



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Paul Krutko  
Joseph Horwedel  
Larry Lisenbee

**SUBJECT:** See Below

**DATE:** May 23, 2006

Approved

Date

5/30/06

**COUNCIL DISTRICT:** 1, 6, 10  
**SNI AREA:** N/A

**SUBJECT:** Approval of a Work Plan for the preparation of the Proposed Auto Dealer Strategy.

## RECOMMENDATIONS

1. It is recommended that the City Council approve the proposed Auto Row Strategy work plan in order to support existing and potential auto dealerships on Stevens Creek, Capitol Auto Row, and elsewhere in the City.
2. It is recommended that the City Council approve the following Appropriation Ordinance amendments in the General Fund in order to fund consulting services for an urban designer and financial analyst for the Stevens Creek Auto Row Area Plan:
  - a) Establish a City-wide appropriation for the Stevens Creek Auto Row Area Plan to the Office of Economic Development in the amount of \$135,000.
  - b) Decrease the Contingency Reserve by \$135,000.

## OUTCOMES

The desired outcomes associated with the Auto Row Strategy include retention and potential expansion of new auto dealer activities in San Jose, including Capitol Auto Row, Stevens Creek Auto Row and east side dealerships, maintenance of the City's General Fund revenue, and the development and implementation of a Steven Creek Auto Row Area Plan that reflects the input of dealerships, area businesses, residents and affected community groups.

The proposed actions further the vision of San Jose as the world's most livable big city, with diverse and distinctive qualities of life contained in the Economic Development Strategy by continuing to "Revise Key Land Use and Transportation Policies to Reflect the New Realities of the San Jose Economy (Initiative 11) and by continuing to "Develop Retail to Full Potential, Maximizing Revenue Impact and neighborhood Livability" (Initiative 13).

## **BACKGROUND**

On November 30, 2005, the City Council conducted the third Getting Families Back to Work Study Session. Discussions focused, in part, on the nature of retail in San Jose and the need for additional sales tax generation retail in San Jose. Preservation and possible growth of auto sales was a topic of particular concern. New automobiles continue to be San Jose's largest sales tax generating segment. The auto industry continues to be in considerable flux as escalating fuel costs have led to the decline in sport utility vehicles (SUV) sales for the Big 3 U. S. automakers. Domestic brands are struggling to realign product lines with consumer demand.

In order to respond to consumer demand, manufacturers are making more and more demands on local dealerships. Refinement of the brand, expansion of show rooms, parts and service, are part of these requests. An increase in size of the dealerships, to allow more room to display new models is a pressing need for the dealerships.

The competition for land, in particular for development of housing is also an issue. Increasing land costs is a significant threat to existing dealerships, particularly on Stevens Creek. As in industrial areas, owners may seek to take advantage of the \$2 to \$4 million dollar per acre payments for land offered today, requesting that the underlying General Plan and Zoning be changed from commercial to residential. In addition some of the Stevens Creek auto dealers do not own their land and must respond to increasing owner rent demands. The Stevens Creek Auto Row must address additional challenges as well. Unlike Capitol Auto Row, the Stevens Creek Auto Row has a mix of retail and some residential uses. The mix of uses causes operational challenges for dealers in dealing with issues such as loading and unloading vehicles and parking over flow into surrounding residential and business districts.

Significant auto related annual revenue has already been lost from San Jose largely due to land costs and operational constraints. Stevens Creek Porsche has moved their operations to Santa Clara. Courtesy Chevrolet has opted to expand truck operations outside of San Jose. Piercey Toyota has purchased land in Milpitas on Hwy 880 and is anticipated to move in 2007. Other jurisdictions are experiencing similar difficulties as the auto industry continues to adapt to market forces. Los Gatos has lost three significant dealerships, resulting in additional pressure on its General Fund supported activities.

Staff is recommending the implementation of the following Auto Row Strategy work plan in order to support San Jose's largest tax generating segment.

## **ANALYSIS**

San Jose's new automobile segment comprises approximately 10% of San Jose's annual sales tax revenue. New automobiles continue to be San Jose's largest sales tax generating segment. Business license data indicates that new auto dealerships in San Jose employ over 2,400 individuals. Dealers indicate that many other related support jobs in service, parts, and detailing are generated from auto dealer operations. With 16 new car dealerships, Capitol Avenue Auto Row generates roughly 25% more than the 12 new car dealerships on Stevens Creek Boulevard. Despite the addition of Beshoff Motor Cars in Evergreen, overall new car dealership sales have declined 1.3% in the last calendar year. With hybrids and smaller cars increasing in demand, sales at San Jose Honda and Toyota dealerships have risen over 10%, over the last two years. Dealers have indicated Honda and Toyota sales are anticipated to continue to increase on a similar pace for the next two to three years. The projection estimates a high volume of sales at lower price points.

In order to maintain and possibly expand San Jose's new auto segment it is critical that San Jose implement a strategy to meet the intense demands new auto dealers face from manufacturers, changing consumer demands and shifting market forces. The work plan outlined below is intended to expand upon the existing annual outreach efforts conducted by the Office of Economic Development (OED) and to organize a team comprised of OED, Planning, Building and Code Enforcement, Public Works and the Department of Transportation to address the needs of new car dealerships throughout San Jose including Capitol Avenue Auto Row, Stevens Creek Auto Row and an emerging auto related area on San Jose's east side. The resulting strategy would be prepared through coordination and partnership with surrounding residential, business and community interests.

## **RECOMMENDED WORK PLAN**

### **All Dealerships**

- City-wide effort intended to make clear to the dealerships that San Jose appreciates their business and that San Jose wants to assist in efforts to retain and grow their operations.
- A City interdepartmental team, led by the Office of Economic Development will meet with every new car dealership in San Jose twice a year, to closely understand dealer needs. This effort is intended to expand existing annual business outreach efforts to key dealerships.
- Capitol Auto Row visits to be initiated in July, 2006.
- Stevens Creek Auto Row visits to be initiated in July, 2006.

### **Stevens Creek Auto Row**

- Convene a Stevens Creek Auto Row Working Group to include Auto Dealer representatives, staff from the City of Santa Clara and San Jose to begin review land use and operational issues that impact both the Cities of San Jose and Santa Clara.
- Retain the services of an urban designer initially to work with Stevens Creek Auto Row. An urban designer, with experience designing for the auto industry will assist the City to meet the current and future needs of Stevens Creek Auto Row. Several dealers have indicated a desire to strengthen the brand identity of Stevens Creek Auto Row but no agreement as to the area's look and feel has coalesced. A corresponding contract with an appropriate financial analyst will be put in place to consider various methods of financing any major improvements that may result from the new Stevens Creek Auto Row area plan. Financing options may include but are not limited to the creation of a Mello Roos District or reinvestment of the growth of sales tax dollars generated from the Stevens Creek Auto Row. An amount not to exceed \$135,000 is proposed to be allocated to cover the costs associated with the urban designer and financial analyst associated with the project.
- Prior to bringing the proposed Strategy back to Council for approval, a process to obtain neighborhood, residential and business input into the Stevens Creek Area Plan will be implemented. Staff recommends the creation of a Stevens Creek Area Plan Committee to review the development of the Stevens Creek Area Plan. Staff will work with Council District 1 to appoint representatives of the Stevens Creek Area Plan. Staff further recommends that participants include up to twelve members and consist of five members of the Stevens Creek Auto Row Working Group, three area residents, one community interests such as the Valley Transportation Authority and three neighboring business interests. All meetings of the Stevens Creek Area Plan Committee will be open to the public.
- Staff is aware of two or three potential requests for General Plan amendments that would seek to develop residential uses directly in the midst of auto dealer operations. If applications for non-auto related uses are made in the area that includes the Stevens Creek Auto Row, staff may bring forward a proposal for a moratorium on Council consideration of such non-auto uses. Any such moratorium would be for less than a year.

### **Capitol Auto Row**

- Coordinate with the Capitol Auto Row Association to review land use and operational issues that may be supported through updates to existing zoning and General plan, and/or other related City regulations. Provide the services of an urban designer to review future operations and design issues if beneficial for Capitol Auto Row Association.

**Potential Future San Jose Auto Row Locations**

- Identify opportunities for a third Auto Row in San Jose, located in the southern portion of the City. Dealers have indicated that with increasing densities the manufacturers are likely to demand additional sales locations within the next 7-10 years.

**Anticipated Time Line**

- City Council review of proposed work plan June 13
- Initiate outreach meetings July
- Retain services of urban designer August 15
- Initiate Stevens Creek Auto Row Working Committee September 15
- City Council Review of Stevens Creek Auto Row Area Plan March 15

**PUBLIC OUTREACH**

Included as a critical element of the Strategy is a plan for effective community outreach to neighborhood, business and community interests in areas that encompass new auto dealer activities. Outreach efforts will be conducted in coordination with District 1, 6 and 10 Council offices.

**COORDINATION**

Preparation of this memorandum has been coordinated with the City Attorney’s Office, and the Departments of Planning, Building, Code Enforcement.

**COST IMPLICATIONS**

Costs identified above include \$135,000 for an urban planner and financial analyst.

**BUDGET REFERENCE**

Fund #	Appn #	Appn. Name	Total Appn.	2005-2006 Adopted Operating Budget	Last Budget Action (Date, Ord. No.)
001	7901	Contingency Reserve	\$22,834,462	IX-27	5/2/06 Ord. 27706

CEQA

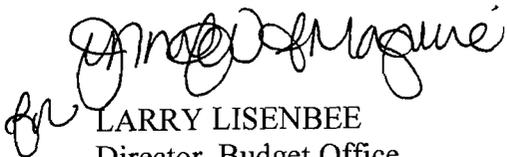
Not a Project



JOSEPH HORWEDEL  
Director, Planning, Building,  
Code Enforcement



PAUL KRUTKO  
Director, Office of Economic  
Development



LARRY LISENBEE  
Director, Budget Office

For questions please contact Joseph Horwedel at 535-3555