An array of public policies and financing structures have been deployed to help fill the gap.

Generally, there are three approaches to filling the gap: (1) generate funds to fill the gap; (2) decrease the cost of construction so the gap is smaller; (3) capture and direct a portion of a development's value to filling the gap. Palo Alto has already adopted a number of the strategies (reviewed below), while others would be new approaches for the City. Items marked with an asterisk (\*) are currently in place.

To more effectively reach very low-income households, the City could consider generating more funds and also re-directing value captured from development to help finance the deeper subsidy.

For more information regarding each of the proposals, please see Attachment A.

**Generating Funds for Affordable Housing**

1. Housing In-lieu Fee Program\*
2. Commercial Linkage Fee\*
3. Local Tax Measures
4. Local Bond Measure

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<sup>7</sup> Goal 1: Add to the City's supply of multifamily housing, including market rate, affordable, "missing middle," and senior housing in a walkable, mixed use, transit-accessible neighborhood, with retail and commercial services and possibly start up space, open space, and possibly arts and entertainment uses.

#### Decrease Cost of Construction

1. Proposed Affordable & Workforce Housing Bonus Program
2. Adjusted parking ratios: 1:1 parking ratio for residential units & reduced parking ratio for commercial development

#### Value Capture

1. Increase allowable height and densities and direct generated value to housing
2. On-Site Inclusionary Housing\*
3. Jobs-Housing Linkage Policy to ensure that new office buildings only be constructed alongside new housing development.

### **9. Summary of meetings with property owners (staff addition).**

#### **Staff Response:**

During the month of December, staff met with five multi-parcel property owners from the NVCAP area. The purpose of these meetings was to share the draft plan alternatives and get feedback on those. Property owners provided comments on various aspects of the alternatives. Of the three alternatives, Alt #1 was readily dismissed; not allowing existing office to rebuild was not feasible.

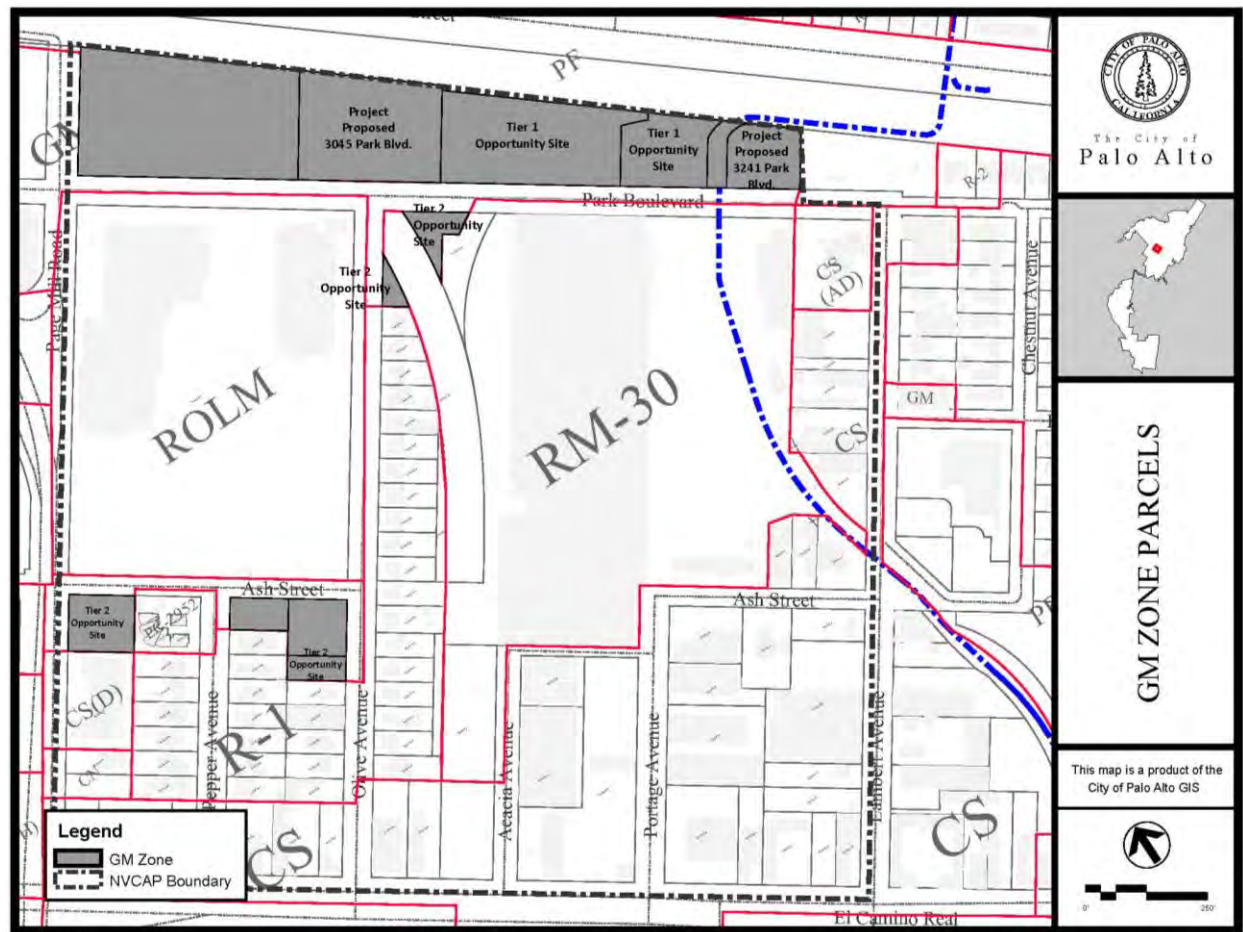
For the other two alternatives, there was a mix of comments provided, with Alt #3 garnering strongest support. Overall, property owners were supportive of making the neighborhood more attractive aesthetically and functionally; a vibrant and active community is in everyone's interest. The property owners made it clear that redevelopment could potentially happen if there was enough incentive to support it. This translated generally into allowing for redevelopment and expansion of commercial spaces, including office use, to make the residential development financially feasible and worthwhile.

### **10. Provide a map showing the GM parcels in the plan area.**

#### **Staff Response:**

There are 136 GM zoned parcels citywide and of these, 12 parcels are within the plan area boundary. Six of these GM parcels are identified as opportunity sites and two of them (3045 Park Blvd. and 3241 Park Blvd.) have proposed projects. The following map shows the location of the GM parcels.





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#### Attachments:

- Attachment A Information Regarding Affordable Housing Development (DOCX)

<sup>8</sup> Emails may be sent directly to the PTC using the following address: [planning.commission@cityofpaloalto.org](mailto:planning.commission@cityofpaloalto.org)

## Attachment A

### Information regarding affordable housing finance tools.

#### Generating Funds for Affordable Housing

1. Housing In-lieu Fee Program\* - Currently, for ownership developments, 15% of the units are required to be set-aside as affordable. A housing project may decide to pay a fee in-lieu of providing affordable units on site. In addition, a housing project may be required to build a “fractional unit” (for example 15% of 43 units is 6.45) and contribute the fee amount instead of rounding up. These fees are collected and deposited into the City’s Housing Trust Fund. The fees become low-interest loans to 100% affordable housing projects in Palo Alto.<sup>1</sup>
2. Commercial Linkage Fee\* - Commercial Linkage Fee became effective in Palo Alto in 2017. The fee is similar to other impact fees levied on new development and helps cover the cost associated with creating new or expanded public facilities to meet the additional demand created by the development, such as parks, schools, libraries and streets. The fee must be justified by a nexus study.

Palo Alto Commercial Linkage Fees – Fee Per Square Foot			
Office R&D	Retail	Hotel	Industrial
\$36.53	\$21.26	\$21.26	\$21.26

3. Local Tax Measures – Local cities can generate tax revenue and dedicate those revenues to affordable housing. Taxes must be approved by the voters. Depending on the nature of the tax measure a greater or lesser percent of the electorate must support the measure for it to be implemented. Examples of taxes raised for housing include increased transfer taxes for real estate transactions, taxes on businesses, and other sources of tax revenue.
4. Local Bond Measure – There are several types of affordable housing bonds. According to the National Council of State Housing Agencies, “state and local governments sell tax-exempt Housing Bonds...and use the proceeds to finance low-cost mortgages for lower-income first-time homebuyers or the production of apartments at rents affordable to lower-income families.”<sup>2</sup> Bonds used for the construction of housing include general obligation bonds, mortgage revenue bonds, and multifamily housing bonds. Depending on the type of bond, voter approval may or may not be required.<sup>3</sup>

<sup>1</sup> Affordable Housing Fund:

[https://www.cityofpaloalto.org/gov/depts/pln/long\\_range\\_planning/housing\\_programs\\_and\\_policies/affordable\\_housing\\_fund.asp](https://www.cityofpaloalto.org/gov/depts/pln/long_range_planning/housing_programs_and_policies/affordable_housing_fund.asp)

<sup>2</sup> National Council of State Housing Agencies: <https://www.ncsha.org/advocacy-issues/housing-bonds/>

<sup>3</sup> For more information, consider the following resources. National Housing Conference: <https://nhc.org/policy-guide/housing-bonds-the-basics/>.

### Decrease Cost of Construction

1. Proposed Affordable & Workforce Housing Bonus Program – The proposed bonus program increases the height of certain properties to 70 feet in exchange for providing more affordable units. The program seeks to allow greater height which allows projects to achieve greater density to help defray the costs of the affordable units while serving specific, income-qualified households.
2. Adjusted parking ratios: 1:1 parking ratio for residential units & reduced parking ratio for commercial development – Adjusting the parking ratios has been demonstrated by Strategic Economics to increase the likelihood of housing development and possibly increase the inclusionary housing percentage. Affordable housing developers have also attested to the ways decreased housing requirements, such as lowering parking ratios, can decrease the overall project costs. Based on Council direction, PDS staff will return with proposed adjustments to height and parking in order to increase the likelihood of housing development.

### Value Capture

1. Increase allowable height and densities – Increasing the development capacity can increase the value of land. Cities can capture this increased value and direct it to the construction of more affordable housing. This can be done by requiring an increased percentage of affordable housing for projects on land that has been up-zoned.
2. On-Site Inclusionary Housing\* - The City currently requires that 15% of units in ownership projects be restricted to income-qualified households. The City is also planning to study how to adapt the requirement to rental housing and most consistently achieve the construction of on-site inclusionary rental units. Low-income households, those at 80% of the Area Median Income (AMI) are served through the inclusionary housing program. To stretch this program to reach very low-income households, the City could study the impact of having a lower inclusionary percentage dedicated to a deeper level of affordability.
3. Jobs-Housing Linkage Policy - A jobs-housing linkage policy requires that commercial space be matched by the development of housing for the workers associated with the new commercial space. In 2019, the City of Mountain View adopted a Jobs-Housing Linkage Policy as part of the East Whisman Precise Plan, which requires commercial developers to partner with residential developers through a credit system. A planning area-wide policy that requires new housing development to go hand-in-hand with new office development, ensuring that commercial development helps subsidize residential redevelopment. This policy in the NVCAP can ensure that new office buildings only be constructed alongside new housing development. If the NVCAP includes allowance for development of increased office space, this type of policy would be essential to ensuring that office space construction leads to housing development.

To aid in the conversation regarding affordable housing, staff are including the table below. The table shows the income levels by household size that define low and very low-income households.

California Code of Regulations-Title 25 § 6932  
2020 Santa Clara County Median Income:  
**\$141,600**

effective 4/30/2020

2019 AMI for Santa Clara County										
	ELI	VLI				LI		Med	Mod	Mod
HH	30%	35%	40%	45%	50%	60%	80%	100%	110%	120%
1	33,150	34,700	39,650	44,600	55,300	59,450	78,550	99,100	109,000	118,950
2	37,900	39,650	45,300	51,000	63,200	68,000	89,750	113,300	124,650	135,900
3	42,650	44,600	51,000	57,350	71,100	76,450	100,950	127,450	140,200	152,900
4	47,350	49,550	56,650	63,700	78,950	84,950	112,150	141,600	155,750	169,900
5	51,150	53,550	61,200	68,850	85,300	91,750	121,150	152,950	168,250	183,500
6	54,950	57,500	65,700	73,900	91,600	98,550	130,100	164,250	180,700	197,100
7	58,750	61,450	70,250	79,000	97,900	105,350	139,100	175,600	193,150	210,700
8	62,550	65,400	74,750	84,100	104,250	112,150	148,050	186,900	205,600	224,250

Maximum Rent Limits 2020 (Gross Rent)*										
	30%	35%	40%	45%	50%	60%	80%	100%	110%	120%
Studios	828	867	991	1,115	1,382	1,486	1,963	2,477	2,725	2,973
1 Bd	947	991	1,132	1,275	1,580	1,700	2,243	2,832	3,116	3,397
2 Bd	1,066	1,115	1,275	1,433	1,777	1,911	2,523	3,186	3,505	3,822
3 Bd	1,183	1,238	1,416	1,592	1,973	2,123	2,803	3,540	3,893	4,247
4 Bd	1,278	1,338	1,530	1,721	2,132	2,293	3,028	3,823	4,206	4,587

Assumption is studios-1 person, 1bd-2 person, 2bd-3 person, 3bd- 4 person, 4bd- 5 person

\*Tenant paid rent plus a utility allowance cannot exceed Maximum Rent limits. Utility allowance must be the amount deducted from the household's rent portion when tenant is responsible for utilities.