



Memorandum

TO: HONORABLE MAYOR,
CITY COUNCIL, AND
REDEVELOPMENT AGENCY BOARD

FROM: DEBRA FIGONE
HARRY S. MAVROGENES

SUBJECT: SEE BELOW

DATE: August 20, 2007

COUNCIL DISTRICT: 7, 9, and 10

SUBJECT: PILOT SHOPPING CENTER IMPROVEMENT PROGRAM

RECOMMENDATIONS

- 1) Adoption of a resolution by the City Council:
 - a) Approving the creation of a pilot program to improve the appearance of shopping centers outside of Redevelopment Areas to increase economic vitality, encourage job growth and generate additional sales tax revenue; and,
 - b) Authorizing the City Manager to execute a Cooperation Agreement to allow City of San José General Funds to be used to compensate the San Jose Redevelopment Agency for staff time, design work, supplies and consultant services undertaken outside of Redevelopment Areas.
- 2) Adoption of a resolution by the Redevelopment Agency Board authorizing the Executive Director to execute a Cooperation Agreement with the City of San José that will compensate the Redevelopment Agency for staff time, design work, supplies and consultant services undertaken outside of Redevelopment Areas.

OUTCOME

The adoption of this proposal by the City Council will create a Pilot Shopping Center Improvement Program (Pilot Program) to improve the appearance of three retail shopping centers outside of Redevelopment Areas in Council Districts 7, 9, and 10. The Office of Economic Development (OED), San José Redevelopment Agency and the Department of Planning, Building and Code Enforcement (PBCE) will collaborate and draw on other City services to make the program successful. The Pilot Program will leverage the Redevelopment Agency's successful track record with the Facade Improvement Program.

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The Pilot Program will take place over a two-year period following Council adoption. Following the completion of the Pilot Program, tax and other performance data, when available, will be brought to the Community and Economic Development Committee to document the program's performance. Property owners participating in the Pilot Program will be obligated to maintain the City's investment and limit increases to existing lease rates.

BACKGROUND

In November 2006, OED presented the Driving a Strong Economy (DSE) Committee with the outlines for a Pilot Shopping Center Improvement Program. Staff was asked to incorporate comments from the DSE Committee and return with a complete proposal.

On May 21, 2007, the Community and Economic Development Committee recommended that the Pilot Program be approved by Council. Comments received at that Committee meeting are incorporated into this memo.

ANALYSIS

The following analysis discusses the issues underlying the development of the proposed Pilot Program and lays out the program components.

Aging Shopping Centers:

The gradual deterioration of aging and under-improved strip and neighborhood shopping centers throughout San José contributes to an appearance of neighborhood decline, reduces visibility for local retailers and compromises the economic vitality of the area. As a result, San José residents have fewer appealing shopping options than they desire and consequently make purchases outside of San José. Further, declining sales translate into fewer jobs for residents and also impact the City's ability to provide services due to the loss of sales tax revenue.

Many of the smaller retail centers in San José no longer address the needs of the adjacent neighborhoods or communities. Without new energy, fewer shoppers are attracted. In other cases, the building configurations and infrastructure no longer meet modern requirements (e.g., absence of grease traps or obsolete configuration).

In 2004, a study of spending in San José revealed that retail leakage to other surrounding cities represented a reduction in expected consumer expenditures by 24%. While this figure has eased by significant square footage increases at major San José shopping centers to roughly 18%, the Association of Bay Area Governments' projected employment and resident growth figures suggest that San José's under-retailing may increase to as much as 30% by 2030 without intervention, based on an increase of approximately 350,000 new residents and 250,000 new jobs in San Jose by 2030. With total taxable retail sales of \$12.1 billion, even an 18% under retailing loss represents \$2.2 billion in taxable sales and \$218 million in lost revenue that could be used to offset on-going City

deficits. Due to the limited number of available sites over 10 acres, which could be used for new retail to address this growth, the City will need to work with owners and developers to more efficiently use existing sites. Facilitating the expansion of existing retail centers has been among the strategies the City has employed with success to provide funds which can be budgeted by the City for services for the community. This approach will continue to be critical to the City's financial health to offset the depression of business to business sales taxes that began earlier in the decade.

Pilot Shopping Center Improvement Program:

The proposed Pilot Shopping Center Improvement Program will help three shopping centers outside of Redevelopment Areas make upgrades similar to those achieved through the Redevelopment Agency's Facade Improvement Program. Districts 7, 9 and 10 were chosen since they generally have limited Redevelopment Areas, have a variety of older centers and are generally under retailled.

The Redevelopment Agency's Facade Improvement Program is a proven program, converting run-down and tired centers into vibrant and attractive places to shop and do business. The improvements make a lasting impression on the individual properties and influence the surrounding neighborhoods positively. The Redevelopment Agency is generally prohibited from expending money outside Redevelopment Agency areas, but using a cooperative agreement under the Pilot, the City will use General Fund resources to reimburse the Agency for participating in the program.

In concert with Redevelopment Agency efforts, OED will work with the respective Council Offices to identify locations and negotiate with the property owners. PBCE will provide input and expertise to expedite the processing of necessary permits. Additional City services will also be offered to tenants and property owners (e.g., Environmental Services Department's energy efficiency, recycling, and consolidated pickup programs may be of use to older markets).

To protect the City's investment and other policy imperatives, certain requirements are included in the agreement with the property owners. These include: property owners will be required to maintain the improvements for ten years; tenants will have protections from large rent increases for two years unless otherwise provided in their existing leases; and construction activities using City funding will be subject to prevailing wage policies.

EVALUATION AND FOLLOW-UP

The creation of the Pilot to provide facade improvement services outside of Redevelopment Areas will help staff determine whether such a program should be established as an ongoing tool to support retail growth in San José. The evaluation of the Pilot will be based primarily on the following factors:

- Revenues to the City through increased business sales tax receipts
- Attraction of new retailers, leading to a diverse mix of jobs, products and services for San José residents and visitors
- The improved appearance of targeted San José neighborhoods

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- The increased visibility, and therefore economic viability, of existing neighborhood retail offerings
- Increased rapport with local property owners for enhanced business appreciation efforts and Council commendations
- The number of net new jobs created in centers

Should the program be considered a success, a proposal for a wider Shopping Center Improvement Program will be brought forward for Council deliberation. Such a proposal would reflect the lessons learned in operating the Pilot Program and a more refined retail strategy. Given the nature of retail leakage between communities, staff anticipates that improvement of centers near San José's borders could be a selection factor in the future, as discussed at the Community and Economic Development Committee meeting on May 21, 2007.

PUBLIC OUTREACH/INTEREST

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater.
- Criterion 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.
- Criterion 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.

While this memo does not meet the \$1 million threshold in Criterion 1, this memo will be posted on the City's website for the September 11, 2007 City Council agenda. The Pilot Shopping Center Improvement Program was discussed in Council Committees in November 2006 and May 2007.

COORDINATION

The Department of Planning, Building and Code Enforcement has worked with the Office of Economic Development (OED) to develop this proposal. The Budget Office has reviewed the cost elements. The City Attorney's Office developed the Cooperation agreement in consultation with the Redevelopment Agency's General Counsel and OED.

FISCAL/POLICY ALIGNMENT

Adoption of this resolution will further the City's Economic Development Strategy by helping to: (a) "Diversify San José's Economic Base and Preserve/Create Middle-Income Jobs" (Initiative 8), and (b) "Develop Retail to Full Potential and Maximize Revenue Impact" (Initiative 13).

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COST SUMMARY/IMPLICATIONS

Past experience suggests that each shopping center will require roughly \$200,000 to \$300,000. This amount will include a combined reimbursement for Redevelopment Agency staff time, design work, supplies and consultant services of approximately \$75,000 for the three projects. As part of the FY 2007/08 budget process, Council approved the use of \$400,000 in Community Development Block Grant funds and an additional \$300,000 in one-time General Fund revenues.

CEQA

Not a Project.



DEBRA FIGONE
City Manager



HARRY S. MAVROGENES
Executive Director

For questions please contact Paul Krutko, Chief Development Officer at 408-535-8182.

**Pilot Shopping Center Improvement Program
Program Elements**

Eligibility Requirements

The selection criteria for participation in the program will include:

- Properties with one or two owners or family ownership
- Properties with no major structural changes required, such as American's with Disabilities Act compliance changes or Unreinforced Masonry work
- Properties with no major code violations: clean-up of minor violations may be an incentive to participate in the program
- Properties with a forecast viability of at-least five years forecast as determined by vacancy rates, tenant mixes and lease terms

Project Assistance

The Pilot Shopping Center Improvement Program will draw from the menu of benefits outlined in this section to incentivize participation of property owners in the program. Once a shopping center owner and tenants commit to the Pilot Program, the project team will be driven by the Redevelopment Agency for project implementation.

Program assistance may include:

1. Offering a variety of architectural services which improve appearance of sites in an effort to improve retail performance. Depending on the property and its forecasted viability, Redevelopment Agency's architectural services may include:
 - Paint treatments and colors
 - Awning styles and colors
 - Landscaping design
 - Exterior lighting
 - Signage design and placement

Based on Redevelopment Agency experience with maximizing the effectiveness of the program, while minimizing expenditure, the Pilot Program will be limited in scope, promoting paint-based facade improvements and basic sign replacements, rather than in-depth investments.

2. Providing support services to ensure the successful implementation of site improvements, including:
 - Architectural design services at no cost to the property owner
 - Bidding and construction management assistance; in accordance with City policy, all construction costs will be based upon prevailing wages
 - Funding assistance of up to \$35,000 per 60 linear feet of store frontage with matching funds ratio of \$5,000 from property owner for an additional \$5,000 of City funds (though caps may be set for any given project)

3. Streamlining the process of obtaining site adjustment permits (as required prior to any exterior alterations can being made to a building), which will include:
 - Participation of PBCE throughout design and implementation process of the Pilot Program
 - Coordinated review and analysis of facade projects prior to architectural design
 - Assignment of a PBCE Project Manager, ensuring one point of contact for property owners and staff throughout the Facade Improvement Project
4. Providing information about the City's green building program and energy efficiency initiatives in an effort to help reduce the energy needs of the shopping center. Staff will coordinate with the Environmental Services Department and Pacific Gas and Electric to provide this service.

Ongoing Expectations

Upon successful completion of necessary improvements, staff will develop Owner Participation Agreements/covenants as needed to guarantee maintenance of the facade improvements. According to the current Redevelopment Agency standard, property owners commit to seven years of regular maintenance. In addition, property owners agree not to increase lease rates for existing tenants by more than an aggregate of five percent in the first two years after participation in the program except where specified by existing leases.