



COMPREHENSIVE PLAN UPDATE CITIZENS ADVISORY COMMITTEE BUSINESS AND ECONOMIC ELEMENT

Tuesday, January 17, 2017
Rinconada Library – Embarcadero Room
1213 Newell Road
Palo Alto, CA 94303
5:30 PM to 8:30 PM

DATE: Tuesday, January 17, 2017
TO: Citizen Advisory Committee (CAC)
FROM: Elena Lee, Interim Planning Manager,
Planning & Community Environment Department
TITLE: Business and Economics Element Discussion

What to Expect at the Meeting

This meeting will be the first CAC discussion of the Draft Business and Economics (B&E) Element, focusing on all six goals of the Element. We will dedicate the entire meeting to the B&E Element.

The B&E Element is an optional Element of the Comp Plan; it is not required by State law and there are no specific statutory requirements for its contents. The existing Element is available online, [linked here](#).

The meeting will begin with a public comment period, followed by CAC discussion of the content and key issues highlighted during the January 5th subcommittee meeting. These are described below. The meeting will conclude with a discussion of next steps on both the B&E Element and the Comprehensive Plan in general.

Update from the Business & Economics Subcommittee

The B&E subcommittee met on January 5th to review the policy framework of the Element.

Staff and Consultant Experts at the meeting included:

- Khashayar “Cash” Alaei, Senior Management Analyst, City Manager’s Office
- Ben Sigman of EPS, the author of the fiscal study on the Comp Plan EIR scenarios and economic subconsultant on the Downtown Cap study.

In addition, Judith Kleinberg, CEO/President of the Palo Alto Chamber of Commerce attended as a community member.

The policy framework distributed to the B&E subcommittee for discussion, [linked here](#), was similar to the existing B&E Element framework, as recommended by the City Council, with the addition of some policy revisions and additions suggested by the PTC.

In response to this framework, the subcommittee voiced concerns regarding the content and relevance of the Element. The discussion focused on the need to substantially revise the B&E Element, based on current economic and fiscal data, to focus on the role of local businesses in the community and how the City can support businesses, rather than the current land use-oriented policy framework, which is redundant with the Land Use Element. Attachment A of this staff report is a table showing the original and revised section headings and organization of the Element, based on subcommittee feedback.

The holidays created an unusually short turnaround time between the subcommittee meeting and the distribution of the CAC packet. Given the substantial revisions recommended by the subcommittee, it was not possible for staff to prepare the typical revised policy framework that the CAC has reviewed for other Elements. Instead, Attachment B presents an annotated outline of how the Element would be reorganized and how existing policies would be revised given subcommittee input. The left-hand column shows policy revisions for CAC discussion, and the right-hand column presents notes on the CAC discussion that led to the changes suggested. This annotated outline focuses on policies and does not include any suggested programs; new or revised programs will emerge from further CAC discussion. Thoughts on possible new programs or additional revisions are also included in the right-hand column of Attachment B. Note that the subcommittee disagreed with many of the PTC's suggested revisions, so the annotated outline is based on the existing policy language. PTC changes are only included in the annotated outline where they were explicitly supported by the subcommittee.

The subcommittee recommended that the revised goals and policies in the Element reflect the City's Office of Economic Development Policy, [linked here](#). Wording from that document has been incorporated primarily into Goal B-2.

In addition to organizational changes, revisions to the Goals and section headings, and policy and program revisions, the subcommittee requested specific data to inform the full CAC discussion. The requested data is presented below. The subcommittee also identified several big-picture topics for further discussion by the full CAC.

Business and Economics Data

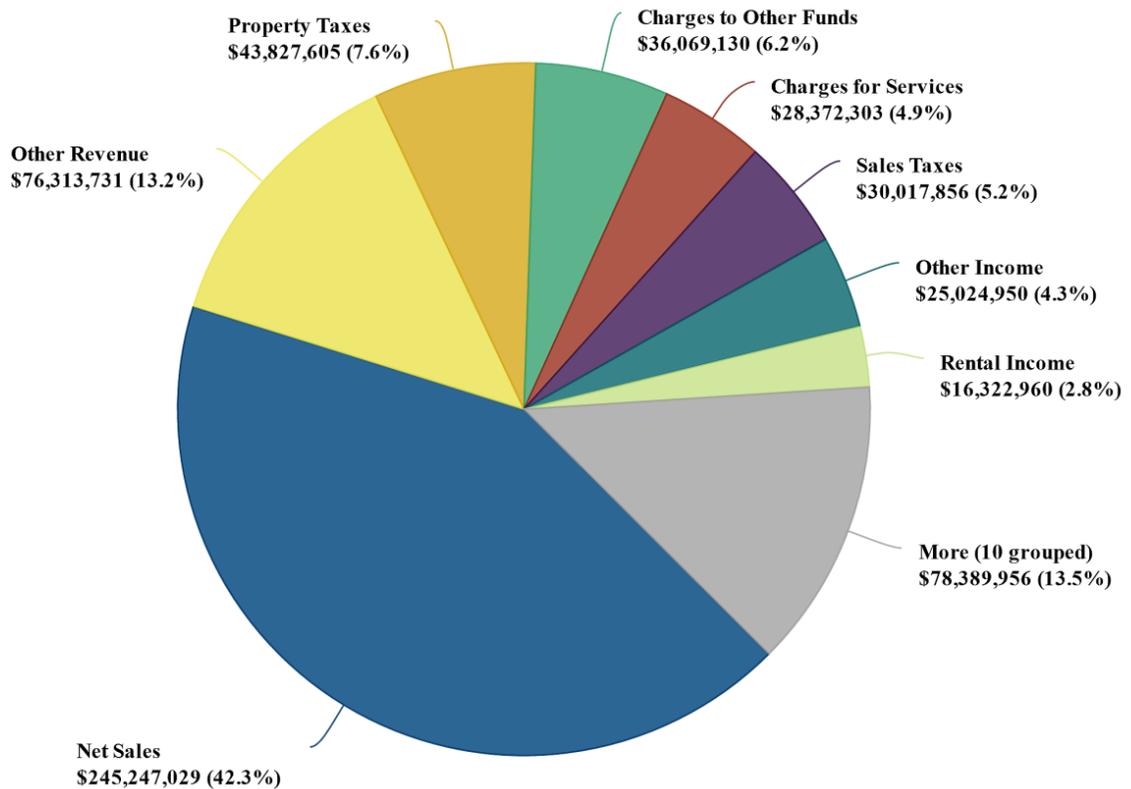
The subcommittee requested the following data to facilitate an informed CAC discussion of an improved, practical B&E Element. In addition to the information below, recent City studies such as the Long Range Financial Forecasts (LRFF) and Comprehensive Annual Financial Reports ([linked here](#)) offer detailed data concerning the City's fiscal health, taxable sales, and other topics. In addition, the Fiscal Analysis of Comp Plan Scenarios ([linked here](#)) includes relevant information on local revenues, expenses, and spending.

1. **Current Revenues.** As shown in the following table generated from the City’s *Open Budget Web App*, the largest contributor to the City’s 2015-2016 revenue stream was Net Sales. This category refers to revenues claimed by the City for the sale of services—primarily utilities such as electricity, gas, water, and fiber optics—to businesses, residents and outside entities. Net Sales accounted for 42.3% of the City’s \$579,585,521.00 in total revenue.

Property taxes account for 7.6% of City revenues, while sales taxes account for 5.2%. Transient occupancy taxes (TOT), which are included under the “More” category, account for 3.3%, and utility users taxes 2.1%. (Note that the *Open Budget Web App*—[linked here](#)—is an interactive platform that allows users to explore Palo Alto’s revenue and expenses, broken down by City department, fund types, and other variables).¹

Palo Alto – Revenues
2015-16 Actual

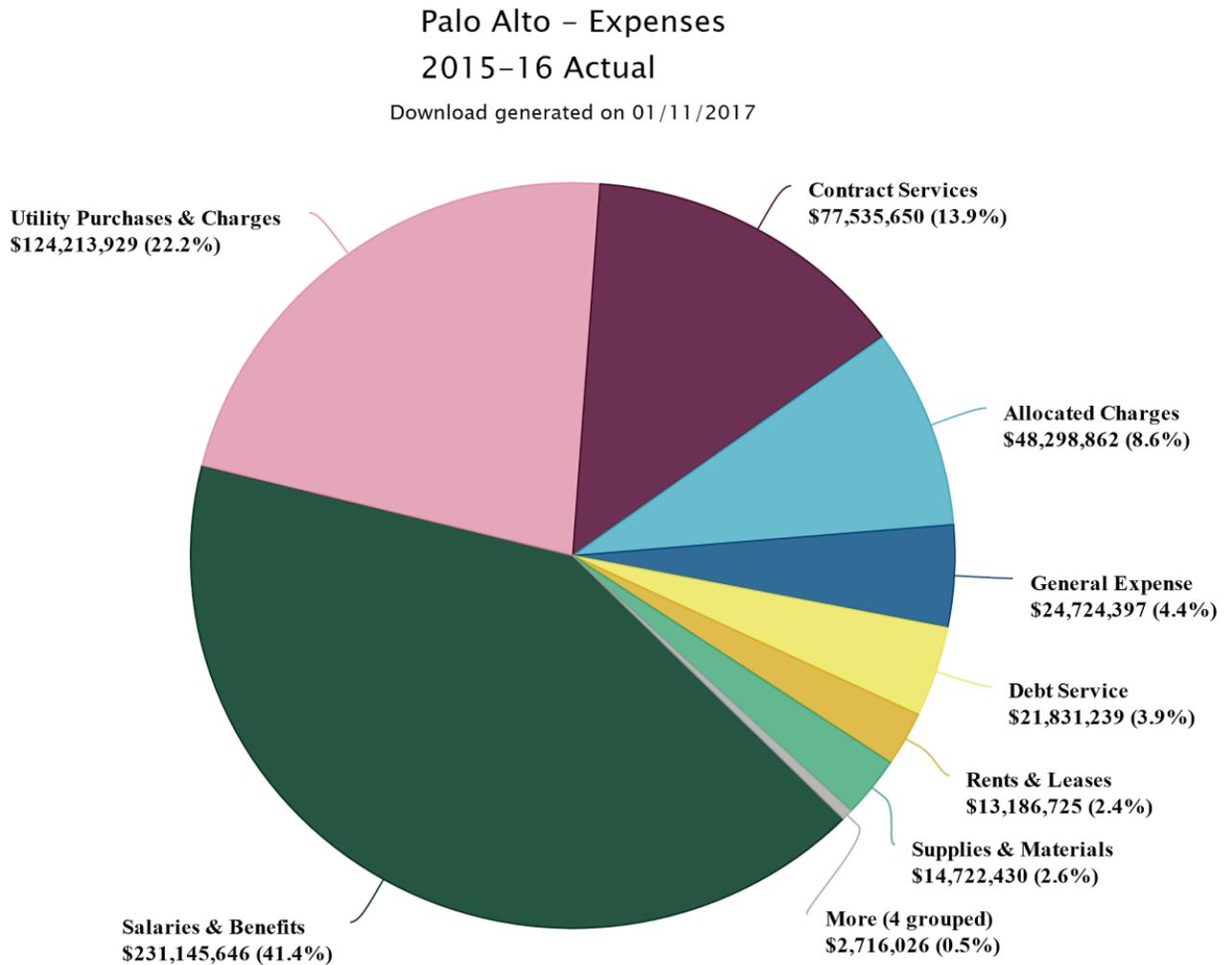
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¹ The category labeled “More,” refers to a number of small revenue sources such as “Other Taxes and Fines”, “Return on Investments” and “Permits and Licenses.” “Other Revenue” includes multiple small sources such as “Department Charges” and “In-Lieu Parking Charges.”

According to the City's 3rd Quarter FY 2016 Financial Report, [linked here](#), "The continued growth in assessed values will...translate into higher property tax revenue," while "there are concerns over future [sale tax] growth due to the continued erosion of brick and mortar receipts that is resulting from steady growth in on-line retail sales. Completion of Stanford Hospital construction projects will also reduce future sales tax revenue."

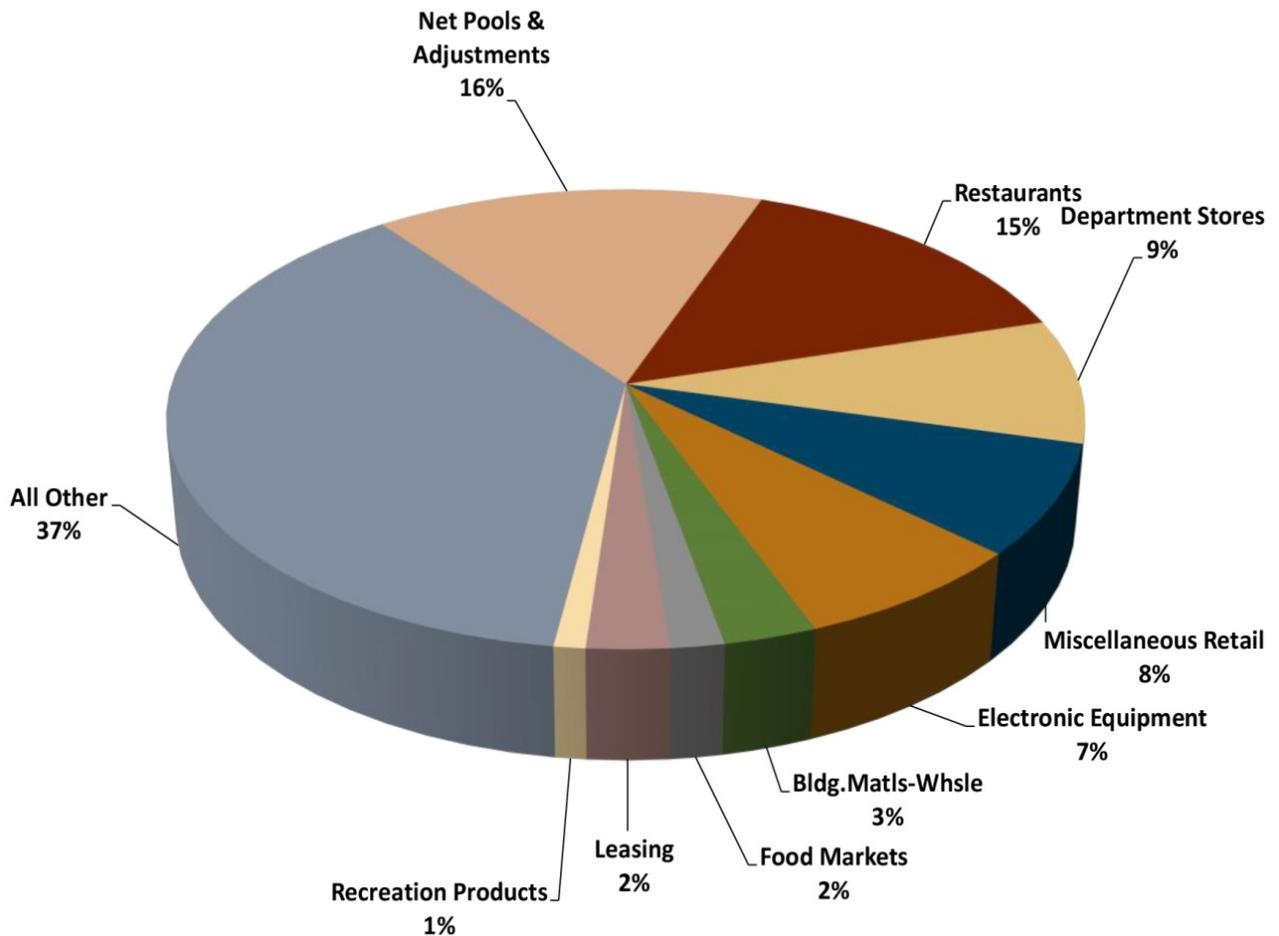
2. **Current City Expenses.** As shown in the chart below, Salaries and Benefits, Utility Purchases, and Contract Services make up over 77 percent of total City expenses. Total City expenditures in FY 2015-16 were \$558,374,904.



3. **Sales Tax by Economic Segment.** The chart below is from the *City of Palo Alto Sales Tax Digest Summary Fourth Quarter Sales (October – December 2015)*. This document, [linked here](#), includes additional information on local and regional sales tax revenues over the past few years, as well as a summary of national retail and employment trends. The following chart totals cash receipts per “economic segment” in the City. (Economic categories and economic segments are defined in Attachment C of the Sales Tax Digest Summary.) Restaurants (15%), Department Stores (9%), Electronic Equipment (7%) and Miscellaneous Retail (8%) each contribute significantly. Detailed breakdown of sales tax information is confidential, which leads to the large proportion of segments grouped under “All Other.” However, given the list of top 25 sales tax-generating companies from the same report (see below), auto sales are likely a significant component within the “All Other” category. The “Net Pools and Adjustments” category reconciles economic performance to actual net cash receipts. It includes any adjustments and payments from the prior quarter.

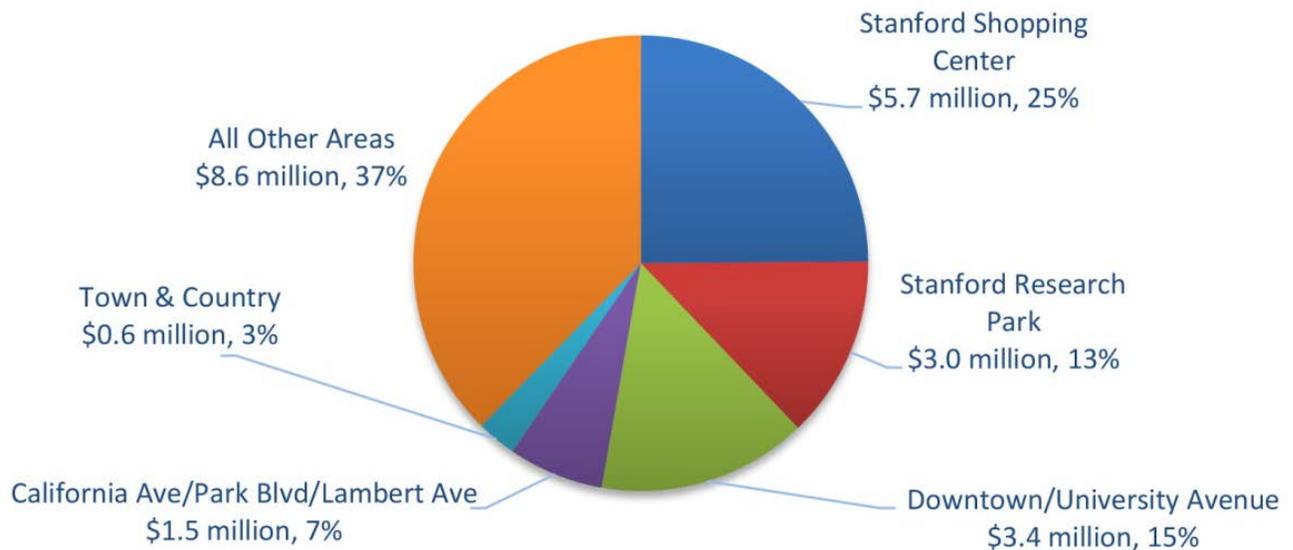
Net Cash Receipts for Benchmark Year 4th Quarter 2015: \$27,079,275

**Benchmark year (BMY) is the sum of the current and 3 previous quarters (2015Q4 BMY is sum of 2015 Q4, Q3, Q2 & Q1)*



4. **Sales Tax by Location.** The following chart is also from the Office of the Auditor’s *City of Palo Alto Sales Tax Digest Summary Fourth Quarter Sales (October – December 2015)*. As shown, Stanford Shopping Center generates the highest percentage of total sales tax (imposed on retail sales of tangible personal property) and use tax (imposed on consumers of tangible personal property used or stored in this state) revenue, at 25 percent. This area is followed by Downtown/University Avenue, at 15 percent, and Stanford Research Park, at 13 percent. “All other Areas,” including the three Neighborhood Centers and the El Camino Real corridor, generate 37% of such revenues.

Sales and Use Tax Revenue by Geographical Area, Year Ending Dec. 2015



5. **Sales Tax By Company.** According to the *City of Palo Alto Sales Tax Digest Summary Fourth Quarter Sales*, the following 25 companies are the City’s top sales/use tax contributors. These companies are listed in alphabetical order. The top 25 companies generate 49.5% of total sales and use tax revenue:

- | | | |
|------------------------|----------------------|------------------------|
| Anderson Honda | Integrated Archive | Stanford University |
| Apple Stores | Systems | Hospital |
| Audi Palo Alto | Loral Space Systems | Tesla Lease Trust |
| Bloomingdale's | Macy's Department | Tesla Motors |
| Bon Appetit | Store | Tiffany & Company |
| Management Co. | Magnussen's Toyota | USB Leasing |
| Critchfield Mechanical | Neiman Marcus | Varian Medical Systems |
| CVS/Pharmacy | Department Store | Volvo Cars Palo Alto |
| Eat Club | Nordstrom Department | Wilkes Bashford |
| Fry's Electronics | Store | |
| Hewlett-Packard | Pottery Barn Kids | |

6. **Top Employers:** Estimating employment within the City limits is challenging. Most employers regard this data as private and confidential, and it changes more fluidly than population and housing numbers. Estimates of employment from government sources such as ABAG or the California Economic Development Department, as well as from private data vendors such as CLRSearh or Nielsen Claritas, vary significantly. This is due to differences in time frame, geographic boundaries (e.g. zip codes vs City limits), data collection techniques and sources of information. Currently, the City's Business Registry process is still being refined. Registration is required in March, and is, therefore, incomplete so the registry is not yet a reliable source of employment information.

According to the City's *2015-2016 Comprehensive Financial Report (CAFR)*, the City's 10 principal employers, based on number of employees, are:

1. Stanford University (11,500)
2. Stanford Health Care (5,000)
3. Lucile Packard Children's Hospital (4,700)
4. Veteran's Affairs Palo Alto Health Care System (3,900)
5. VMware Inc. (3,500)
6. SAP (3,500)
7. Space Systems/Loral (2,800)
8. Hewlett-Packard Company (2,500)
9. Palo Alto Medical Foundation (2,200)
10. Varian Medical Systems (1,400)

A map of the addresses of these employers is included as Attachment C of this staff report.

However, as footnoted in the CAFR, the top 3 employers listed above, each affiliated with Stanford University "Include employees not located in the City limits." For example, while the academic campus is outside of the City's legal boundary, it is within the Sphere of Influence, and some Stanford University offices are located in the Research Park or elsewhere within the City. Moreover, the payroll office address is a City address, which may affect how/where Stanford University jobs are reported. At the subcommittee meeting, Stanford CAC representative Whitney McNair estimated about 4,000 Stanford University employees are within the City limits.

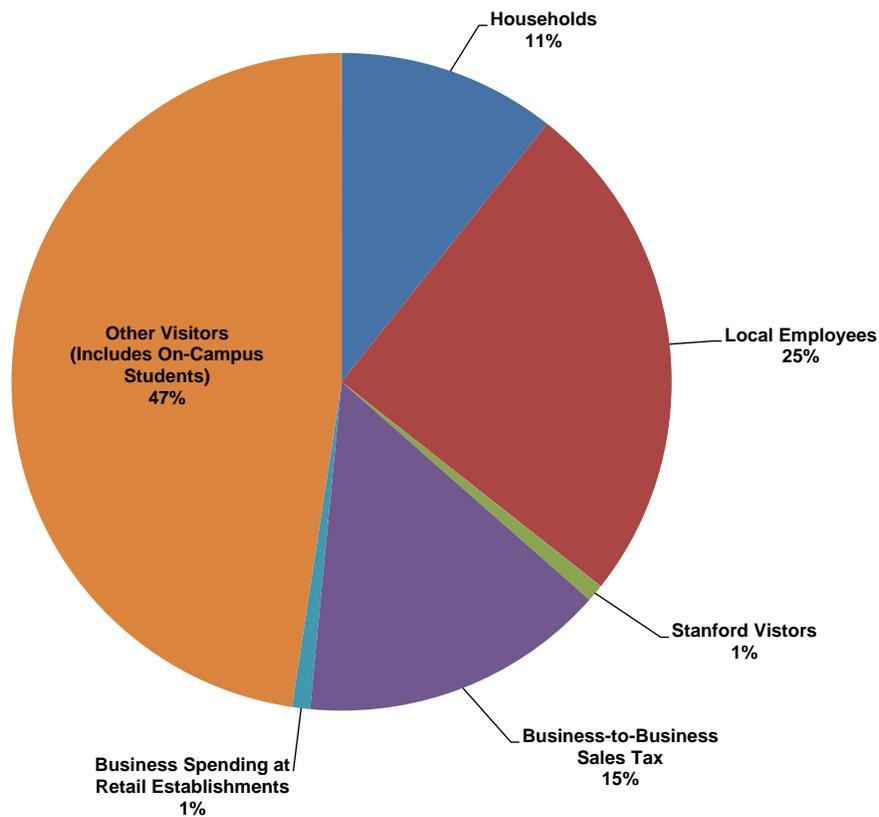
7. **Sales Tax by Spending Source.** The fiscal analysis of the Comp Plan scenarios estimates the contributions of residents and workers to City revenues and City expenses. See the fiscal analysis, [linked here](#), for a detailed explanation of the methodology for this approach.² The estimate of retail spending and sales tax generation by spending source is based on data about household spending, worker spending, business-to-business sales tax revenue, and an economic

² This fiscal study of the first four scenarios was presented to the City Council in 2016. A revised study that also includes Scenarios 5 and 6 is currently being prepared; the addition of two new scenarios will not change the study's estimates of existing worker, resident, and visitor spending.

impact analysis from Stanford University.³ First, the estimate calculated quantifiable sources of demand from households, workers, business-to-business sales, and other sources. The remaining sales tax not accounted for by these estimates is assumed to be attributable to “Other Visitors,” including those who come to the City for shopping and leisure, students attending Stanford University who live outside of the City, and visitors to Stanford. The estimate indicates that in 2015 about 11 percent of the City’s sales tax revenue is attributable to resident households, while a total of about 41 percent of sales tax revenue is attributable to local businesses.

Estimated Sales Tax Generation by Spending Source, 2015

Source: Economic & Planning Systems, Inc



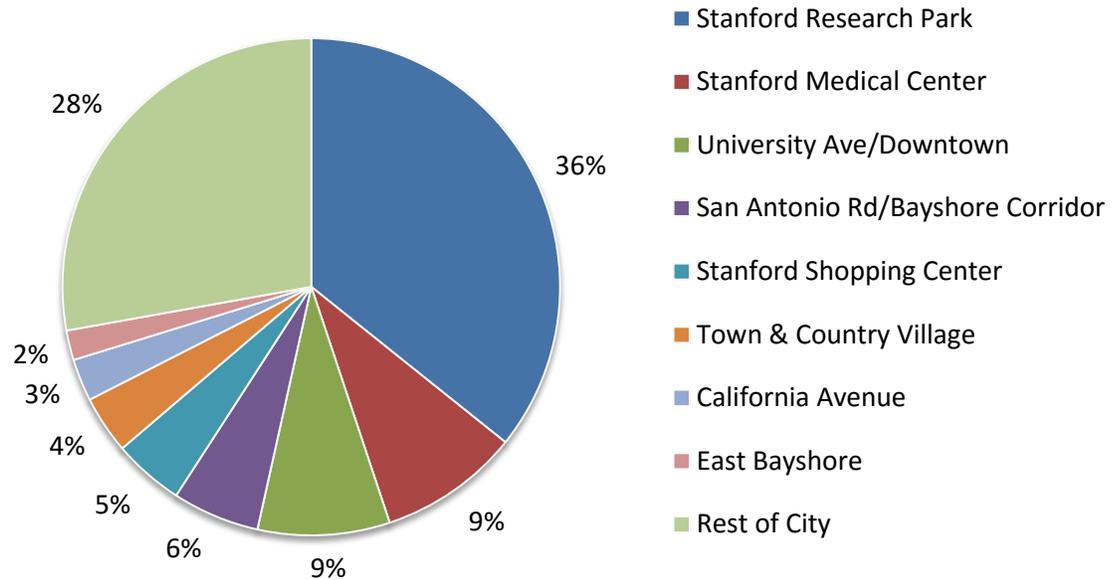
8. **Location of Employee Population.** The following chart, calculated based on the City’s Traffic Analysis Zone (TAZ) data and jobs numbers from ABAG’s *Plan Bay Area Projections 2013*, estimates the location of workers in the four Employment Districts, two Regional Centers, and three Multi-Neighborhood Centers identified in the Land Use Element.⁴ Stanford Research Park

³ Stanford University Economic Impact Study, 2008. Prepared by The Pacific partners Consulting Group, Inc. Published by Stanford University Office of Public Affairs. Accessible online at: <http://web.stanford.edu/dept/govcr/documents/economic-impact-study.pdf>

⁴ TAZ boundaries do not exactly match the boundaries of these areas; this data is an approximation of employee locations.

contains 36 percent percent of employees, while the University Avenue/ Downtown Area and Stanford Medical Center each host 9 percent of the City’s employees. Twenty-eight percent of employees work elsewhere in Palo Alto. This pie chart is based on a total of about 95,460 jobs.

2014 Jobs



9. Retail and Office Rents. As shown in the following Table, which contains information from real estate research firm CoStar that was presented in a July 8, 2015 Planning & Transportation Commission Staff Report, commercial rental rates have risen significantly since 2013, particularly downtown retail space. According to the PTC Staff Report, the City lost approximately 70,000 SF of retail space from 2008 to 2015.

PALO ALTO RETAIL AND OFFICE RENT PER SQUARE FOOT PER MONTH

		2013	2014	2015
Retail Rent Per Square Foot	City Average	\$4.21	\$4.41	\$4.88
	Downtown Average	\$4.64	\$4.75	\$6.48
Office Rent Per Square Foot	Total Average	\$4.57	\$5.14	\$5.12
	Downtown Average	\$6.37	\$6.92	\$7.33

Source: Costar, based on Q1 reports per year.

Data Not Available

Subcommittee members also requested data on top employers by office square footage in different areas of the City. Information on leasing and other property transactions is not publicly available, so the City does not have access to this information.

Topics Raised by the Subcommittee

During their discussion, subcommittee members raised a number of topics that informed their recommendations for revisions to the B&E Element:

- Desire to shift from the original wording's focus on businesses as a negative force from which residents should be protected, to a broader perspective that also encompasses businesses, workers, and visitors, along with residents, as parts of a thriving, vital and mutually dependent community. Make it clear everyone has to work together to maintain and enhance the business environment.
- Concern that one problem is that local residents do not patronize and support local businesses.
- Ramifications of e-commerce on retail vitality, both for small local businesses and for national chains present in Palo Alto, like Macy's and Bloomingdales, and the need for – and challenges of - City involvement in retail preservation.
- Background needs to highlight Palo Alto's major world class assets- Stanford Research Park, Stanford Shopping Center, Stanford Medical Center. Apparent tension between goals of supporting economic growth and limiting development/placing substantial requirements on reuse of existing space.
- Focus on fiscal impact, not just revenues.
- Fiscal impacts (i.e. encouraging specific types of non-residential development explicitly because they generate revenue for the City) should be a consideration, but the primary focus.. Instead, the Element should focus on "what kind of place we want to be."
- Recognizing economic risk and the constant threat of unpredictability; the idea that businesses in Palo Alto, and the City itself, cannot count on current or past success to guarantee future success.
- Appropriate City role in supporting or even "curating" specific types of businesses in specific areas vs. being "too prescriptive" (e.g. groundfloor retail requirements, Edgewood grocery store requirement,)
- Level of emphasis on "start-ups" in the original language, vs. supporting businesses at all stages of development, including mature companies. . Concern over how to define what a start-up is, when a start-up is no longer a start-up etc. Also, the costs of Palo Alto space make it an unrealistic location for most start ups. Suggestion to shift to supporting innovation and "entrepreneurs" vs. "start-ups".
- Need for clarity/predictability in permitting and approval process
- The "fragility" of a downtown dominated by a single employer. If those employees leave at one time, big loss of support for downtown retail.
- Role of housing in supporting retail
- Role of existing workers in supporting retail
- Whether tourism is a priority for the community and should be included in this Element.

CAC Schedule and Next Steps

Below is the schedule of next steps for the CAC. After the Business and Economics Element, the remaining CAC topics are Implementation and the Introduction and User’s Guide topics. While the CAC is completing its work, the Council will continue to hold meetings to discuss the CAC’s recommendations on the Land Use, Transportation, Natural Environment, and Safety Elements..

MONTH	CITIZENS ADVISORY COMMITTEE (CAC) SCHEDULE OF MEETINGS & TOPICS	SCHEDULE OF SUBCOMMITTEE MEETINGS AND TOPICS
January 2017	<ul style="list-style-type: none"> Discussion of the Business & Economics Element (January 17) 	<ul style="list-style-type: none"> CAC Business & Economics Subcommittee reviews the revised Business and Economic Element
February	<ul style="list-style-type: none"> Recommendation on Business & Economics Element (February 21) 	<ul style="list-style-type: none"> CAC Implementation Subcommittee reviews Implementation Plan
March	<ul style="list-style-type: none"> Discussion and Recommendation on the Implementation Plan (March 21) 	<ul style="list-style-type: none"> CAC Governance Subcommittee reviews Users Guide/Governance Topics
April	<ul style="list-style-type: none"> Discussion and Recommendation on the intro/users guide/governance topics (April 18) 	
May	<ul style="list-style-type: none"> Final CAC Session (“Putting it all Together”) (May 16) 	

Attachments

- A. Business and Economics Element Revised Goal Structure
- B. Business and Economic Element Annotated Outline of Policies
- C. Top 10 Employers Map
- D. December 13th CAC Meeting Minutes – provided as link only:
<http://www.paloaltocompplan.org/wp-content/uploads/2017/01/12-13-16-CAC-Draft-Transcript.pdf>
- E. Written Communication from CAC Members