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TRANSMITTED VIA EMAIL

December 12, 2016

Honorable Mayor Burt and Members of the City Council
City of Palo Alto
250 Hamilton Avenue
Palo Alto, CA 94301

Dear Mayor Burt, Vice Mayor Scharff, and Councilmembers Berman, Filseth, Holman, Schmid, DuBois, Kniss, and Wolbach:

Re: December 12, 2016 City Council Meeting Agenda Item 21 Housing Impact Fee Ordinance

On behalf of our members, we thank the Council, the Finance Committee, the Planning and Transportation Commission, and staff for the very thoughtful and deliberate consideration of the completed nexus studies and housing impact fee proposals. We acknowledge that there are no simple answers to the policy questions you are deliberating, and we commend you for grappling extensively with these questions to ensure that in the future, the City of Palo Alto can effectively respond to its severe need for affordable housing.

Housing and commercial impact fees will provide the City with critical tools to build homes for families who can't afford the nearly \$2.5 million median Palo Alto home (the least expensive Palo Alto home listed on mlslistings.com is \$1,299,000). However, determining the level of the fee is a delicate balance. To be effective, the fees must be set at a level that is high enough to generate a meaningful amount of funding for affordable housing but not so high as to deter development, resulting in a situation where no new market rate development is built and no fees are paid into an affordable housing fund.

After numerous conversations with SV@Home members, our partners, and City stakeholders, we offer the following recommendations on the proposed residential and nonresidential impact fees and the proposed Affordable Housing Ordinance.

A. Proposed Residential Impact Fee

Rental Impact Fee Level. We recommend adopting a rental housing fee set at \$25 per square foot, adjusted annually for inflation according to the CPI, with the option for developers to mitigate the impact of new housing through alternative actions. By setting the rental housing fee at a level commensurate with those of neighboring communities, which range from \$17 to \$25 per square foot, it is less likely that the fee will deter development of new rental housing in Palo Alto. Given the high threshold of feasibility determined by the nexus study (\$85 per square foot), a fee higher than \$17 is appropriate.

Ownership Impact Fee Level. 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.

Alternative compliance. We support providing developers of ownership housing the flexibility to choose from a range of compliance options identified in the proposed ordinance. However, we recommend allowing the developer to choose between the various option that would bring about the most number of affordable homes rather than use the proposed rank preference, which may result in an overly onerous process for determining the most feasible compliance method. Providing flexibility has two benefits: (1) it may result in more affordable units or more deeply affordable units being built if the developer partners with an affordable housing developer who can access leveraged funds, and (2) 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 Maybell development is an example where payment of a fee or another alternative compliance option makes more sense than providing affordable units on site. The 16 homes being built at that location 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 square foot fee could help as many as 15 lower- and moderate-income households, and \$3 million raised from a \$50 fee could help 30.)

Project size threshold. We support lowering the project size threshold for new market-rate for sale housing from 5 units to 3 units, as recommended by staff.

B. Proposed Nonresidential Impact Fee

Fee level. We support a \$60 per square foot fee for office/medical/R&D and \$30 per square foot fee on hotels, as recommended by the Finance Committee and the Planning and Transportation

Commission. Presently, Palo Alto has more than three jobs per employed resident. Additionally, as of 2014 Census data, the City has 6.71 lower-paid workers competing for each affordable home (jobs and housing fit). The Nonresidential Nexus study projects that annual average wages from new hotel and office/medical/R&D developments are at \$35,157 and \$78,598, respectively. These wages are well below the \$137,684 required annually to afford Palo Alto's average rent of \$3,169. (Rent Jungle, November 2016) The additional demand for affordable housing created by new employment creating uses justifies a non-residential fee at the recommended levels.

B. Citywide Affordable Housing Requirements

Affordable Housing Requirement. We support requiring at least 15 percent affordability for projects sited on less than 5 acres and 20 percent affordability for projects sited on more than 5 acres. We further recommend that the affordability requirements included in the proposed Affordable Housing Ordinance reflect the following mix of households:

- For developments on parcels less than 5 acres - at least 6 percent for very low-income, up to 5 percent for low-income, and up to 4 percent for moderate-income households.
- For developments on parcels greater than 5 acres - at least 8 percent for very low-income, up to 6 percent for low-income, and up to 6 percent for moderate-income households.

While we look forward to Palo Alto's implementation of affordable housing impact fees, we want to stress that impact fees alone are not enough to solve the housing crisis. Without making additional policy changes to ensure that both market rate and affordable housing can be built in Palo Alto, these fees will only go so far. It is critical that the City of Palo Alto move forward with a fuller array of measures to facilitate the creation of more new housing, from identifying surplus public and underutilized land, to revising onerous regulations and streamlining development approvals, to increasing allowed densities along key transportation corridors and identified housing opportunity sites.

SV@Home hopes to work with you to achieve these policy changes and to build community support for the creation of thriving, sustainable, and affordable neighborhoods throughout the City. We thank you for your leadership throughout these impact fee discussions and for the opportunity to provide input.

Sincerely,



Pilar Lorenzana-Campo
Policy Director