

This preliminary draft element was prepared by City staff on the basis of input from the CAC and members of the public received from January 2017 through February 2017. The Element will be reviewed by the full CAC in February, 2017 and presented as a draft to Palo Alto City Council in the spring of 2017.

BUSINESS AND ECONOMICS

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VISION: *Palo Alto's business environment will be exciting, dynamic and vital. Businesses will have access to a wide array of support services and will enjoy positive relationships with Palo Alto residents, officials, and City staff. The dual nature of Palo Alto, with both very livable neighborhoods and thriving business districts, will be supported so that neighborhoods are protected and enhanced while business districts remain competitive and attractive. The local economy will thrive, and a diverse array of goods and services will be provided to Palo Alto consumers. Most development will occur within Palo Alto's employment areas and will be consistent with the role and character designated for area by this Plan.*

INTRODUCTION

The Business and Economics Element addresses economic development policy issues. It is not a State-required Comprehensive Plan element. Instead, it is an optional element, but its contents are equally important to those in the mandatory elements. This Element, informed by local economic conditions and forecasts, focuses on the role of local businesses in the community and provides mechanisms for the City to support innovation, entrepreneurship, and local-serving retail and services. Its goals emphasize a thriving economy, compatibility and interdependence with residential neighborhoods, fiscal health, a culture of innovation and business diversity, flexibility and predictability in city regulations, as well as attractive, vibrant business centers and employment districts. Implementation of this Element will take place over time and will utilize available planning and regulatory tools, such as the Zoning Ordinance, Coordinated Area Plans, and design review and ongoing outreach by the city to businesses.

Land use topics relevant to the design of retail centers (Goal B-5) and employment districts (Goal B-6) are discussed in the Land Use and Community Design Element. Transportation-related topics, such as employee commutes, the impact of commute-



related congestion on residents, shuttles serving retail centers, and adequate parking, are addressed in the Transportation Element.

ECONOMIC CONTEXT

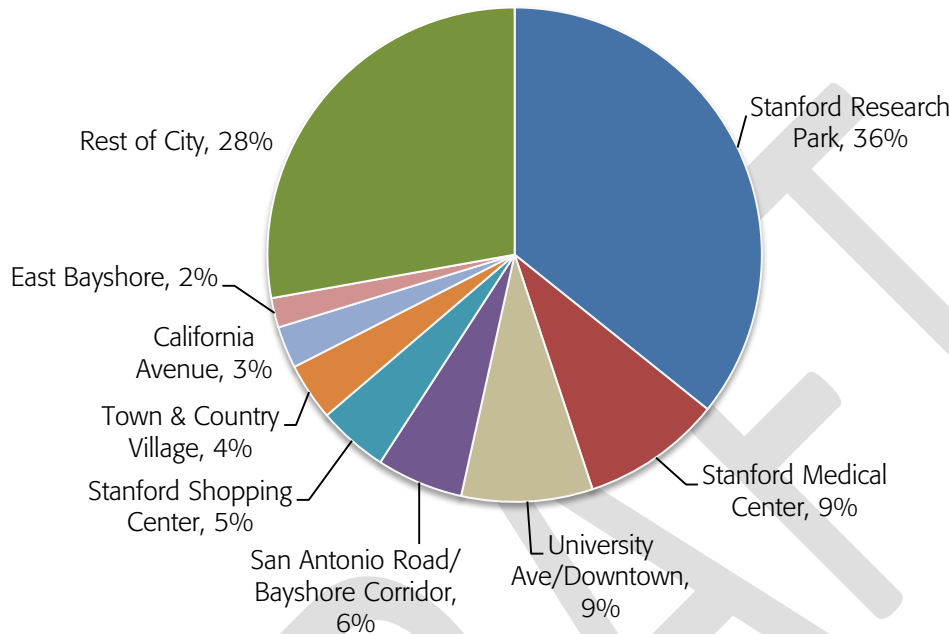
EMPLOYMENT

Since 2010, in the aftermath of the Great Recession, the Silicon Valley region has experienced nearly a twenty percent increase in the number of jobs. During the same period of time, the unemployment rate has decreased to record lows. These trends are consistent with broader employment trends in both California and the Bay Area.

The City is recognized as a hub of innovation and entrepreneurship, with employers concentrated in the education, medical, software, biotechnology, financial, professional, and government services industries. Major employers in Palo Alto include Stanford University, Stanford Health Care, Lucile Packard Children's Hospital, the Department of Veteran's Affairs, VMware, SAP, Space Systems/Loral, Hewlett-Packard, and the Palo Alto Medical Foundation. Each of these companies, institutions or agencies employs more than 2,000 persons. The top three employers, who are all affiliated with Stanford University, also include employees who work just outside of the city limits, in the part of unincorporated Santa Clara County that is within Palo Alto's sphere of influence (SOI).

As shown in Figure B-1, jobs are located throughout Palo Alto, primarily in the four Employment Districts, two Regional Centers, and three Multi-Neighborhood Centers identified in the Land Use and Community Design Element. The pie chart is based on a total of 95,460 jobs within the City limits of Palo Alto. Stanford Research Park contains 36 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.

Figure B-1: 2014 Jobs



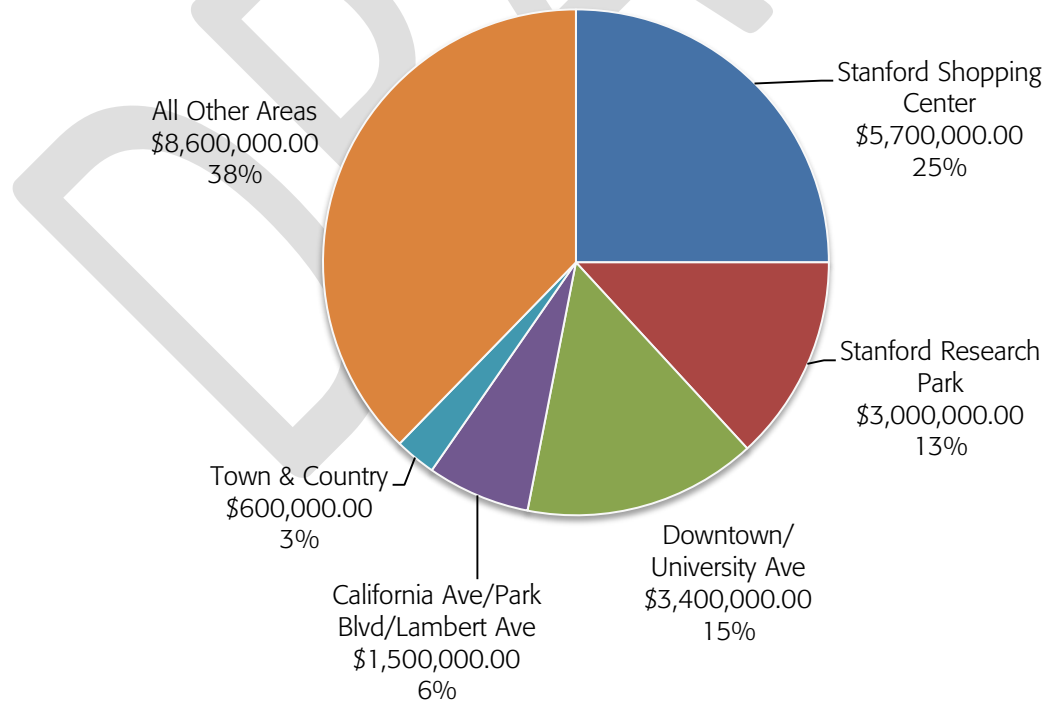
Successful businesses and employers are an integral part of a thriving, complete community. Local businesses offer many positives, including offering goods and services to residents and providing revenues that support the high quality of Palo Alto’s services. However, Palo Alto has an unusually high concentration of jobs, with approximately three times as many jobs (over 100,000) as employed residents (about 36,000). This indicates an exceptionally strong local economy, but it has also brought negative side effects over the past decade. Due to the high number of jobs relative to a low number of employed residents, many workers must commute to Palo Alto, resulting in traffic congestion, air pollution, and parking constraints. The understandable desire of workers to live close to their jobs has driven up the price of housing dramatically. Similarly, commercial rents have risen precipitously in response to the demand for a Palo Alto address, driving a conversion of retail spaces to office uses and pricing out smaller stores and professional services.



RETAIL

Palo Alto is home to a wide array of retail opportunities, from Center, to University Avenue, to small neighborhood-oriented shopping centers. Currently, retail sales tax (including tax on business-to-business sales) provides approximately five percent of total revenues to the City. Figure B-2 shows that over half of the sales and use tax revenue in the City is generated by Stanford Shopping Center (25%), Stanford Research Park (13%) and University Avenue/Downtown. Recent economic studies have shown that retail spending is attributable not only to local residents, but also to local employees (25%), local businesses (15%), and visitors who come to the city for shopping and leisure, including University students (47%). However, retailers in Palo Alto are currently experiencing challenges due to high rents, competition from online retailers, including in recruiting and retaining employees, as well as increasing healthcare costs.

Figure B-2: Sales and Use Tax Revenue by Geographical Area, Year Ending December 2015



PLANNING CONTEXT

THRIVING ECONOMY

The City's fiscal health and livability depend on maintaining a diverse community of businesses that are supported by residents, visitors and workers. The City recognizes the need for all types of goods and services in the community, including by utilizing public-private partnerships and supporting non-profit agencies. Additionally, developing and maintaining advanced communications infrastructure is crucial to ensuring the City continues to be a viable location for new and established technology businesses.

A thriving business environment in Palo Alto is one that complements and supports the city's residential neighborhoods and natural environment. The City can help cultivate interdependence between commercial centers and surrounding neighborhoods through policies that maintain the natural environment while minimizing potential impacts on neighborhoods such as traffic and parking.



FISCAL HEALTH

Palo Alto's continued fiscal health is crucial to providing the range and quality of infrastructure, services, amenities, and maintenance that citizens expect. As shown in Figure B-3, the City's revenue comes from diverse sources: selling utilities such as electricity, gas, water, and fiber optics to businesses, residents and outside entities; property taxes on residential and non-residential properties; sales tax (including both retail sales tax and business-to-business sales tax); charges for services; and a number of other sources. Figure B-4 illustrates the expense side, and shows that salaries and benefits, utility purchases, and contract services make up over 77 percent of total City expenses. Debt service, rents, supplies and materials, and other costs make up the remainder.

Figure B-3: Revenues: 2015-2016 Actual

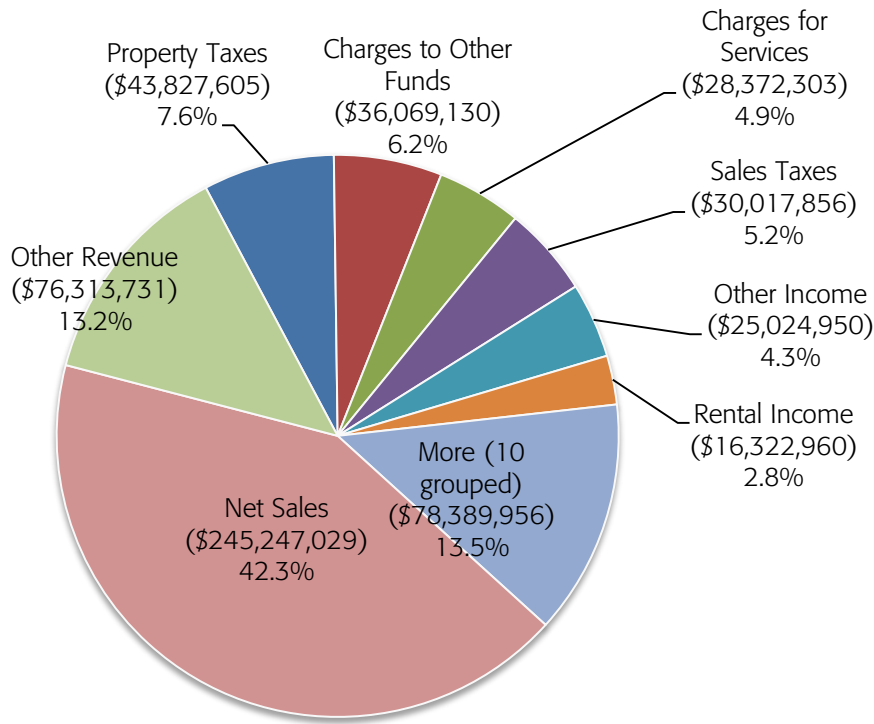
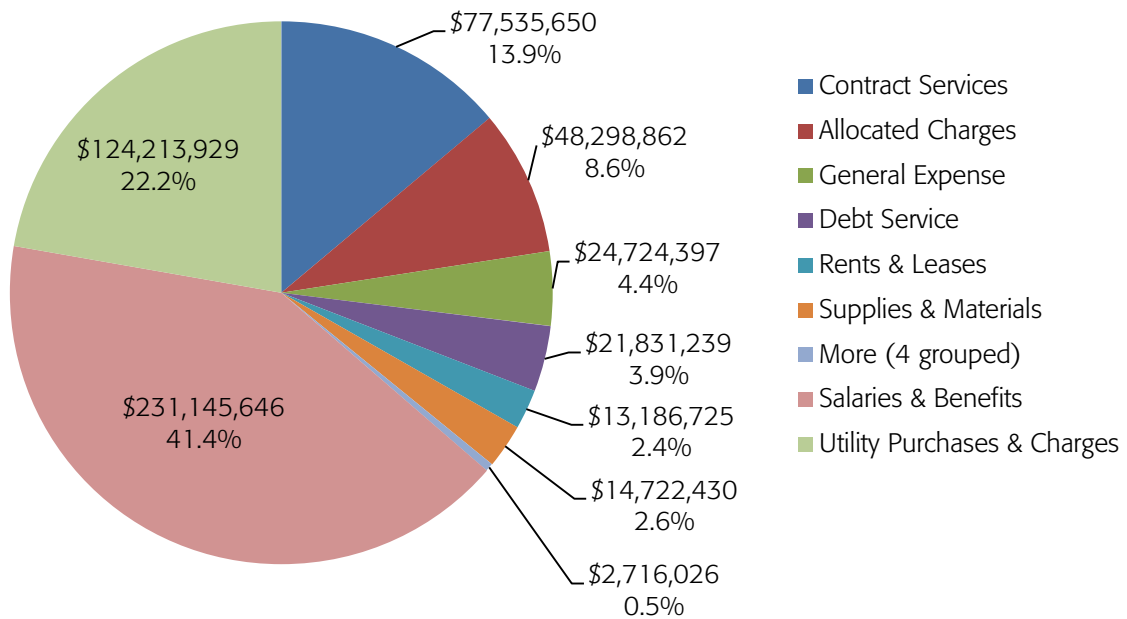


Figure B-4: Expenses: 2015-2016 Actual



CULTURE OF INNOVATION AND BUSINESS DIVERSITY

Palo Alto is a center of innovation within the technology sector. The Office of Economic Development plays a key role in supporting business growth, including community-serving businesses and arts-based businesses, and utilizes metrics to track progress towards citywide economic goals.

FLEXIBILITY AND PREDICTABILITY

The City can support a healthy businesses environment by providing regulations and operating procedures that provide business owners and neighbors with predictability and certainty, while maintaining flexibility and adaptability as market conditions change. This could involve streamlining administrative and regulatory processes, and simplifying design guidelines for new development. The Office of Economic Development can act as a facilitator between residents and businesses in these processes to help ensure that neighbors, as well as employers, understand requirements and know what to expect.

RETAIL CENTERS

Palo Alto's robust retail economy is focused in retail centers, including both regional retail draws such as University Avenue/Downtown and Stanford Shopping Center, corridors such as California Avenue and El Camino Real, and smaller shopping centers like Edgewood Plaza. Regional retail centers employ large numbers of people, attract shoppers from well beyond Palo Alto's boundaries, generate high sales tax revenues, and offer the broadest mix of goods and services. Multi-neighborhood Centers serve a much smaller area, typically the city or several neighborhoods within the city. Neighborhood Centers are the smallest unit; although their economic contributions are less substantial, they are vital to Palo Alto residents and are very much a part of community life. This Element provides policies and program to encourage the continued vibrancy of all Retail Centers, while recognizing that each Retail Center should maintain its distinctive character.

BUSINESS EMPLOYMENT DISTRICTS

As described in the Land Use and Community Design Element, there are three Employment Districts in Palo Alto: Stanford Research Park, Stanford Medical Center, and East Bayshore and San Antonio Road/Bayshore Corridor. These districts provide thousands of local jobs, establish a customer base for many other Palo Alto businesses, and generate tax revenues for the city. Because each plays a central role



in maintaining the fiscal health of the City, it is important to support their long-term viability and ability to respond to changing global economic conditions.

STANFORD RESEARCH PARK

As noted above, over one-third of the jobs in Palo Alto are located in Stanford Research Park. Over the coming decades, the Research Park will continue to evolve, but is likely to remain a major employment center. Working closely with Stanford University and the hundreds of employers in the Research Park will help the Research Park remain competitive with others in the Bay Area and nation, while also providing opportunities to address issues of shared concern, such as easing commute-related congestion.

Reinvestment along El Camino Real will not only benefit Research Park employees, but will also help the City increase vitality and enhance the physical appearance of El Camino Real. Providing housing and services like restaurants within walking distance of the Research Park also helps fulfill the City's goal of reducing auto dependence.

STANFORD UNIVERSITY MEDICAL CENTER

Stanford University Medical Center (SUMC), including the Stanford University School of Medicine, the Stanford University Clinic, Stanford University Hospital, and Lucile Salter Packard Children's Hospital, employs thousands of people and is one of the largest concentrations of health care services in the Bay Area. The City approved a Development Agreement with SUMC in 2011 which will continue for 30 years, throughout the life of this Comprehensive Plan. The Development Agreement covers the construction of a new Stanford Hospital and clinics buildings, an expansion of the Lucile Packard Children's Hospital, construction of new School of Medicine buildings, renovation of the existing Hoover Pavilion, construction of a new medical office building and parking garage at Hoover Pavilion, roadway improvements along Welch Road and Durand Way, and SUMC design guidelines. The City Council reviews SUMC's compliance with the terms of the Agreement on an annual basis. East Bayshore and San Antonio Road/Bayshore Corridor

The East Bayshore and San Antonio Road areas serve a special economic role. Its relatively low-cost space provides opportunities for a variety of service industries and start-up businesses that could not feasibly locate in the higher cost areas.

GOALS, POLICIES, AND PROGRAMS

THRIVING ECONOMY

GOAL B-1 Businesses in Palo Alto that contribute to economic vitality, enhance the city's physical environment, promote municipal revenues and provide needed local services.

POLICY B-1.1 Encourage new businesses that meet the City's business, economic or service requirements, as articulated in this Plan and the City's other Economic Development Policies, to locate in Palo Alto. [Existing Policy B-9] [B1]

Program B1.1.1 Implement the City of Palo Alto Office of Economic Development policy, as periodically amended, to guide business development in the City. [Existing Program B-2] [B2]

POLICY B-1.2 Promote Palo Alto's image as a business-friendly community. Assume an active role in fostering businesses, including small start-ups, entrepreneurs, and innovative businesses. [Existing Policy B-10] [B3]

POLICY B-1.3 Engage with all stakeholders in the business community, including businesses of all sizes, local retailers, the public, and City decision-makers in order to understand the challenges businesses and employers face. [NEW POLICY] [B4]

POLICY B-1.4 Direct the Office of Economic Development to attract businesses that innovate in the areas of mobility and sustainability, and encourage these businesses to employ local residents. [NEW POLICY] [B5]

POLICY B-1.5 Consider the use of public private partnerships as a means of revitalizing selected areas where beneficial to achieving the City's goals. [B6]

POLICY B-1.6 Encourage the private sector to participate in partnerships with nonprofit or public agency building owners and developers to provide space for community-serving non-profits. [Existing Policy B-11 and B-12 revised] [B7]

COMPATIBILITY AND INTERDEPENDENCE

GOAL B-2 A thriving business environment that complements Palo Alto's residential neighborhoods and natural environment.

POLICY B-2.1 Recognize that Palo Alto residents value local serving retail, and that opportunities for local employment reduce commute times and a stronger connection to the community. [NEW POLICY] [B8]

POLICY B-2.2 Support a strong interdependence between existing commercial centers and surrounding neighborhoods as a way of encouraging economic vitality. [Existing Policy B-2] [B9]

POLICY B-2.3 Recognize that businesses and neighborhoods need to coordinate on shared concerns such as traffic and parking issues. [NEW POLICY] [B10]

FISCAL RESPONSIBILITY

GOAL B-3 Careful management of City revenues and expenditures so that the fiscal health of the City is ensured and services are delivered efficiently and equitably. (NEW GOAL)

POLICY B-3.1 Promote a comprehensive approach to fiscal sustainability that includes careful monitoring of revenues and expenditures, efficient City operations, and land use, business and employment strategies. [NEW POLICY] [B11]

POLICY B-3.2 A diversity of businesses that generate revenue for the City are crucial for its fiscal sustainability. [NEW POLICY] [B12]

Program B3.2.1 Continue to refine tools, such as the Business Registry, as data sources on existing businesses, including the type of business, number of employees, size, location, and other metrics to track the diversity of Palo Alto businesses. [NEW PROGRAM – PTC] [B13]



POLICY B-3.3 Develop strategies for promoting businesses and employers that generate revenues that will support a full range of high-quality City services, including retain and attract revenue-generating businesses. [NEW POLICY] [B14]

CULTURE OF INNOVATION AND BUSINESS DIVERSITY

GOAL B-4 The stimulation of diverse commercial, retail and professional service business opportunities through supportive business policies and a culture of innovation.

POLICY B-4.1 Nurture and support Palo Alto's image as a global center of emerging technology by fostering innovation, supporting the established technology sector and attracting new businesses. [Existing Policy B-4 with PTC revisions]

POLICY B-4.2 Encourage the retention of small businesses, non-profit organizations, and professional services, which are vital to a diverse and innovative economy. [NEW POLICY] [B15]

Program B4.2.1 Consider planning, regulatory, or other incentives to encourage property owners to include smaller office spaces in their buildings to serve small businesses, non-profit organizations, and independent professionals. [NEW PROGRAM] [B16]

POLICY B-4.3 Promote the growth of small businesses. [NEW POLICY] [B17]

POLICY B-4.4 Retain and attract large employers in the Stanford Research Park. [NEW POLICY] [B18]

POLICY B-4.5 Maintain distinct business districts as a means of retaining local services and diversifying the City's economic base. [Existing Policy B-5] [B19]

POLICY B-4.6 Encourage and support the operation of retail businesses, and other services. [Revisions to Existing Policy B-7] [B20]

Program B4.6.1 Work with local merchants to encourage Palo Alto residents, workers, and visitors to buy in Palo Alto. [NEW PROGRAM] [B21]

Program B4.6.2 Study the impacts of on-line shopping on local, traditional retail uses, and develop strategies to adapt. Evaluate which types of businesses are most likely to be successful and where. [NEW PROGRAM] [B22]

Program B4.6.3 Evaluate the effectiveness of ground-floor retail requirements in preserving retail space. Consider locations where exceptions to this requirement could be allowed while still creating an active street environment. [NEW PROGRAM] [B23]

POLICY B-4.7 Explore opportunities to provide spaces for arts and entertainment activities, and other creative and visitor uses. [NEW POLICY – PTC] [B24]

FLEXIBILITY AND PREDICTABILITY

GOAL B-5 City regulations and operating procedures that provide certainty, predictability and flexibility and help businesses adapt to changing market conditions.

POLICY B-5.1 Maintain a healthy business climate, which provides for predictability and flexibility for those seeking City approvals. Encourage streamlining of City administrative and regulatory processes wherever possible. Reduce inefficiencies, overlap, and time delays associated with these processes. [Revision to Existing Policy B-16] [B25]

Program B5.1.1 Regularly evaluate ways to improve coordination of the City's environmental review, permitting, and inspection processes. [Existing Program B-6] [B26]

Program B5.1.2 Improve design guidelines to reduce ambiguity and more clearly articulate design principles to the business community and to the public. [Existing Program B-7] [B27]

Program B5.1.3 Simplify the design review process for small-scale changes to previously approved site plans and buildings. [Existing Program B-5] [B28]



Program B5.1.4 Revise zoning and other regulations as needed to encourage the revitalization of aging retail structures and areas, and encourage the preservation of Class B and C office spaces. [Existing Program B-10] [B29]

POLICY B-5.2 Continue to provide “one stop” service at the Development Center and to consolidate inspections to the extent feasible. [NEW POLICY] [B30]

POLICY B-5.3 Strengthen the role of the Office of Economic Development in both assisting businesses in navigating City procedures and requirements, as well as facilitating communication between residents and businesses regarding needs and concerns. [NEW POLICY] [B31]

POLICY B-5.4 Businesses of all kinds should be encouraged to advance Palo Alto’s commitment to both fiscal and environmental sustainability. [NEW POLICY] [B32]



RETAIL CENTERS

GOAL B-6 Attractive, vibrant retail centers, each with a mix of uses and a distinctive character.

REGIONAL CENTERS

University Avenue/Downtown

POLICY B-6.1 Support and enhance the University Avenue/ Downtown area as a vital mixed use area containing retail, personal service, office, restaurant, residential, and arts and entertainment uses. Recognize the importance of an appropriate retail mix, including small local businesses, to the continued vitality of Downtown. [(Existing Policy B-20) (Overlaps with Land Use Element Policy L-4.5)] [B33]



Program B6.1.1 Actively work with Downtown businesses, professional associations and the Palo Alto Chamber of Commerce to retain successful retail businesses that contribute to the City's goals for Downtown. [NEW PROGRAM – PTC] [B34]



South of Forest Mixed Use Area (SOFA)

POLICY B-6.2 Maintain uses in the South of Forest Area (SOFA) that complement the Downtown business district and serve the needs of nearby neighborhoods. [Existing Policy B-21] [B35]

Stanford Shopping Center

POLICY B-6.3 Work with appropriate stakeholders, leaseholders, and Stanford University to ensure that the Stanford Shopping Center is sustained as a distinctive, economically competitive, and high quality regional shopping center. [Existing Policy B-22 as edited by the PTC] [B36]

MULTI-NEIGHBORHOOD CENTERS

California Avenue

POLICY B-6.4 Foster the establishment of businesses and commercial services in the California Avenue business district that serve the adjacent neighborhoods as well as Stanford Research Park. Discourage development that would turn the district into a regional shopping area or intrude into adjacent residential neighborhoods. [Existing Policy B-24] [B37]

El Camino Real

POLICY B-6.5 Strengthen the commercial viability of businesses along the El Camino Real corridor, by, for example, encouraging the development of well-designed retail, services and housing. [Existing Policy B-25 with PTC revision] [B38]

BUSINESS EMPLOYMENT DISTRICTS

GOAL B-7 Thriving business employment districts at Stanford Research Park, Stanford Medical Center, East Bayshore/San Antonio Road Area and Bayshore Corridor that complement the City's business and neighborhood centers.

STANFORD RESEARCH PARK

POLICY B-7.1 Support the positive relationship between the local business community and Stanford University faculty, alumni, and administrators. [Existing Policy B-28] [B39]

POLICY B-7.2 Facilitate the ability of Stanford University and Research Park businesses to respond to changing market conditions that support the long-term viability of the Research Park. [Existing Policy B-29] [B40]

Program B7.2.1 Review policies and regulations guiding development at Stanford Research Park and revise them as needed to allow improved responsiveness to changing market conditions. [Existing Program B-15] [B41]

Program B7.2.2 Study the feasibility of a “transfer of development rights” (TDR) program and other measures that would provide greater development flexibility within Stanford Research Park without creating significant adverse traffic impacts or increasing the allowable floor area. [Existing Program B-16] [B42]



POLICY B-7.3 Encourage investment and activity along El Camino Real and within Stanford Research Park that complements the Research Park and enhances its physical appearance. [Existing Policy B-30] [B43]

POLICY B-7.4 Identify opportunities along the El Camino Real and within Stanford Research park where commercial services serving Research Park employees and visitors might be created. [Existing Program B-17] [B44]

POLICY B-7.5 Encourage incubator businesses in Stanford Research Park. [Existing Policy B-31] [B45]

STANFORD MEDICAL CENTER

POLICY B-7.6 Support the approved buildout of the SUMC and assist Stanford Medical Center in responding to changes in the delivery of health care services. Work with the Center to plan for changing facility needs within the context of City of Palo Alto planning goals and policies, as well as the goals and policies of other relevant jurisdictions. [Existing Policy B-32] [B46]

EAST BAYSHORE AND SAN ANTONIO ROAD/BAYSHORE CORRIDOR

POLICY B-7.7

Seek to balance increases in costs for business space with the need for rehabilitation and replacement of outdated space in the San Antonio Road and East Bayshore areas, consistent with the East Meadow Circle Concept Plan as periodically amended. [Existing Policy B-33 with revisions] [B47]

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