



Memorandum

TO: CITY COUNCIL

FROM: Mayor Chuck Reed
Councilmember Rose Herrera
Councilmember Ash Kalra
Councilmember Sam Liccardo
Councilmember Don Rocha

SUBJECT: NORTH SAN JOSE TRAFFIC
IMPACT FEE INCENTIVE
PROGRAM

DATE: September 20, 2013

APPROVED:

Chuck Reed

9/20/13

Ash Kalra Don Rocha

DATE:

RECOMMENDATION

Approve an amendment to the North San Jose Traffic Impact Fee incentive program to:

- a. Increase the total square footage available for the incentive program to 4 million square feet;
- b. Reduce the Traffic Impact Fee to \$2.00/sf for any build-to-suit Office/R&D campus of over 1 million square feet that obtains planning and building approvals by December 31, 2014; and,
- c. Direct the City Manager to return in the FY 2013-15 budget process with the total amount of tax revenues generated by the qualifying projects, and with recommendations for amounts of those tax revenues that could be transferred to the North San Jose transportation fund.

BACKGROUND

It is no surprise that there has been a lot of interest in the Peery-Arrillaga submittal of a Preliminary Review application for a proposed 2 million square foot campus in North San Jose. The commercial real estate industry knows that a proposal from a company of the caliber of Peery-Arrillaga is a strong indicator of the health of Silicon Valley. We cannot be more pleased. The proposed site on North First Street and Brokaw Road is owned by Peery-Arrillaga. The proposed site plan features a campus that reflects superior urban design elements and high densities that achieve the objectives of the North San Jose Development Policy. An investment of this magnitude could generate significant economic benefits for San Jose and the region.

We are not certain of the identity of the tenant as yet, but we can be confident that this premier site offers an exceptional set of advantages to any growing Silicon Valley corporation, including being located in an area that is home to the highest concentration of the world's largest technology companies, proximity to the San Jose International Airport and Downtown, as well as easy access to major freeways (101, 880, 87 and 280), and the light rail transit system. However, we do know that there are two issues of great interest to the prospective tenant: cost and speed.

We must work at the speed of business and help control the cost of fees to be successful. Some points to consider during Council deliberation include:

- This incentive is offered specifically for build-to-suit developments to be occupied by a high tech tenant that could generate thousands of new jobs and millions in revenues to the Successor Agency and City General Fund.
- Improvements funded by the former Redevelopment Agency were specifically invested in anticipation of just this kind of office/R&D development in North San Jose. Some of the already completed projects that provide traffic capacity for the Peery-Arrillaga site include: the Brokaw Road overcrossing (\$9.6 million), the Guadalupe-Charcot overcrossing (\$19.1 million), and other street widening projects on North First Street, Skyport Drive, and Brokaw Road. In addition, Redevelopment contributed over \$60 million to Route 87 improvements from North San Jose to Downtown and a \$20 million contribution to Route 85 improvements to Edenvale in South San Jose to provide traffic capacity.
- Light Rail Transit investments of over \$600 million by the Valley Transportation Authority also support commuters from neighborhoods in the southern and northern portions of the Silicon Valley to get to work in North San Jose, with two stations within walking distance to the Peery-Arrillaga site.
- The City's Development Services team is providing comments on the developer's Preliminary Review application today, which is a 2-week turnaround from the date of submittal. Our efforts to work at the speed of business will be of great value to the success of the proposed project and we are grateful to our City team for their extraordinary work.

We have not received any construction costs from the developer at this time. However, we have attempted to provide a conservative estimate of some of the economic benefits that San Jose may stand to gain if the project is implemented:

EXISTING	PROPOSED
1 67,000sf building for Bay 101 20 vacant acres	10 7-story office buildings 1, 948,100sf of office space 77,250sf of activity center space 3 2-level parking garages 7,103 parking spaces
Jobs: 679	Estimated Jobs at Build-out: 8,000
2013 Assessed Value: \$21,000,000 2013 Tax Increment: \$208,000	2016 Phase 1 Assessed Value: \$526,230,000 2016 Phase 1 Tax Increment: \$5,200,000
Traffic Impact Fee: \$0	Traffic Impact Fee: \$3,900,000
Business Tax: \$12,000	Estimated Annual Business Tax: \$25,000
Planning Fees: \$0	Estimated Planning Fees: \$113,000
Building Fees: \$0	Estimated Building Fees: \$9,250,000
Public Works Fees: \$0	Estimated Public Works Fees: \$1,280,000

Notes:

1. Warm shell value is calculated at \$450/sf
2. Tax Increment at full Build-out could amount to \$9 million annually
3. Estimated Traffic Impact Fee excludes fee credit for the existing 67,000sf building
4. Additionally, it is estimated that the HCP Agency could receive approximately \$1.2 million in fees

We recommend Council approval of our recommendation. This may be our best opportunity yet to assure a CEO and executive team of a major Silicon Valley corporation of our intentions and interest in fully supporting and facilitating the company's growth in San Jose. Beyond supporting the development proposal at hand, our recommendation to increase the incentive program to 4 million square feet also provides for other companies to stay and grow in San Jose as well.