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TRANSMITTED VIA EMAIL

March 22, 2017

Honorable Mayor Scharff and Members of the City Council
City of Palo Alto
250 Hamilton Avenue
Palo Alto, CA

Dear Mayor Scharff, Vice Mayor Kniss and Councilmembers DuBois, Filseth, Fine, Holman, Kou, Tanaka, and Wolbach:

Re: March 27, 2017 City Council Agenda Item 9
(Adoption of two Ordinances to Update the BMR Housing Program as Recommended by the Finance Committee)

On behalf of our members, SV@Home thanks you for your reopening the discussion on affordable housing impact fees. While we continue to support the adoption of impact fees for new residential and non-residential development to increase Palo Alto's supply of affordable housing, we believe that the proposed ordinance could be strengthened through a few revisions. In this letter, we offer our recommendations for improving the policy that was initially approved by Council in December 2016.

Alternative Compliance

With an eye toward the goal of providing affordable housing for as many households as possible, **we recommend that the Council reconsider Section 16.65.080 of the proposed ordinance, which outlines alternative means of compliance.** As drafted, the ordinance would establish a process for developers to request an alternative to paying the required impact fees (or in the case of for-sale residential development, build inclusionary units) that would be overly cumbersome for both staff to administer and developers to follow. Instead of the proposed ranked preference process for residential ownership units outlined in Section 16.65.080(B), we recommend the adoption of a more flexible process that would allow developers to negotiate with the City to select the option that works well for the project *and* supports the City's goal of increasing its stock of affordable housing.

In the case of for-sale single-family housing developments, this sort of flexible negotiation process may result in a greater number of affordable units produced than a strict requirement that the developer provide a percentage of inclusionary units on site. Staff's analysis of the development at 567 Maybell, which was presented to the

Planning and Transportation Commission at its July 27, 2016 meeting (7/27/16 PTC Packet Page 328), provides an example of such a case. The 16 homes being built at 567 Maybell are large, single-family homes that will be priced in the millions. Under a strict inclusionary requirement, two of the 16 units would be set aside for moderate-income households, whereas the \$1.5 million raised from a \$25 per square foot fee could help an affordable housing developer build deed-restricted housing for as many as 15 lower- and moderate-income households, and \$3 million raised from a \$50 per square foot fee could help 30.

Thus, providing flexibility to developers and staff can result in a greater number of affordable units and/or more deeply affordable units if the developer partners with an affordable housing developer who can access leveraged funds. It also allows the developer to pursue the option that works best with the market rate project, recognizing that all developments are different in terms of size, product type, and pricing. The final ordinance should not preclude the City from achieving these positive policy outcomes.

Residential Impact Fee Levels

Additionally, **we continue to support the adoption of a rental housing fee set at \$25 per square foot (adjusted annually for inflation according to CPI)**, with the option for developers to mitigate the impact of the new project through alternative actions. With fees in neighboring communities ranging from \$17 to \$25 per square foot, a \$25 fee is comparable to these jurisdictions -- and with a high demand for development in the City, we believe that a fee at this level will not deter development of new rental housing in Palo Alto.

In regard to in-lieu fees for ownership housing, **we support an ownership impact fee at \$50 per square foot and recommend that the proposed ordinance adopt a phased approach over the course of five years, commencing at \$25 per square foot and increasing \$5 per square foot each year.** A phased approach, accompanied by an annual report to Council, will allow the City to determine the impact of the fees and may encourage the development community to move forward with proposed development sooner rather than later.

We thank you for the careful and thoughtful deliberation and the extensive engagement process undertaken by the Council, the PTC, and staff. We strongly urge you to move forward with adopting a housing impact fee and a commercial linkage fee as soon as possible, as both will provide the City additional resources to meet the challenges it faces in adequately housing its current workforce and residents.

Sincerely,



Pilar Lorenzana
Deputy Director

