History of Employment Land Conversions in San José and the Fiscal Impact of Land Use

City Council Study Session
April 14, 2015
Item 11.3
Agenda

1. Envision San Jose 2040 General Plan & Major Strategies
2. History & Impact of Employment Land Conversions
3. Fiscal Impact of Land Use
4. Strategy to Retain & Grow Employment Uses
5. Upcoming General Plan Annual Review & Four Year Revision
6. Council Discussion
7. Public Comment
1

Envision San José 2040
General Plan
& Major Strategies
Blueprint for the City

The General Plan is the City’s official policy statement regarding its future character, land use patterns, and quality of development.
Our Planned Growth

- 120,000 more homes
- 470,000 more jobs

Population:
- 1970:
- 1980:
- 1990:
- 2000:
- 2010:
- 2020:
- 2030:
- 2040:

+400,000 people
Envision San José Major Strategies

Focus of this presentation:

- Regional Employment Center
- Fiscally Strong City
- Community Based Planning
- Focused Growth
- Urban Villages
- Streetscapes for People
- Destination Downtown
- Greenline/Urban Growth Boundary
- Environmental Stewardship
- Design for a Healthful Community
Existing Land Use in San José

88,570 Acres

Legend:
- Low-Density Residential
- Medium-Density Residential
- High-Density Residential
- Commercial
- Downtown
- Heavy Industrial
- Industrial Park
- Light Industrial
- Urban Service Area
- Schools
- Airports
- Public/Quasi-Public
- Parks/Open Space
- Vacant
- Unincorporated
Regional Employment Center

- Plan for 470,000 New Jobs
- Achieve 1.3 jobs per San José Worker
Regional Employment Center

- Intensify existing employment lands
- Create transit-oriented urban employment centers
- Enhance and expand commercial activity
- Maintain and enhance Industrial Areas
- Achieve broad economic prosperity
A Fiscally Strong City

- Delivers services efficiently
- Cultivates financial resources
- Preserves employment lands
Significant Housing Growth Planned

Infill 120,000 new housing units

- Areas served by transit and existing public services
- Integrate with employment / commercial uses
- Minimize impact on existing single family neighborhoods or employment areas
Significant Housing Growth Planned

- Urban Villages
- Downtown
- North San José
- Specific Plan Areas
SAN JOSE IS UNIQUELY "JOBS-POOR" RELATIVE TO OUR RESIDENT BASE
Jobs Per Employed Resident

Historically Unbalanced in San José

Census Data for San Jose

Source: ABAG*, Census, Census American Community Survey, EDD**
Jobs Per Employed Resident
San José vs. Nearby Cities

For every 100 employed residents there are only

<table>
<thead>
<tr>
<th>City</th>
<th>Jobs Per Resident</th>
</tr>
</thead>
<tbody>
<tr>
<td>San José</td>
<td>87</td>
</tr>
<tr>
<td>Fremont</td>
<td>92</td>
</tr>
<tr>
<td>Sunnyvale</td>
<td>122</td>
</tr>
<tr>
<td>Cupertino</td>
<td>146</td>
</tr>
<tr>
<td>Mountain View</td>
<td>166</td>
</tr>
<tr>
<td>Santa Clara</td>
<td>181</td>
</tr>
<tr>
<td>Palo Alto</td>
<td>289</td>
</tr>
</tbody>
</table>

Source: Census, American Community Survey 2013
Jobs Per Employed Resident
San José vs. Area’s Large Cities

Source: Census, American Community Survey 2013
Jobs Per Employed Resident
San José vs. Nation’s Top 20 Cities

Source: Census, American Community Survey 2013
SJ: Only City in Nation’s Top 20

With More Nighttime Residents than Daytime Workers
2

History & Impact of Employment Land Conversions
Four Types of Employment Lands

Lands that support private-sector employment

- Light Industrial (LI)
- Heavy Industrial (HI)
- Commercial (CG) (Office/Retail)
- Industrial Park (IP)
Of Existing Lands, Only 15% is for Employment Uses

- Public/Other: 28%
- Residential: 57%
- Employment Land: 15%
Light Industrial (LI) - 1.6% of Land Base

Monterey Corridor, North & Central San José

- Transportation/Distribution
- Building/Construction
- Industrial Suppliers
- Electronic Components
- Warehousing

Hourly wages: $21 to $40
Avg. Vacancy rate: 4.5%
Heavy Industrial (HI) - 2.1% of Land Base

Monterey Corridor and North San José

- Industrial Suppliers
- Misc. Manufacturing
- Concrete/Asphalt Businesses
- Recyclers
- Waste Management

Hourly wages: $15 to $35
Avg. Vacancy rate: 4.5%
Opportunities to Intensify HI & LI Lands Are Limited

- HI & LI uses cannot be easily intensified because of horizontal space and outdoor storage requirements
- City cannot create more HI or LI without rezoning
Commercial (CG) - 2.2% of Land Base

Downtown, Neighborhood Business Districts and Major Street Corridors

- Offices
- Retail/Consumer Services
- Restaurants
- Hotels
- Medical

Hourly wages:
- Retail - $12 to $28
- Professional - $18 to $95

Avg. Vacancy rate: 4.6%
Industrial Park (IP) - 9% of Land Base

Edenvale, North San José

- Tech Campuses and Corporate Headquarters
- Software
- Corporate Office
- Computer/Communication
- Research and Development

Hourly wages: $18 to $100+
Avg. Vacancy rate: 15%
Employment Land Eliminated Through Conversions Since 1980: 2,298 acres

A 16% reduction in employment lands from 15,912 acres to 13,614 acres
Conversions Eliminated Capacity for 52,000-110,000 Jobs

- 1,444 acres
  - Industrial Park: 45,000 to 96,000 jobs

- 347 acres
  - General Commercial: 5,000 to 8,000 jobs

- 303 acres
  - Light Industrial: 1,200 to 5,000 jobs

- 152 acres
  - Heavy Industrial: 500 to 3,000 jobs

Lost Job Capacity Since 1980: 52,000-110,000 jobs
Halting Employment Land Conversions

2007
City Council adopts the “Framework for Preservation of Employment Land”

• "No net loss" of total employment capacity as the result of any amendment to the General Plan

• "No net loss" from non-employment land use conversions of Light or Heavy Industrial acreage

• "Extraordinary Economic Benefit" conversions shall be limited to those instances where there will be an increase or retention of jobs, and a significant increase in revenue to the City, or a significant capital contribution for investments in economic development

2011
Envision 2040 incorporates Framework and includes additional policies:

• Preserve and protect industrial uses

• Prohibit conversion of lands designated for industrial uses to non-industrial uses

• Prohibit encroachment of incompatible uses into industrial lands
Conversion Case Studies

Case Study 1: Campbell Avenue
Case Study 2: Oakland Road Corridor
Case Study 3: Monterey Corridor
Case Study 1: Campbell Avenue

1185 Campbell Avenue, San José
Light Industrial
45,000 sq. ft.
Case Study 2: Oakland Road Corridor

Acres Converted: 604.1

Brokaw/Murphy/Hostetter
Case Study 3: Monterey Corridor

Monterey Highway

Monterey Highway
3

Fiscal Impact of Land Use
San José’s Portfolio of Land Uses, 2015

- Residential: 57%
- Employment Land: 15%
- Public/Other: 28%

Of Existing Lands, Only 15% is for Employment Uses
Other Cities Use 20-30% of Lands for Employment

- Mountain View: 28%
- Santa Clara: 28%
- Sunnyvale: 24%
- Milpitas: 19%
- San Jose: 15%
Lower Sales Tax Per Capita

- Palo Alto: $370
- Cupertino: $338
- Mountain View: $186
- Santa Clara: $320
- Sunnyvale: $192
- Fremont: $172
- San Jose: $142
Lower Property Tax Per Capita

- Palo Alto: $407
- Cupertino: $285
- Sunnyvale: $213
- Mountain View: $260
- Santa Clara: $237
- Fremont: $172
- San Jose: $140
Why Does the Portfolio Mix Matter?

Employment Lands:

- Generate More Revenue
- Cost Less To Serve
- Have Positive Fiscal Impact
60% of SJ General Fund Revenue Sourced from 15% of Land

City Revenue included: Property Tax, TOT, Sales Tax, Utility Tax, Gaming Tax

- Residential: 38%
- Commercial: 20%
- Industrial: 40%
- Employment Land: 13%
- Residential Land: 57%
### Annual Revenue Per Acre

**One Acre of Use**

<table>
<thead>
<tr>
<th>Use</th>
<th>Annual Revenue Per Acre</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large Format Retail</td>
<td>$95,800</td>
</tr>
<tr>
<td>Auto Dealer</td>
<td>$82,100</td>
</tr>
<tr>
<td>Office/R&amp;D</td>
<td>$77,700</td>
</tr>
<tr>
<td>Office Tower (1 acre of site)</td>
<td>$60,300</td>
</tr>
<tr>
<td>Condominiums (20 units)</td>
<td>$51,500</td>
</tr>
<tr>
<td>Apartments (30 Units)</td>
<td>$48,000</td>
</tr>
<tr>
<td>Single Family (7 units)</td>
<td>$35,400</td>
</tr>
<tr>
<td>Neighborhood Retail</td>
<td>&lt; $10,000</td>
</tr>
</tbody>
</table>

Annual tax revenue includes property, sales and utility taxes.
"Fiscal Impact of Land Use" Study

- Applied Development Economics
- Updates 2010 Report
- Updates service cost info for Police, Fire, Libraries, PRNS, and DOT
- Includes spending by residents in housing related revenue; assumes 30% “leakage”
- Preliminary data, final report for Fall
## Net Fiscal Impact: Existing Land Uses

<table>
<thead>
<tr>
<th></th>
<th>Single Family</th>
<th>Low Density Multi-Family (2-4 units / bldg)</th>
<th>Medium Density Multi-Family (5+ units / bldg)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net (Cost)/Revenue</strong></td>
<td>($72.7 M)</td>
<td>($23.9M)</td>
<td>($43.0M)</td>
</tr>
<tr>
<td><strong>Net Per Dwelling Unit</strong></td>
<td>($349)</td>
<td>($700)</td>
<td>($533)</td>
</tr>
<tr>
<td><strong>Net Per Person</strong></td>
<td>($105)</td>
<td>($234)</td>
<td>($226)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th><strong>Commercial</strong></th>
<th><strong>Industrial Park</strong></th>
<th><strong>Light/Heavy Industrial</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net (Cost)/Revenue</strong></td>
<td>$84.1 M</td>
<td>$66.5M</td>
<td>$2.5M</td>
</tr>
<tr>
<td><strong>Net Per 1,000 sq. ft.</strong></td>
<td>$1,629</td>
<td>$1,321</td>
<td>$58</td>
</tr>
<tr>
<td><strong>Net Per Employee</strong></td>
<td>$570</td>
<td>$575</td>
<td>$42</td>
</tr>
</tbody>
</table>

Source: Applied Development Economics, April 2015
## Net Fiscal Impact:
### New Higher-Density Residential Projects

<table>
<thead>
<tr>
<th></th>
<th>High Rise Projects</th>
<th>Medium Density Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The Axis</td>
<td>The 360</td>
</tr>
<tr>
<td>Units/acre</td>
<td>266</td>
<td>201</td>
</tr>
<tr>
<td>Net (Cost)/Revenue</td>
<td>$182,800</td>
<td>$163,500</td>
</tr>
<tr>
<td>Net Per Dwelling Unit</td>
<td>$554</td>
<td>$805</td>
</tr>
<tr>
<td>Net Per Person</td>
<td>$235</td>
<td>$341</td>
</tr>
</tbody>
</table>

### Key Question: Fiscal Impact over time?

Source: Applied Development Economics, April 2015
4
Strategy to Retain & Grow Employment Uses
Pursue Economic Development With High Fiscal Impact

- Develop remaining large retail sites
- Intensify existing large retail sites
- Retain auto rows
Attract companies to new, denser or renovated offices

Retain & grow manufacturing companies and sites

Sell remaining large City-owned sites for development
Near-Term Drivers of Job Opportunity

• Shift from social media to connected devices (IoT)
• Advanced manufacturing
• Restricted growth in Peninsula/South Bay cities
• Apple campus & expansion: Stevens Creek
SJ: Positioned for Next Wave of Job-Related Investment

**Attractions**
- Room to grow – lease space & land available
- New high-rise, mid-rise housing
- Reverse commute
- Downtown transit convergence

**Challenges**
- “End point” location
- Not “on Caltrain”
- Awareness and image
- Few amenities in NSJ
5

Upcoming Annual Review & Four-Year Review of General Plan
General Plan Annual Review

- Review and consider private- and City-initiated amendments to the General Plan
- Evaluate progress in implementing General Plan
- Maintain or enhance City’s total employment capacity through amendments made during the Annual Review
## 2015 Proposed Conversions to Residential

<table>
<thead>
<tr>
<th>Proposed Conversions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Acres</td>
</tr>
<tr>
<td>Total Square Footage</td>
</tr>
<tr>
<td>Job Capacity Lost</td>
</tr>
</tbody>
</table>
Near Term

- Businesses look to maximize return and minimize cost
- Market conditions drive rents (commercial, industrial and residential)
- No eye toward balancing market cycles

Long Term

- Considers land use decisions and conversions
- Envision 2040 General Plan allows for density throughout San José without conversion
- Diverse portfolio of land uses balances market cycles
Four-Year Review: What is it?

- Envision 2040 General Plan was adopted November 1, 2011
- It established a Four Year Review process – *this is the year for the Four-Year Review!*
- Asks the question: “What needs tweaking?”
- Answers the question with data to help drive considerations of refinements
Evaluate progress on:

- Economic development
- Fiscal and Infrastructure/Service Goals
- Greenhouse gas emission reduction
- Water conservation and recycling
- Affordable Housing
- “Healthful Community” concept
- Addendum to Envision San Jose EIR
Four-Year Review: Process

- Reconvene Envision San José 2040 Task Force
- Begin process in Fall 2015
- Five public Task Force meetings held through Winter 2015
- Planning Commission and City Council Hearings in Spring 2016
Next Steps

ANNUAL REVIEW

• Early consideration of one proposed industrial conversion
  April 21

• Early consideration of two proposed industrial conversions
  May 12

• Planning Commission and City Council Hearings
  Fall 2015

4-YEAR REVIEW

• Present proposed scope to Community and Economic Development Committee
  April 27, 2015

• Return to Council with refined scope
  May-June 2015
Council Discussion