

# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Joseph Horwedel  
Paul Krutko

**SUBJECT:** SEE BELOW

**DATE:** March 15, 2007

Approved

Date 3/20/07

**COUNCIL DISTRICT:** Citywide  
**SNI:** All

**SUBJECT: CITY COUNCIL STUDY SESSION ON SAN JOSE 2020 GENERAL PLAN: ECONOMIC DEVELOPMENT AND EMPLOYMENT LANDS**

## BACKGROUND

On March 29, 2007 the City Council will hold a study session on the importance of the City's employment lands to maintain and foster the City's economy and overall quality of life. A draft agenda for this study session (attachment 1) is attached. The information below provides background information on key issues to be covered in the forthcoming study session.

## PURPOSE

The overall purpose of the Study Session is to engage the Council in a discussion about the roles of San Jose's employment lands and prepare the Council for its future decisions affecting employment lands.

## OUTCOMES

The expected outcomes of this Study Session are to:

- Discuss the status and outlook of San Jose's employment lands based on existing and potential jobs, revenue generation, comparison with other cities in California, conversion activity, and other related topics.
- Provide direction for the staff to explore and bring back to Council, for future consideration, possible further actions to protect, augment, and modify remaining employment lands such as initiating amendments to the San Jose 2020 General Plan, amendments to the City of San Jose Zoning Ordinance, and revisions to the Framework, as a Guideline, to Evaluate Proposed Conversions of Employment Lands to Other Uses (hereafter referred to as the Employment Lands Framework).

- Provide general background information as additional context for consideration in connection with upcoming hearings on General Plan amendments that propose the conversion of employment lands to other uses.

## ANALYSIS

### Overview

The City Council's study sessions on the San Jose 2020 General Plan continue to address a number of the City's strategies for promoting economic development, enhancing quality of life for all residents, preserving open spaces, and directing growth to the appropriate places.

During the Study Session on the General Plan, held on October 27, 2006, the Council and staff discussed the importance of the preservation and efficient utilization of San Jose's employment lands. The Downtown Revitalization study session scheduled for March 19, 2007 will focus on how the General Plan's vision and Major Strategies support the important role that Downtown plays in economic development and a creative cultural center.

The March 29<sup>th</sup> Study Session provides an opportunity for the Council to discuss economic trends related to the City's employment lands. The first part of the Session will explore quantitative measures associated with the current status of the employment lands, conversion trends, revenue generation, and comparisons with other cities. This information is intended to answer the questions raised by the Mayor's Transition Team regarding historic conversion activities and consideration of possible mitigation measures for the loss of employment lands. Dena Belzer of Strategic Economics has reviewed the data and will participate in the discussion. Ms. Belzer is the economist who prepared the fiscal and economic analysis underlying the Council adopted "Employment Lands Framework" (see attachment 2).

The second part of the Study Session will be a presentation of stakeholder perspectives through a panel consisting of a real estate broker, property owner, small business owner, and a neighborhood leader. This section is intended to be interactive with the opportunity for the Mayor and Council to engage in dialogue with the panel. Staff will also be available, as appropriate, to participate in the discussion.

The third part of the Study Session is a discussion of the Employment Lands Framework and opportunities to provide more clarity regarding areas to protect from, consider for, or encourage conversion to residential or retail uses. As a city with an active real estate industry, it is important for San Jose to set clear policy direction for land use to ensure housing is in the right locations, enhance business opportunities, and provide for parks, schools, assembly, and other activities for a high quality of life.

### Next Steps

Staff will bring a proposed revision to the Framework back to Council reflecting the Study Session discussion and recent analyses. Staff will also bring forward General Plan amendments to make sure that the General Plan Land Use/Transportation Diagram has designations that

capture retail opportunities, protect areas from incompatible non-residential uses, and provide more flexibility to allow a greater array of businesses and other non-residential activities.

The remainder of this section is intended to provide the Mayor and Council with background information on the roles of employment lands, conversion activity, and revenue from retail.

### Roles of Employment Lands

Employment lands are defined as non-residentially designated lands supporting private sector employment. According to the Association of Bay Area Governments (ABAG) Projections 2007, San Jose's population will continue to grow. Jobs are projected to increase as well, but at a lesser rate than population growth, potentially resulting in a greater jobs/employed resident imbalance than what currently exists in the City of San Jose.

In order to maintain or improve job growth and generate City revenues, San Jose must have a broad economic base. Healthy, resilient economies are dynamic and diverse. One strategy for expanding the economic base is creating and implementing land use policies that support a variety of economic activities.

The loss of employment lands is a major issue for the City of San Jose. Employment lands (industrial and commercially designated parcels) make up 15% of the City's total land supply, yet they generate approximately 60% of the City's total revenues. The continued structural imbalance between General Fund revenues and expenditures requires the City to maximize the yield from job-generating land. Because of the declining amount of land in which to grow these revenues, being revenue neutral for master plans is no longer an option.

The City's population has a broad range of education and skill levels. As a result, a range of jobs, not just high technology, is needed. It is essential to retain Light and Heavy Industrial lands for production-related jobs, many of which do not require 4-year college degrees. Heavy and Light Industrial land often appears unattractive and underutilized. However, these lands have businesses that are vital to other businesses and City residents. These businesses include cabinetry, auto repair, home improvement warehouses, garbage and recycling operations, concrete and asphalt production, etc.

The City continues to consider how industrial land could be made more compact and efficient. This approach works well for businesses in Research and Development and Industrial Office Parks that can locate in buildings with multiple stories: the Vision 2030 Plan for North San Jose and the approved General Plan amendment and zoning change for the Hitachi site are good examples. The Council has also approved modifications to the Zoning Ordinance to maximize flexibility in the use of existing unoccupied industrial building spaces.

Light and Heavy Industrial businesses cannot function in smaller, vertical spaces because their operations require large horizontal spaces and outdoor storage areas. Examples include composting, garbage truck parking, auto wrecking yards, and recycling.

The appearance of underutilized land does not necessarily represent a lack of business activity. Employment lands, particularly Heavy and Light Industrial lands, have the lowest vacancy rates even during the recent economic downturn. Manufacturing is increasing again, as part of the new industrial economy focused on clean technology. Nanosolar provides a good case study for this new type of manufacturing. The maintenance of an adequate supply of employment lands will be a necessary focus of the General Plan Update.

#### Loss of Employment Lands through General Plan amendments from 1983 through 2006

Individual General Plan amendments have chipped away at the City's inventory of employment lands. Beginning in the 1980s, the City attempted to maintain its inventory of industrial lands through land swaps that allowed the conversion of employment land to non-employment uses in one area of the City in conjunction with the conversion of non-employment land to employment land in another area of the City. Beginning in the 1990s and through the present, however, the conversion of industrial land to non-employment uses accelerated, resulting in continued net loss of the City's industrial land inventory. Detailed data and maps of these conversions are available at [http://www.sanjoseca.gov/planning/gp/special\\_study.asp](http://www.sanjoseca.gov/planning/gp/special_study.asp)

Since 1990, San Jose has converted approximately 1,400 acres, equal to 9% of all employment lands, to other uses. The conversion rate nearly doubled from 1990-2000, at 68.6 acres/year to 2001-2006, at 119.7 acres/year. As the inventory continues to fall, the City must seriously analyze the consequences of incremental decision-making, including:

- ✓ Loss of jobs and job capacities;
- ✓ Loss of tax base and revenue for City services;
- ✓ Restrictions for adjacent industrial companies limited by incompatible residential development; and
- ✓ Loss of potential large-scale commercial retail opportunities.

From 1987 to June 2006, approximately 161 acres of industrial land were converted into sixteen residential developments. No new parkland was created as a result of these residential projects. This lack of recreational space has serious impacts on the livability of our newest neighborhoods.

The concept of the jobs/housing balance is a baseline for a healthy economy. The questions are: What is a healthy jobs-per-employed resident ratio, and what kind of jobs can we reasonably expect in a new model of driving industries and support industries? One job for each employed resident should be the minimum goal. San Jose is consistently under that ratio.

Projections prepared by ABAG indicate that without specific policy and project information, San Jose's ratio of jobs per employed resident will decline further. This is notable in comparison to other Bay Area and Silicon Valley cities. For example, Palo Alto has a jobs/employed resident ratio of nearly 3.0. San Jose should strive to achieve a jobs/employed resident ratio of at least 1.0, and preferably 1.5. Additional jobs/employed resident information will be provided and discussed at the Study Session.

Employment lands not only generate jobs for residents, but also tax revenues to pay for services. Staff will present information at the Study Session that demonstrates that communities with a

greater share of employment lands are more likely to have budget resources to meet the service expectations of their citizens.

### Revenue from Retail

The City needs to be strategic and proactive to expand retail opportunities. As the *San José Neighborhood Retail Model Summary Report* documents, retail generates significant revenues and also provides employment opportunities. The Retail Model showed that the City was 24% “under retailled” in 2004/2005. The City has — through the addition of San Jose Market Center, impending addition of retail at the old General Electric site, and in other locations — reduced the deficit to 18%. We anticipate that — due to the lack of retail sites — without aggressive retail development by San Jose, by 2030 our retail deficit will be up to 33% based on ABAG projections of residents and job growth. Larger retailers create significant revenue generation. Although smaller retailers don’t add as much revenue generation, they are a key to quality of life for San Jose residents.

The City receives approximately 20% of General Fund revenues from the 4% of City land used for retail, including new auto sales. As part of the City’s Retail Strategy, the City should continue to consider adding potential retail sites to the City’s inventory based on specific criteria regarding a property’s size, shape, access to transportation, and connection to neighborhoods.

### PUBLIC OUTREACH/INTEREST

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

While the Study Session itself does not require advanced public outreach, prior to any changes to either the Employment Lands Framework or the General Plan Land Use/Transportation Diagram, outreach to a broad spectrum of interested persons and organizations would occur through meetings, email communications, and website postings.

In addition, the Employment Lands Framework and all related documents have been posted on the Planning Divisions’ web page since April 2004. This memorandum and other materials associated with the proposed Study Session will be posted on the City’s website to facilitate the public’s ability to watch, attend, and address the Council at the Study Session. Notifications with a link to the memorandum will also be sent to the neighborhood residents that subscribe to the City’s early notification service and to members of the Developer’s Roundtable. Staff is available to answer questions and obtain input from the public during business hours.

HONORABLE MAYOR AND CITY COUNCIL

March 15, 2007

**Subject:** Employment Lands Study Session

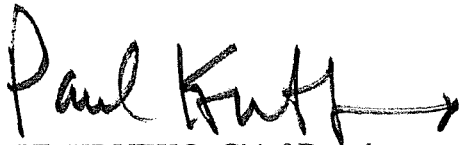
Page 6

### COORDINATION

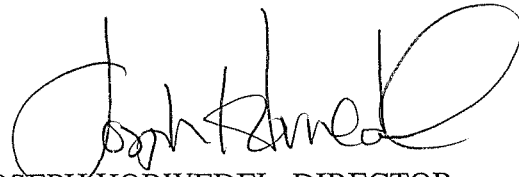
The preparation of this memorandum and the study session materials included collaboration between the Department of Planning, Building and Code Enforcement and the Office of Economic Development.

### CEQA

Not a project for CEQA purposes.



PAUL KRUTKO, Chief Development Officer  
City Manager's Office



JOSEPH HORWEDEL, DIRECTOR  
Planning, Building and Code Enforcement

For questions please contact Laurel Prevetti at 408-535-7901.

- Attachments: 1. Draft Study Session Agenda  
2. Employment Lands Framework

**CITY COUNCIL STUDY SESSION**  
**on**  
**SAN JOSE 2020 GENERAL PLAN:**  
**ECONOMIC DEVELOPMENT AND EMPLOYMENT LANDS**

City Hall, Council Chambers

**March 29, 2007**

**9:00 a.m. - Noon**

*Purpose: Engage the Council in a discussion about the roles of San Jose's employment lands and prepare the Council for its future decisions affecting employment lands.*

*Outcomes:*

- *Discuss the status and outlook of San Jose's employment lands.*
- *Provide direction for the Administration to explore and bring back to Council, for future consideration, possible further actions to protect, augment, and modify remaining employment lands.*
- *Provide general background information as additional context for consideration in connection with upcoming hearings on General Plan amendments that propose the conversion of employment lands to other uses.*

**AGENDA**

- |   |                         |
|---|-------------------------|
| <b>1. Opening Remarks</b>   | <b>9:00 – 9:10 a.m.</b> |
| <b>2. Overview of San Jose's Economy and the Role of Employment Lands</b> | <b>9:10 – 10:00</b>     |
| <b>3. Panel Discussion on Employment Lands in San Jose</b>                | <b>10:00 – 11:00</b>    |
| <b>4. Policy Framework for Considering Conversions of Employment Land</b> | <b>11:00 – 11:45</b>    |
| <b>5. Open Forum</b>  | <b>11:45 – Noon</b>     |
| <b>6. Adjourn</b>   | <b>Noon</b>             |



***Framework, as a Guideline, to Evaluate Proposed Conversions of Employment Lands to Other Uses***  
(Originally Approved by the Mayor and City Council on April 6, 2004 and Modified on November 15, 2005)

**Purpose**

The Framework should be used as a guideline to evaluate proposed conversions of employment lands to other uses. The intent of the Framework is to create more certainty and predictability in the review of employment land conversion proposals while retaining flexibility to respond to changing conditions, information, and policy considerations.

**Framework Elements**

**1. Subareas to promote or facilitate conversion to housing, retail, mixed use, or other Household-Serving Industries.**

- *Downtown Core Subarea:* Continue to facilitate a vibrant mix of housing, civic, retail, and employment uses.
- *Downtown Frame Subarea:* Continue to facilitate a mix of housing, civic, retail, and employment uses, however, the Julian-Stockton portion of this subarea should not include housing.
- *Midtown portion of Central San Jose 1 Subarea:* Consider additional opportunities for housing, retail, civic, and/or employment uses (beyond existing and planned land uses) to support the Downtown, transit investments, and West San Carlos Neighborhood Business District.
- *Story Road Subarea (Olinder Redevelopment Area):* Consider for conversion to retail uses, but not housing, given the existing, well-established retail uses.

**2. Subareas to consider for conversion to housing, retail, mixed use, or other Household Serving Industries only in certain circumstances.**

- As the employment areas intensify in North First Street and Edenvale 1, respectively, then opportunities for intensive development of supportive uses may be considered in the following subareas:

*North First Street*  
*North San Jose 2*  
*North San Jose 3*

*North San Jose 4*  
*North San Jose 6*  
*Edenvale 1*

- *North San Jose 5 subarea (east of I-880):* Consider housing, retail, or other Household Serving Industries only in areas that are close to existing residential areas and areas that could be integrated into a neighborhood framework.



- *Northeast San Jose subarea (east of Coyote Creek)*: Consider housing near the Berryessa BART station consistent with our Transit Oriented Development policies.
- *Portion of Central San Jose 1 Subarea (west of the railroad tracks and north of I-880)*: Consider conversion to housing, consistent with the existing neighborhood, the BART Station Node policies, and compatibility with the City of Santa Clara's conversion to housing.
- *Evergreen Industrial Area*: Consider uses only if recommended through the Evergreen Smart Growth Strategy process.
- *Coyote Valley*: Consider uses only if recommended through the Coyote Valley Specific Plan process.

### **3. Subareas to preserve for Driving and Business Support Industries.**

- *North San Jose 1*
  - *Airport*
  - *Central San Jose 2*
  - *Northeast San Jose (west of Coyote Creek)*
  - *North San Jose 5 west of I-880 (i.e., North San Jose 4)*
  - *Monterey Corridor 1*
  - *Monterey Corridor 2*
  - *Monterey Corridor 3*
  - *Monterey Corridor 4*
  - *Edenvale 2*
- Potential conversions should generally be discouraged, and only be considered for approval in subareas where conversions of industrial lands may:
    - Complete a transition to existing neighborhoods within or adjacent to the subarea, or
    - Buffer and provide uniformity to existing neighborhoods within or adjacent to the subarea, or
    - Further the City's smart growth policies, or
    - Aid in revitalizing declining neighborhoods within or adjacent to the subarea.

### **4. Criteria for the evaluation of proposed conversions to housing, mixed use, retail, and/or other Household-Serving Industries.**

- Conversion to Residential or Mixed Residential/Commercial Use
- A. Economic contribution of the subarea:** What is the economic contribution of the subarea to the San Jose and Silicon Valley economy and job base? How is the subject site currently occupied and used? Is the subject site currently used to its full potential for contributing to the San Jose economy or job base? How would this economic contribution be enhanced or reduced by the proposed conversion?
- B. Consistency with City Policies and Strategies:** How does the proposed conversion and specific proposed use(s) and intensities advance the City's policies and strategies as contained in the General Plan, Specific Plans, and other strategic documents?

- C. Proximity to existing neighborhoods and areas in transition:** How would the new residential/mixed use knit with adjacent existing or planned residential and/or retail uses, and/or fill-in gaps in areas already partially converted or transitioning to residential use? Does the proposed conversion eliminate small islands or peninsulas of industrially designated/zoned land that would be suitable for conversion to residential to make them consistent with surrounding uses?
- D. Proximity to incompatible employment uses (e.g., manufacturing, recycling, etc.):** Where are the nearest incompatible industrial areas which might generate impacts due to hours of operation, deliveries, noise, odors, hazardous materials, etc.? How might the new residential use put pressure on the existing industrial uses to modify their operations?
- E. Potential inducement of additional conversions to residential use?** How might the proposed residential use induce or pressure adjacent or nearby properties to convert to residential use?
- F. Proximity to transit service:** Is the proposed housing site within 3000 feet of a planned BART Station or 2000 feet of an existing, funded or planned Light Rail Station?
- G. Proximity to compatible employment uses (e.g., office/R&D):** Where are the nearest existing or planned employment areas with compatible land use characteristics, thereby creating potential alternate commute (walk/bike to work) opportunities?
- H. Availability of neighborhood services, and residential and commercial mixed use drivers:** Where are the nearest existing and/or planned neighborhood serving retail, parks, libraries, schools, open space/trails, etc.? How would the proposed conversion potentially enhance city services (e.g., by creating or improving neighborhood parks)? How would the proposed residential conversion potentially strengthen neighborhood and general commercial uses in the area by adding resident population? Does the proposed conversion involve a mixed residential and commercial development on the site?
- I. Public Benefit:** Does the proposed conversion offer or facilitate a unique and significant public benefit (e.g., the delivery of or significant contribution toward public facilities, public improvements, infrastructure, or affordable housing beyond what would be required to serve the proposed development associated with the conversion)? Would the conversion result in improvements to a blighted area or contribute to the variety of housing types, including rental or ownership, in areas that have predominantly one or the other? Are there other any means to obtain this extraordinary public benefit without the conversion?
- J. Adequacy of Fire/Police service levels:** What are the anticipated service levels or other public safety performance measures to serve the proposed housing area?
- K. Utilization of bicycle and pedestrian facilities, and promote pedestrian access:** Where are the nearest existing and planned bicycle and pedestrian facilities? How does the

proposed residential/mixed use development support nearby jobs and commercial lands by promoting pedestrian access and minimizing vehicle trips?

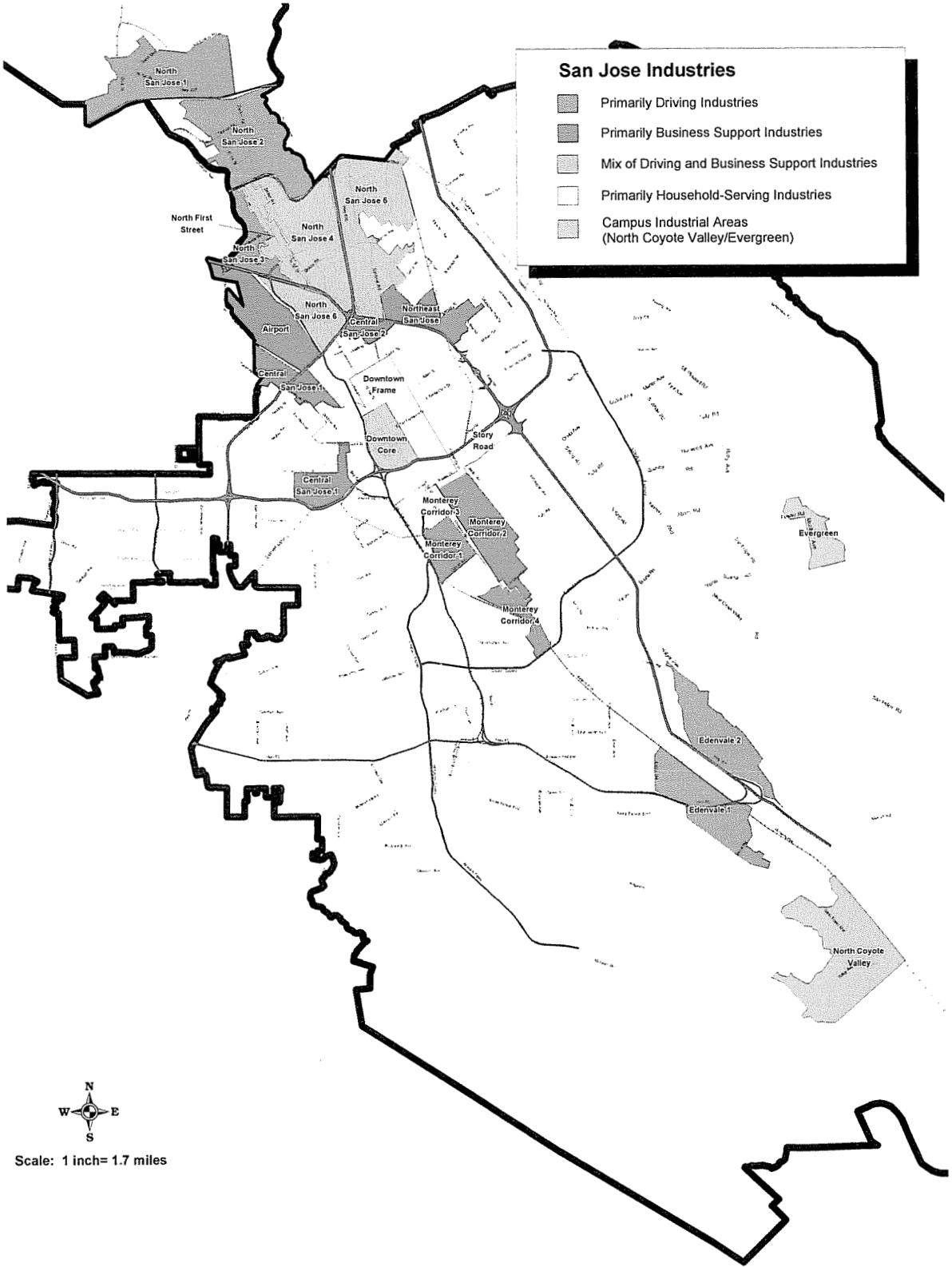
- L. Potential environmental impacts and mitigation measures, including adequacy of other public infrastructure:** What are the potential environmental impacts and are mitigation measures included in the proposal? What public improvements are necessary to serve the new housing area?
- M. Potential fiscal impact:** What is the potential fiscal impact on City revenue and service costs?
- Conversion to Commercial and Other Household-Serving Industries
    - A. Economic contribution of the subarea:** What is the economic contribution of the subarea to the San Jose and Silicon Valley economy and job base? How would this economic contribution be enhanced or reduced by the proposed conversion?
    - B. Consistency with City Policies and Strategies:** How does the proposed conversion and specific proposed use(s) and intensities advance the City's policies and strategies as contained in the General Plan, Specific Plans, and other strategic documents?
    - C. Fulfilling the City's retail needs:** How does the proposed commercial retail meet the City's need for community-serving and/or neighborhood-serving retail?
    - D. Adequacy of major street access:** What streets directly serve the proposed site?
    - E. Potential to influence/encourage conversion of adjoining properties:** How might the proposed commercial use induce or pressure adjacent or nearby properties to convert to commercial use? How might the proposed conversion create a transition, thereby protecting existing industrial lands from additional conversions?
    - F. Potential negative impact to other planned commercial development areas (e.g., Downtown):** How would the proposed commercial development affect other planned commercial areas?
    - G. Adequacy of transit, bicycle, pedestrian facilities:** Where are the nearest existing and planned transit, bicycle and pedestrian facilities? How does the proposed commercial use support transit or hinder its use? How does the introduction of proposed commercial uses promote pedestrian activity and minimize vehicle trips?
    - H. Incorporation of mixed use development:** How does the proposed development incorporate a mix of compatible uses?
    - I. Potential environmental impacts and mitigation measures:** What are the potential environmental impacts and are mitigation measures included in the proposal?

**J. Net fiscal impact on the City of using this parcel for retail instead of the current use:**  
What is the potential fiscal impact on City revenue and service costs?

**Framework Application**

- The Framework should be applied as early as possible in the development review process, including as part of Comprehensive Preliminary Review applications.
- Evaluation of the fiscal impact of the conversion on City revenues and service costs must be the highest priority.
- All conversion proposals would be evaluated against the criteria.
- The criteria are not in rank order. They are not scored to a point system and the weight of the individual criterion may vary by site based on individual circumstances and changing background information.
- Conversions that present opportunities for development of significant new sources of revenue may be considered in any subarea in which the development would be compatible with existing or planned uses in the subarea.
- The criteria would identify the key issues for the analysis of conversion proposals; however, there may be other criteria or factors to consider in the evaluation of individual proposals.
- The “Towards the Future” report would be one source of background information for answering the questions posed by the criteria.
- Other background information may include, but is not limited to, reports on the Silicon Valley economy, office vacancy trends, etc.
- In areas of the City that are not included in a “subarea” identified in the Strategic Economics’ report and have a long term regional planning effort that includes industrial areas, Council approved triggers and requirements are still applicable. When the planning efforts’ vision and land use plans are adopted and it shifts into the implementation phase, General Plan conversions must balance the overall goal of that planning area with creative smart growth opportunities.
- Staff shall provide an annual report and evaluation on the progress, outcome and impact of the Framework for Evaluating Proposed Conversions of Employment Lands.

# City of San Jose Employment Subareas Typology



Data Source: Strategic Economics

Map Prepared by: City of San Jose, Planning Services Division, April 2004