CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: CITY COUNCIL

FROM: Mayor Chuck Reed
Councilmember Sam Liccardo
Councilmember Nancy Pyle
Councilmember Rose Herrera

SUBJECT: SEE BELOW

DATE: January 25, 2010

Approved Chuck Reed Ron Herrera Nancy Pyle Sam Liccardo RH Date 1-25-10

SUBJECT: DEVELOPMENT INCENTIVES FOR SAN JOSE'S ECONOMIC RECOVERY

RECOMMENDATION:

Direct the City Manager and Executive Director to assess the feasibility of the development incentives outlined below and to return to Council

- at the February 8, 2010 City Council Study Session with findings regarding the fiscal and economic benefits to be generated by such incentives, as well an analysis of foregone City and Redevelopment revenues; and,

- at the Redevelopment Agency and City Budget Hearings with a strategy to implement any of the proposed incentives that may be approved as part of the budget.

DEVELOPMENT INCENTIVES:

1. Waive license fees for any new small businesses—employing up to 8 employees—applying for a business license until the end of Fiscal Year 2010-11;
   a. Provide Council with a review of procedures that ensures that every small business license applicant has information about free and low-cost resources to help them learn best practices in managing their business, including Silicon Valley SCORE, various chambers of commerce, and BusinessOwnerSpace.com.

2. At any City-owned parking lot, waive any fees on parking leases for two years for businesses that enter into or renew a lease in a downtown office or commercial retail building, under the following conditions:
   a. No individual business may obtain free parking for more than 50 parking spaces; and
   b. The allocation of spaces to businesses will be commensurate with the aggregate square footage leased by the business in a downtown building.

This parking incentive program will expire at the time that fees have been waived for some aggregate total of parking spaces in all City garages, e.g., 1,000 spaces. Staff is directed to pursue opportunities

as appropriate on a citywide basis similar to programs that exist in several City- or RDA-owned lots in our Neighborhood Business Districts on The Alameda, Alum Rock Avenue and Japantown.

3. Enter into development agreements that provide the equivalent of some share of any "net new" taxes or tax increment received as a result of new business activity, construction, tenant improvements, renovation, or other job-creating project ("Project"), to incentivize the attraction and/or expansion of driving industry technology companies of a specified size (by number of employees or revenues) over a specified duration, or any similar such program proposed by the Administration and the Redevelopment Agency. Such contracts might provide for the payment of the equivalent of:
    a. 50% of the tax revenue and/or tax increment generated by the Project over a three-year period; or
    b. 100% of the tax revenue and/or increment over a specified period, but with a "cap" set at the total fees paid by the applicant for the Project; or
    c. Some other amount to fund the cost of other appropriate private sector investments including capital equipment reimbursements and infrastructure improvements; as determined by Staff.

4. Implement a proposed program for the deferral of impact fees for housing, commercial, and industrial developers—such as those paid for transportation, sewer, and other infrastructure improvements—over an extended duration, utilizing Community Facility Districts or other mechanisms to generate the same net present value payment.
    a. Consider how to prioritize office and R & D development in creating this incentive, to address both the City's housing-jobs imbalance, and the difficulties that we face meeting Phase I targets for industrial and commercial development in North San José.

5. Allocate any additional staffing or funding for the development services team to work overtime on tight deadlines to support the Special Tenant Improvement Program team that mobilizes quickly to meet deadlines of time-sensitive companies wishing to move into or expand in San Jose.
    a. Additionally, it is recommended that the City Attorney assign staff who will work with the Office of Economic Development and Redevelopment Agency for the purpose of ensuring timely delivery of permits and services.

6. Engage with the San José/ Silicon Valley Chamber of Commerce, our ethnic chambers of commerce, the Silicon Valley Leadership Group, San José Downtown Association, Joint Venture Silicon Valley, and industry leaders to determine how best to communicate these initiatives to a national business audience and the media, and to continue to inform them about existing programs, such as our Enterprise Zone tax incentives, and San José's recent eligibility for federal Recovery Zone Facility Bonds (RZFB's).

BACKGROUND

At this moment more than at any other, we must look for every opportunity to help businesses create jobs in San José. As the economy timidly emerges from its worst recession in three quarters of a century, we have a short-lived opportunity to accelerate the creation of jobs in San Jose. Silicon Valley companies that are currently evaluating short-term and long term growth and location plans must be given a strong message that San José's leadership is committed to helping their companies to grow here.

The proposals vary from the simple (the waiver of the business license fee for small businesses) to the complex (the "payback" contracts). These ideas, and others that might be generated by our colleagues during our deliberations, can work effectively if packaged together to sell San José to the rest of the world. The underlying principle of each of these ideas is simple: we need to generate business activity to shake from our economic doldrums, and to use any "net new" tax revenues as an incentive for that activity. This may require a sacrifice of short-term tax revenue or fees from any particular transaction. Defending the status quo, however, merely assures us that the City coffers will receive the same percentage share of zero.

Leaders of businesses small and large have routinely complained that our fees and taxes far exceed those of neighboring cities, creating disincentives to do business in San José. Over the next 18 months, we must make every effort to reduce these costs to make us competitive with other jurisdictions.

The waiver of license fees does not create much of a windfall for a small businessperson (typically $150 per license), but it can have a significant impact to many residents starting a business for the first time. During times of high unemployment, we typically see a spike in applications for small business licenses, most prominently in our immigrant communities. Ensuring that these entrepreneurs can establish their businesses at minimal cost will help spur job creation in those communities that need it the most. Given our past challenges collecting taxes from many small businesses, this could also ensure that these businesses come on to the City's radar from their inception, thereby boosting General Fund revenues in the long run.

The idea of waiving of fees for leases of parking in City garages emerged from the input of commercial brokers who opined that Downtown retail and office space—with its 26% current vacancy rate—is particularly hindered by the fact that tenants must pay for parking on top of whatever lease rate they pay per square foot. The same tenants in competing markets of Santa Clara, Mountain View, or Campbell will obtain parking for free. As a result, at the same lease rates, the Downtown cannot compete with these and other markets when company margins remain thin.

The concept for reimbursement is a tried and tested method of providing incentives; this City Council has approved several such agreements with companies like Nanosolar, SoloPower, and Brocade to name a few. City and Agency staff have developed a concept whereby an incentive based on "net new" taxes generated from new development activity can be considered by which future streams of tax revenue can be leveraged to incentivize new businesses to create jobs in San José.

Finally, the need for additional support for the Special Tenant Improvement Program team results from conversations with the corporate community, developers, and property owners, who have told us that expedited permit processes are the most critical benefits that the City can provide to businesses.

We expect that these proposals will undergo modification as we engage with the community and local businesses, and deliberate among ourselves. Nonetheless, it is imperative that we put these and/or other development incentives in place as quickly as possible, to ensure that San Jose captures our share of the economic benefits of the looming economic recovery.