



City Council Staff Report

From: City Manager

Report Type: ACTION ITEMS

Lead Department: City Manager

Meeting Date: August 14, 2023

Report #:2305-1416

TITLE

Adoption of a Comprehensive Economic Development Strategy to Guide City Priorities, Initiatives, and Project Outcomes. CEQA Status - Not a Project.

RECOMMENDATION

Staff recommends that the City Council receive the Comprehensive Economic Development Strategy developed by the City's consultant Streetsense and approve this report to guide and inform City priorities, initiatives, projects, to support outcomes in support of economic vitality.

EXECUTIVE SUMMARY

Approval of the Comprehensive Economic Development Strategy will provide guiding principles and a framework to inform and guide continued work to support and actively promote the City's economic vitality. This report reflects over a year of work with stakeholders, data analysis and City Council discussions. These actions will inform future resource allocation, policy, and programming decisions for the City of Palo Alto and partners toward achieving a balanced and competitive future. Adoption of this report completes the Council priority Economic Recovery and Transition (ER&T) objective to *adopt a comprehensive economic development strategy*, a milestone in the continued actions to support the outcomes desired. Although adoption of this report does not have an immediate financial impact, it is expected that implementation will require resources and will be brought forward as programs and projects take shape.

BACKGROUND

Streetsense was brought on to "develop a market-informed economic development strategy that will ensure Palo Alto's post-COVID competitiveness by identifying impactful public sector interventions, policies and investments for which there is both need and consensus for action." This session is the third and final planned discussion between Streetsense and the City Council presenting a comprehensive economic development strategy based on the prior discussions with the Council and community stakeholders as well as diagnostics findings.

On November 7, 2022¹, Streetsense presented their in-progress work to City Council. At that meeting, they discussed the purpose and goals of the comprehensive economic development strategy, the phases and timeline of their project, and preliminary considerations and findings from their work to date.

On March 13th, 2023, Streetsense presented a 'diagnostic' and facilitated a discussion and feedback on the diagnostic findings and draft Guiding Principles to establish general consensus of the City Council through its discussion for the final product, this report on economic development strategies for Palo Alto.

ANALYSIS

Streetsense and HdL Companies were engaged in the fall of 2022 to develop market-informed economic development strategies to ensure Palo Alto's ongoing regional competitiveness by identifying impactful public sector interventions and investments for which there is both need and consensus for action. The strategies presented in the attached Comprehensive Economic Development Strategy aim to reflect the delicate ecosystem that drives the vibrancy of the City's downtown and commercial centers with a focus on the retail and hospitality sectors significantly affected by the COVID-19 pandemic and resulting hybrid work environment. The economic development strategies to follow will inform future resource allocation, policy and programming decisions for the City of Palo Alto and their partners to take toward achieving a balanced and competitive future.

This final report focuses on areas within Palo Alto where there is existing concentration of retail activity and representative of the diverse scale of retail offerings found throughout the City. The following descriptions include three categories of shopping districts according to shopping industry classifications. These classifications are intended to group "like" classifications of shopping commercial districts, while recognizing that activity centers have individual characteristics that make each unique.

Regional/Super Regional Centers: Downtown & Stanford Shopping Center

- Most significant tax base contributors; Face the greatest competition for visitors within the region; Must maintain "best in class" status to remain competitive

Community Serving Centers: California Ave & Town & Country Village

- Moderate tax base impacts; Employs local promotion and marketing strategies, if any; Tend to benefit from activations that meet community interests and needs

Neighborhood Serving: Midtown & Charleston Shopping Center

¹ City Council Staff Report November 2, 2022 <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/city-council-agendas-minutes/2022/20221107/20221107pccsm-amended-linked-q.a-2.pdf#page=8>

- Minimal tax base impacts; Least affected by the COVID-19 pandemic and typically the most stable asset class; Local customer base with little need for promotion

Guiding principles were identified through stakeholder engagement including multiple study session discussions with the City Council and the final report recommendations are organized around these.

- 1) Reinforce each district's distinct scale and offerings by stabilizing and reinforcing Downtown as a destination, embracing California Avenue as a community and neighborhood serving place, and supporting existing Neighborhood Centers
- 2) Improve accessibility by embracing walking and biking solutions to/from/within all of the City's commercial districts and addressing parking policies and systems
- 3) Adopt policies that reflect changing market conditions by easing the regulatory burden for businesses, removing outdated restrictions that create hurdles to tenancy, and focus retail and retail like uses in places where they are market supported.

Organized by each of these principles, this comprehensive strategy identifies 10 recommendations with action items recommended within each. Below is a summary table of the recommendations and action items. The full report can be found in Attachment A. The full report is organized as follows:

Each guiding principle has recommended strategies accompanied by one or more distinct actions with associated champions, the entity recommended to lead implementation efforts, and partners and city staff who are helpful as support.

Each strategy and associated actions apply to classifications of retail and Downtown Palo Alto, California Avenue, Neighborhood Centers, or a combination thereof, and may also apply to other retail areas in the City as the studied districts are representative, not exclusive.

Each recommendation is explained with a summary of why it is critical and how it aligns with existing city efforts, if applicable. Lastly, most are validated with a best practice example from around the country. The following At A Glance Recommendations inform prioritization with classifications

- Tier 1 In support/coordination of ongoing city efforts
- Tier 2 New near medium term and low medium budget
- Tier 3 New long term and medium high budget

Guiding Principle 1

1) Upgrade highly used and visible public and private realm spaces to promote district definition and encourage activation.

- 1.1 Redesign University Avenue streetscape to provide wider sidewalk space for walking, gathering, and outdoor dining through a construction project to be funded by property owners. [Tier 1]

- 1.2 Continue exploring the Car-Free Streets Initiative for California Avenue and Ramona Street to optimize a balanced future. [Tier 1]
- 1.3 Support outdoor dining and gathering options on sidewalks and within on-street parklets with by-right allowances within two feet of storefronts and creating a consolidated street activation resource. [Tier 1]
- 1.4 Invest in cohesive district branding through wayfinding, signage, public art, and gateway features within the district and along the district boundaries to better define and announce the area as a collective destination. For Neighborhood Centers, encourage public art, like murals and other community-centered installations. [Tier 2]

These align with Council priority outcomes, specifically ER&T focus on Commercial Corridors, Downtown and California Ave. objectives e, h, i, and j. Each of these objectives are in progress with milestones expected to be reached by the end of the calendar year. Objectives: Begin implementation of next phase of parklet regulations to the community. Select consultant to conduct a study that informs the development of a permanent car-free streets ordinance (ERT6&7); Approve concept plan for University Ave streetscape and provide direction on capital project funding (ERT 5); Extend temporary closure for car free streets (ERT6&7).

2) *Encourage the creation of and support District Management Entities (DMEs) for district promotion, programming, and increased maintenance.*

- 2.1 Create a task force to explore successful regional DMEs of various scales and structures to inform an appropriate DME for Downtown Palo Alto, one that enables property and business owners to advocate and act (with resources) on their own behalf. [Tier 2]
- 2.2 Formalize a DME, like the California Avenue Business Association/Merchants of California Avenue and encourage membership of a California Main Street Program. [Tier 2]

3) *Pursue business retention, development, and attraction initiatives for local and small businesses.*

- 3.1 Create a public private small and local business incubation and vacant storefront program connecting landlords experiencing vacancy with small and local businesses seeking brick and mortar space and local artists to aid in activation. [Tier 2]
- 3.2 Consider allocating funds towards a shop local eGift card program to incentivize patronage of local business. [Tier 2]

These aligns directly with a Council Priority outcome, specifically ER&T focus on Commercial Corridors, Downtown and California Ave. objective g, align Business Improvement District (BID) priorities and investments to the Comprehensive Economic Development Strategy (ERT1). This objective is in progress in partnership with the Chamber of Commerce and former members of the Palo Alto Downtown Business Association (PADBA).

4) *Promote tourism city wide to increase longer business "bleisure" travel and grow hotel weekend occupancy rates with non-business travel.*

- 4.1 Provide Palo Alto Chamber of Commerce the resources to promote tourism citywide to accurately highlight and consistently update Palo Alto's destination offerings, hotels, restaurants, events, and ways to get around in an easy-to-use online platform and app. [Tier 2]

This would be a new initiative though a light to medium financial impact. City provides funding annually as a member of the Chamber of Commerce. In addition, staff partner with the Chamber to support activities and ensure collaboration and coordination often resulting in specific financial support at Council's behest such as the grant of funding to support "3rd Thursdays" on California Avenue.

Guiding Principle 2

- 5) *Fix broken pedestrian and cycling links to increase accessibility to, from, and within commercial districts.*

- 5.1 Include more signage, wayfinding and bicycle lane markings along critical bike routes to aid safe and easy travel to/from shopping districts by biking and walking. [Tier 1]
- 5.2 Include mid-block pedestrian crossings and/or raised traffic tables where desire paths lack safe crossings and deemed safe to do so. [Tier 3]
- 5.3 Consider removing free rights at major intersections to aid in safe intersections for all modes of transport. [Tier 3]

This aligns in part with a capital project to enhance wayfinding in these corridors and will be supported by Council Objective m, which advances the Bike and Pedestrian Transportation Plan. Remaining actions would be new long-term investments.

- 6) *Invest in first and last mile transportation options that increase equitable access to, from, and within commercial districts.*

- 6.1 Incorporate a micro mobility (bike and/or scooter share) program that engages all shopping districts and destinations across the City of Palo Alto. [Tier 1]
- 6.2 Participate in advanced regional micro mobility options. [Tier 2]
- 6.3 Incentivize e-mobility using local resources. [Tier 2]
- 6.4 Support and incentivize on demand transit service and ridership through promotional programming within shopping districts. [Tier 1]

The City has implemented a pilot for demand transit services through its Palo Alto Link (PAL) service. As with the above goal, Council Objective m. would also inform and advance pedestrian and transportation strategies. Remaining actions would be new near to medium term actions with a medium financial impact.

- 7) *Reinforce walkability within districts to encourage longer duration of stay and activation.*

- 7.1 Select specific public alleyways with high visibility and at least 20 feet in width to improve for increased permeability and place making. [Tier 2]
- 7.2 Create a mural competition or program for select side and rear building facades garnering the most visibility from main streets. [Tier 2]

7.3 Limit new curb cuts and aim to remove overly redundant curb cuts with any future redevelopment along public right of way of neighborhood centers. [Tier 3]

These actions all reflect new projects or initiatives ranging from near term and low budget impact to longer term with significant investment needs. Staff have initiated some pilot programs such as the murals on California Avenue, however, these have been ad hoc in nature.

8) Update and simplify parking policies, systems, and signage to ease navigation to and use of parking.

8.1 Embrace technology by incorporating digital signage for easier navigation to available parking within and outside of parking areas and tie information into an app-based parking management system to ease use and parking predictability. [Tier 1]

8.2 Consider a small business employee access program that offers reduced employee parking fees, easily transferrable employee parking permits, and/or incentivized use of transit, micro mobility options, and carpooling. [Tier 1]

All of these actions are in support of ongoing projects already in progress. Capital projects such as the parking wayfinding in City garages and pilot adjustments to parking programs such as the new lower daily parking permit fee of \$8 from the previous \$25, and the implementation of the new parking permit system are all examples of projects and programs that directly support these actions.

Guiding Principle 3

9) Streamline, update and/or remove unnecessary use restrictions and pursue regulatory reform to enable tenancy and competitiveness.

9.1 Consider removing or consolidating zoning overlays, incorporating an at a glance permitted use table and design standards, and an interactive online map with quick links to relevant regulations. [Tier 1]

9.2 Consider amending Section 18.76.20, Architectural Review, of the municipal code to enable more over the counter approvals for minor changes. [Tier 2]

9.3 Reevaluate the city-wide Retail Preservation Ordinance and consider refocusing its applicability to targeted areas of existing retail concentration while also allowing flexibility in non-street facing portions of buildings. [Tier 1]

9.4 Enable growth in Neighborhood Goods and Services along California Avenue by updating the Formula Retail Ordinance and easing use restrictions on in demand neighborhood serving uses that are currently heavily regulated or prohibited. [Tier 2]

These align in part with a Council Priority outcome, specifically ER&T focus on Commercial Corridors, Downtown and California Ave. objective k, to provide direction on citywide retail zoning code changes including preservation and neighboring commercial district specific regulations and conditional use permit thresholds. However, this specific outcome is not expected to be completed in 2023.

10) Grow the market by enabling residential development in select areas of Downtown Palo Alto and California Avenue

- 10.1 Consider increasing allowable height and floor area ratio to accommodate residential in mixed use projects. [Tier 2]
- 10.2 Allow exclusively residential projects, including the ground floor where currently restricted in the California Avenue district. [Tier 2]
- 10.3 Prioritize residential development on underutilized property as identified in the 2023-31 Housing Element. [Tier 1]

These reflect a majority of new initiatives, however a re in alignment with the Council Priority, specifically ER&T focus on Commercial Corridors, Downtown and California Ave. objective f, which reflects continued exploration of new parking facilities in the University Avenue Downtown with a preference for affordable housing development.

Administrative Capacity

Important for implementation of the following strategy recommendations is adequate internal administrative capacity to facilitate responsibilities and to track and report progress.

Recommended is formation of a scaled Office of Economic Development with adequate resources from a staffing and budget perspective to execute the strategy recommendations of this Plan. As noted in the resource impact section, some staff augmentation has been approved in the FY 2024 Adopted budget, dedicating two staff members to these efforts.

Also recommended is the creation of an Interagency Economic Development Committee, led by the Office of Economic Development, and consisting of key partners and city staff who will champion, advance, and track implementation of recommended strategies herein over the next five-year period. This Committee would meet as an internal group and present progress to City Council on an annual basis. The Committee should discuss and evaluate budget and resource needs on an ongoing basis and make recommendations and requests to City Council, as needed. This structure would communicate commitment to executing the strategies herein and ultimately the health of Palo Alto's Downtown and commercial districts including consistently reporting publicly to City Council ensures interagency accountability, reinforcing community trust in the process and means by which the envisioned outcomes are achieved.

FISCAL/RESOURCE IMPACT

Adoption of the Comprehensive Economic Development Strategy document itself will not impact resource needs, however, the implementation and use of these recommendations to guide future projects, focus areas, and ultimately implementation will require resources. As the City refines the scope of its economic development function through Streetsense's work, scaling resources to align with that scope will require further resources and budgetary actions. Staff recommend that the Council allocate resources as opportunities to make progress on these recommendations arise to appropriately scale the City's economic development function in alignment with Council's priorities and objectives.

The resources allocated to Economic Development are an important consideration for ongoing work. The City has ongoing funding for the Economic Development coordinator role, a newly created support role for the coordinator role and economic development initiatives (Approved in the FY 2024 Adopted Budget) and some ongoing funding for limited consultant support (less than \$25,000 annually).

STAKEHOLDER ENGAGEMENT

Community stakeholders, including residents and representatives from various business sectors, including restaurants, retailers, hoteliers, property owners, and others, have been engaged consistently through the City's recent work on economic development. Throughout the 12-month process, the Consultants engaged the City Council to ground truth findings and ultimately shape the final guiding principles and strategies.

The strategies were informed by a multi-phased process with robust stakeholder engagement:

- Field work and a tour of the City's commercial districts and destination assets, focus group discussions with residents, business and property owners, and hoteliers, and discussions with partners, including the Chamber of Commerce, Urban Village Farmer's Markets, and several interdepartmental city staff. Within the initial phase, the Consultants performed background research and a trends assessment.
- A diagnostic was completed and presented to the Council in March 2023, consisting of 1) a retail market assessment of regional/local competition and supply/demand 2) a business environment assessment including a tax analysis and hospitality/tourism assessment, 3) an administrative assessment which analyzed existing policy and zoning requirements and organizational capacity, and 4) a physical assessment of all study area commercial districts.
- This final report was posted publicly on the City's website in June 2023. A session for resident feedback to help identify their priorities in this comprehensive strategy was advertised through the City's communication channels and held on June 29, 2023.

General feedback from the resident feedback session on June 29, 2023 demonstrated that neighborhood centers remain of interest among participants, with public realm signage, public art, lighting, landscaping, crosswalks, and funding sources for each as main focus/concern. Specifically, for the California Avenue area, participants expressed wanting increased tenant visibility and measures to increase safety in alleyways. Also participants expressed the need for regulatory reform though the specific types of reform were diverse.

Participants were asked to participate in a virtual prioritization exercise to identify any recommendations in the comprehensive report they wish to prioritize, below are the results:

Recommendation(s) 1.1-1.4	involving upgrades to public and private spaces in Downtown Palo Alto, California Avenue, and neighborhood centers, supporting outdoor dining on sidewalks and within parklets, and district branding through wayfinding, signage, and art
Recommendation(s) 2.1-2.2	involving the creation of and support for District Management Entities for Downtown Palo Alto and California Avenue
Recommendation(s) 3.1-3.2	involving business retention, development, and attraction initiatives for local and small businesses
Recommendation(s) 5.1-5.2	addressing pedestrian and cycling infrastructure
Recommendation(s) 6.4	supporting and incentivizing the on-demand transit service
Recommendation(s) 7.1-7.2	addressing walkability in alleyways and supporting a mural program
Recommendation(s) 8.1	supporting digital signage and wayfinding associated with downtown parking
Recommendation(s) 9.1-9.4	advocating for the regulatory reform to enable tenancy and competitiveness
Recommendation(s) 10.1-10.3	addressing the enablement of residential development in select areas of Downtown and California Avenue

Staff will continue to engage residents and businesses in meaningful dialogue to help inform and maintain the City's economic vibrancy and through the projects and programs that will be guided by the recommendations within.

ENVIRONMENTAL REVIEW

Council action on this item is not project as defined by the California Environmental Quality Act (CEQA) because adoption of the study and its recommendations is a administrative activity that will not directly or indirectly cause physical changes to the environment. CEQA Guidelines Section 15738(b)(5). Projects and initiatives informed by this study, including but not limited to Council priorities such as carfree streets, will be brought to the Council as separate actions and include the appropriate level of CEQA analysis at that time.

ATTACHMENTS

Attachment A: Comprehensive Economic Development Strategy

APPROVED BY:

Ed Shikada, City Manager