



# 5. Economic Development

## Overview

The Economic Development Element provides goals and policies to guide sustainable and equitable growth of East Palo Alto’s economy, in which all East Palo Alto residents benefit from economic growth. Topics include business attraction and retention, providing high-quality job opportunities and training for local residents, and maintaining the city’s ability to provide services through sustainable fiscal health.

## Statutory Requirements

The City of East Palo Alto chose to include an Economic Development Element in its General Plan in order to prioritize growth and maintenance of the community’s economic and fiscal health. California law does not mandate the inclusion of an Economic Development Element in a General Plan, but California Government Code Section 65303 allows for inclusion of additional elements relating to the physical development of the City.

## Issues and Opportunities

### Employment

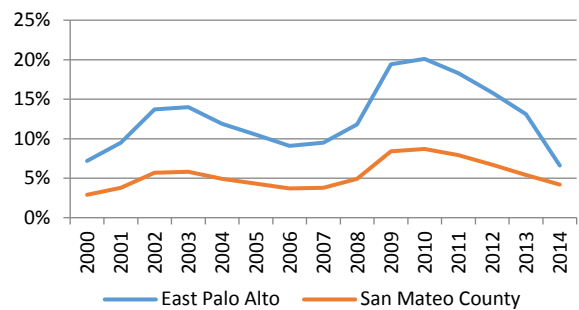
East Palo Alto is estimated to contain approximately 2,700 jobs, less than one percent of the total number of jobs in the “Market Area” of East Palo Alto, Menlo Park, Redwood City, Palo Alto, Los Altos, and Mountain View. The Association of Bay Area Governments projects that East Palo Alto will maintain this share of Market Area jobs by 2035. However, East Palo Alto has a relatively low number of jobs, with a 0.23 ratio of jobs to employed residents (compared to 1.0 countywide). An opportunity

exists to grow East Palo Alto’s job base through new commercial development (particularly at Ravenswood) and new business start-ups and expansions.

East Palo Alto’s jobs are generally lower-paying than in the rest of San Mateo County. As of 2013, the U.S. Census estimated that nearly 40 percent of East Palo Alto’s jobs are in the relatively low-paid retail, accommodation, and food service sectors, compared to less than 19 percent of all jobs in San Mateo County. Educational services and health care / social assistance were the next largest employment sectors, comprising nearly 30 percent of citywide jobs. Jobs in professional, largely office-based industries comprised an additional 12 to 15 percent of employment.

As of late 2015, the unemployment rate of East Palo Alto residents stood at 4.7 percent, compared to 3 percent countywide. As is shown in Figure 5-1, since 2000, unemployment trends in East Palo Alto have largely tracked the trends at the County level. However, East Palo Alto’s rates of unemployment are consistently higher, and the peak of unemployment during the 2009-2011 recession was dramatically higher than in the rest of San Mateo County.

Figure 5-1: Unemployment Rate

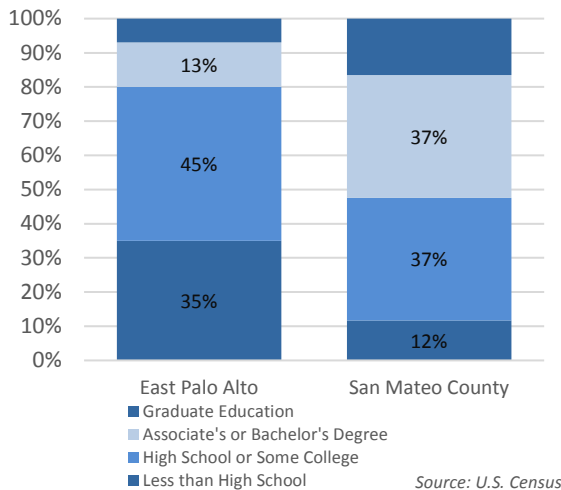


Source: California EDD

## Workforce Skills and Education

As is shown in Figure 5-2, many East Palo Alto residents have lower educational attainment levels, creating a significant barrier to accessing high-quality jobs. Based on data from the U.S. Census, 35 percent of East Palo Alto residents age 25 and older do not hold a high school degree, and another 45 percent lack an Associate’s or Bachelor’s degree, which is increasingly critical to securing suitable, lifelong employment.

**Figure 5-2: Educational Attainment, Population 25 Years and Older, 2010**



Workforce development and education programs are essential for providing technical training or Associate’s degrees for City residents. This training prepares residents for “career ladder” jobs, which provide moderate or better starting wages and long-term opportunities for advancement. The city can build on its partnerships with existing workforce development organizations and non-profits in East Palo Alto and neighboring communities to provide adult education and skills-building for residents. Middle skill jobs are a promising opportunity for East Palo Alto’s residents since they are likely to offer better wages and advancement opportunities relative to the education requirements.

Because of the large gap in educational attainment levels of existing residents, there will be a need for continued and expanded workforce development and education programs at all levels, ranging from basic adult education to associate’s degree programs.

## Job Access

East Palo Alto sits within a larger thriving jobs market that is anticipated to add a substantial number of housing units and jobs within the next two decades. As a result, most of the new job opportunities for East Palo Alto residents are likely to be located outside of the City. Access to jobs throughout the region will be critical. Partnerships with transit agency operators and private employers can help to improve the time and cost of the commute for East Palo Alto residents.

## New Development

Economic development in East Palo Alto is tied to the City’s ability to attract new commercial development and expand existing businesses. Growth in the office, light industrial, hotel, and retail sectors can help to increase available local jobs and provide needed local tax revenues to increase services for residents, workers, and visitors. However, East Palo Alto must also invest in its infrastructure to support attraction of this development.

East Palo Alto can capitalize on strong demand for new office, hotel, and research and development (R&D) space, given its location and the rapid job growth projected for the Silicon Valley region. The strongest locations for attracting new office and R&D space include the University Avenue/Highway 101 interchange and the Ravenswood TOD Specific Plan area.

The retail sector, though fairly healthy, has opportunities for growth and diversification. Despite a number of large, regional-serving retailers, overall retail sales per capita are lower than in neighboring cities. Residents often shop outside the community for goods and services, including restaurants, grocery stores, apparel, gasoline, and specialty retail, referred to as “sales leakage.” According to the Tax Base Expansion Analysis, “total sales leakage” was estimated at \$115 million as of 2009.

Over time, new development can contribute toward providing desired community facilities. The City lacks central gathering spaces to serve the community, such as public open spaces and community facilities. As new development occurs, there is an opportunity to work with property owners and developers to ensure that retail and community facilities are integrated into new projects.

## Fiscal Health

Achieving and sustaining a healthy fiscal position from which to support the goals and vision of the General Plan will require East Palo Alto to address both a projected structural budget deficit and its significant long-term under-investment in major capital infrastructure. The City can address these issues by growing and diversifying its revenue resources.

East Palo Alto has historically balanced its budget primarily by successfully engaging in redevelopment activity, implementing significant service cost reductions, utilizing one-time grants and short-term funding sources, lagging the labor market in employee compensation, minimizing service delivery, and deferring critical capital maintenance and investment. A more sustainable financial strategy will be necessary to achieve East Palo Alto’s goals of improving and maintaining a healthy and vibrant community.

East Palo Alto’s limited commercial development creates a weak revenue base for generating sales, property, and other taxes. An opportunity exists to expand commercial and industrial development, and to assist existing commercial and industrial properties to attract higher value uses that generate more jobs and revenue. Given that East Palo Alto has a substantial jobs-housing imbalance and a limited number of available and well-located development sites, the City must ensure that future development maximizes job creation while contributing to its economic development goals.

The dissolution of redevelopment in California significantly reduced the City’s ability to fund major infrastructure improvements needed to attract business investment and development in certain areas – including the Ravenswood Business District as well as ending set-aside payments to support and fund local affordable housing projects. East Palo Alto’s history of constrained resources affects its ability to deliver the services and programs needed and desired by the existing population. As shown in Table 5-1, EPA’s General Fund revenues per capita are significantly less than similar jurisdictions. Specifically, EPA’s revenues are equal to less than 60% of the total average revenue of several surrounding cities. Furthermore, the revenue sources are not economically resilient as they lack both diversity (75% of revenues are from property, sales, and transient occupancy tax) and are subject to extreme fluctuations based on economic conditions.

A healthier, resilient, and diversified municipal budget will allow East Palo Alto to continue investing in and improving the City’s physical infrastructure, and to provide a greater range and depth of services to the community. These critical services include recreational services for residents, affordable housing, economic development programs for existing businesses, and code enforcement services to address quality of life issues related to parking, traffic, illegal construction, waste dumping, and noise abatement. These improved services will also contribute to overall quality of life for residents, employees, and visitors, which will in turn help to retain, support, strengthen and attract businesses.

Table 5-3: Comparison of per Capita Municipal Revenues							
	East Palo Alto	Menlo Park	Palo Alto	Mountain View	City of San Carlos	Redwood City	San Mateo
Property Taxes	\$9,411,000	\$15,156,065	\$35,300,000	\$62,601,000	\$10,979,456	\$42,438,190	\$52,000,000
Sales Taxes	\$3,114,000	\$6,444,292	\$29,400,000	\$16,935,000	\$6,548,812	\$20,781,613	\$23,600,000
TOT	\$2,453,000	\$4,158,809	\$12,300,000	\$5,595,000	\$1,270,072	\$5,262,280	\$6,412,500
<b>Total</b>	<b>\$14,978,000</b>	<b>\$25,759,166</b>	<b>\$77,000,000</b>	<b>\$85,131,000</b>	<b>\$18,798,340</b>	<b>\$68,482,083</b>	<b>\$82,012,500</b>
Population	29,530	33,309	66,955	79,378	29,803	82,881	102,893
Per Capita	\$507	\$773	\$1,150	\$1,072	\$631	\$826	\$797

Source: 2014 CAFRS and 2010 Census

## Goals and Policies

### Goal ED-1. **Grow and stabilize revenue-generating land uses and tools to diversify and expand the City’s tax revenue base and provide jobs for local residents.**

*Intent: Improve East Palo Alto’s tax revenue base by expanding existing revenue sources and maximizing development and business growth on the city’s limited stock of high-value, high-visibility development opportunity sites. Provide sufficient revenues to fulfill city service needs.*

#### Policies:

- 1.1 Balance costs and revenues.** Promote a land use composition and development phasing in East Palo Alto that provides a jobs-housing balance or surplus between the generation of public revenues and the cost of providing public facilities/services.
- 1.2 Industrial development.** Work with property owners and developers to encourage office, research and development and industrial development projects at strategic opportunity sites in the city, particularly within the Ravenswood TOD Specific Plan.
- 1.3 Attraction of revenue-generating businesses.** Target economic development efforts toward attracting sales and use tax-generating businesses to vacant and new developments, including retail stores/services and office/industrial-based businesses.
- 1.4 Retention of revenue-generating businesses.** Target economic development efforts toward retaining sales and use tax-generating businesses including retail stores/services and office/industrial-based businesses.
- 1.5 Commercial tenant attraction.** Actively reach out to and partner with brokers and site location experts to attract desired commercial tenants.
- 1.6 New hotel use.** Prioritize attracting new hotel development to increase transient occupancy tax revenues, especially near the intersection of University Avenue and Highway 101 or other locations with excellent regional access and visibility. This policy applies to the east side of the City and to the University Circle area on the Westside.
- 1.7 Expedited permitting.** Ensure permits and entitlements processes are streamlined and expedited in order to help attract desired commercial development.
- 1.8 Neighborhood-serving retail.** Expand and diversify the sales tax base through development of neighborhood-serving retail in areas of change, such as 4 Corners, Bay Road, the Ravenswood 101 Shopping Center, the Willow Road/Newbridge retail area, and the Westside.
- 1.9 Office and R&D business.** Promote growth of office and R&D businesses that contribute property and sales tax revenues to the city, particularly at the University Avenue and Highway 101 interchange and within the Ravenswood TOD Specific Plan.
- 1.10 Infrastructure improvements supporting higher and better uses.** Implement infrastructure improvements that encourage development of higher and better uses which contribute to achieving citywide economic development and livability goals.
- 1.11 Fiscal impact reports.** Require a Fiscal Impact Report for all housing projects larger than twenty units and other projects as directed by the City. The project sponsor shall provide the City adequate funds for the preparation of the Fiscal Impact Report. If the project does not have a net positive impact based on the Report, the project sponsor shall create an assessment district or other funding mechanism to ensure that the project has a net positive impact on the General Fund. Income-restricted affordable housing and replacement housing projects and units shall be exempt from all

requirements of this policy. City Council can also exempt projects from this requirement.

- 1.12 Property tax in-lieu payments.** Require in-lieu payments from property tax exempt institutions. Users and property owners that are exempt from property tax (including, but not limited to universities and hospitals/healthcare non-profits) are to pay the City an annual payment in lieu of the property and other taxes and fees. The amount paid would be equal to the amount the City would receive from a similar non-exempt use. Religious institutions and affordable housing projects are exempt from this requirement. The City Council can exempt projects from this requirement.
- 1.13 New revenue sources.** Actively pursue implementation of new revenue sources to the city’s budget, including potential increases to sales tax, transfer tax, and/or transient-occupancy tax.
- 1.14 Commercial linkage fee.** Prepare affordable housing commercial linkage fee study and levy fee if feasible. Periodically update study to determine feasibility of levying the fee on office, R&D, industrial, hotel, retail, and commercial uses. City Council can exempt projects from this requirement if the project delivers other community benefits.
- 1.15 Negotiated community benefits.** For large-scale developments, negotiate with developers to maximize the potential for acquiring community benefits including but not limited to infrastructure, new facilities, employment opportunities for residents, income-restricted affordable housing, local serving retail, and other benefits.
- 1.16 Jobs impact analysis.** Require employment generating projects larger than 20,000 square feet to prepare a jobs analysis including number of jobs, estimated wages, and estimated jobs for local residents.

## Goal ED-2. **Recruit, assist, and retain businesses in the community, focusing on retail, services, and resident employment.**

*Intent: Grow businesses in the community, especially those fulfilling unmet day-to-day resident needs and businesses offering high-quality jobs with opportunities for advancement.*

### **Policies:**

- 2.1 Job growth.** Promote the establishment, retention and expansion of businesses that provide employment for East Palo Alto’s residents.
- 2.2 Retail attraction.** Recruit retail tenants currently lacking in the community, including restaurants, grocery stores, drug stores/pharmacies, apparel, gasoline, and specialty retail.
- 2.3 Jobs attraction.** Target recruitment and retention to business types offering well-paying jobs with low education requirements and opportunities for advancement, with particular focus on growth envisioned in the Ravenswood Employment District.
- 2.4 Small business technical assistance.** Partner with existing non-profits and business groups to provide technical assistance to start-ups and small local businesses.
- 2.5 Small business permitting assistance.** Actively assist entrepreneurs and small business owners to navigate the City’s permitting and licensing processes.
- 2.6 Spaces for small business.** Support local retail by encouraging new development to include local, small businesses and by exploring a small business incubator.
- 2.7 Home businesses.** Support home businesses that meet city planning and permitting requirements and create jobs, and opportunities for

entrepreneurship. Include home businesses in small business assistance efforts.

- 2.8 Economic development staffing.** Establish dedicated, staffed economic development operations to undertake business development, retention, and attraction activities.

### Goal ED-3. **Ensure efficient coordination with public facilities and service providers to support existing and new development within the City.**

*Intent: To ensure that there is sufficient infrastructure and supporting public facilities and services necessary for new development, and that there is not a diminishment in the quality of public services provided by the City as growth occurs.*

#### **Policies:**

- 3.1 New development.** Require new development to pay its fair share of required improvements to public facilities and services through impact fees or other financial and regulatory mechanisms.
- 3.2 Concurrence.** Require that infrastructure is in place or planned and funded prior to approval of new development projects that require such infrastructure, including water availability.
- 3.3 Supporting infrastructure and public services.** Require new development projects to provide supporting infrastructure and public services that contribute to an overall improvement in the quality of life in the City.

### Goal ED-4. **Improve worker and student education, training, and job placement.**

*Intent: To provide East Palo Alto residents with easily accessible and affordable job training and preparation in order to boost skills and employment in high-quality jobs.*

#### **Policies:**

- 4.1 Job training.** Expand job training programs in the City, especially those that train residents for technology jobs in Silicon Valley.
- 4.2 Workforce development.** Maintain and grow ongoing partnerships with local workforce development organizations – such as the San Mateo County Workforce Investment Board and community college districts – to improve adult resident access to job training, placement, and skills development.
- 4.3 Corporate relationships.** Maintain and grow ongoing partnerships with employers and business organizations in the region – especially Silicon Valley business partnerships – to identify opportunities for resident advancement and youth career exposure, mentoring, and on-the-job training.
- 4.4 STEM education.** Partner with the Ravenswood School District, Sequoia Union High School District, and community college districts to identify opportunities for collaboration and integration of skills-training or STEM (Science, Technology, Engineering, and Math) education.
- 4.5 Youth apprentice programs.** Help to develop and support programs that provide apprenticeship/ internship programs for East Palo Alto youth. Formalize and publicize existing mentorship programs between organizations that work with City youth and area businesses.

**Goal ED-5. Attract businesses offering middle-skill, middle-wage jobs with opportunities for advancement, and attract businesses committed to local hiring.**

*Intent: Building off the initial business types targeted in the Ravenswood TOD Specific Plan, grow job and advancement opportunities for workers without college degrees by attracting businesses offering high-quality “career ladder” jobs.*

**Policies:**

- 5.1 New employment sectors.** Monitor regional and national findings identifying industries and business types offering high proportions of middle-skill jobs with opportunities for advancement.
- 5.2 Business retention.** Target business retention and recruitment efforts to businesses offering a relatively high share of well-paid jobs which require less than a college degree and offer opportunities for advancement.
- 5.3 Local jobs and hiring.** Continue to require local hiring programs for new businesses that locate in East Palo Alto. Seek out businesses that employ workers at appropriate skill levels and that provide training to increase local skills for the full range of job opportunities. For larger development projects, require developers and tenants to establish local hiring targets. Ensure businesses comply with the City’s First Source Hiring Program, as applicable.
- 5.4 Small business support.** Encourage programs and staffing that support small businesses, including start-up capital, small business loan support, assistance with navigating City, County and State regulations and requirements, and administrative activities such as human resources and taxes.
- 5.5 First Source Hiring Program.** Monitor and analyze opportunities to improve East Palo Alto’s First

Source Hiring Program in ways that improve East Palo Alto’s economic development efforts. Continue to implement existing First Source Hiring Policy and amend and strengthen policy to maximize job opportunities for East Palo Alto residents.