



Memorandum

TO: TRANSPORTATION AND
ENVIRONMENT COMMITTEE

FROM: Paul Krutko
Joseph Horwedel

SUBJECT: PRIVATE DEVELOPMENT
INCENTIVES FOR GREEN BUILDING

DATE: May 22, 2007

Approved

Date

5/25/07

Introduction/Background

San Jose has long been a leader in the adoption of environmentally friendly practices. In March 2007, the City Council again provided clear leadership by adopting the Green Building Policy and directing staff to “go for the Gold (LEED standard).” As part of the Council’s deliberations, staff was directed to propose a package of incentives San Jose should introduce to catalyze integration of Green Building practices and clean technology products into private-sector uses. Council also directed staff to develop a work plan through which staff would reach out to the private sector community for their ideas and input. This memorandum describes the findings of the outreach efforts to date, provides a listing of the range of incentive ideas proposed, and provides a work plan finalizing and integrating Green Building incentives and initiatives citywide.

Development Policy Review

Background research was completed on existing San Jose development policies and guidelines for the purpose of comparing the City’s development practices to accredited green building standards. The research consisted of reviewing the City’s Residential, Commercial, Industrial, Riparian, Storm Water, Construction, and General Plan Policies and comparing them to the US Green Building Council’s LEED 2.2 New Construction Checklist and Alameda County’s New Home Green Points Checklist. This comparison allowed the City to gauge a level of sustainability in regards to development and to assess how developers building in San Jose could integrate environmentally friendly practices.

Overall, San Jose’s development policies rated highest in the areas of site selection, transportation, and landscaping. Due to its broad nature, the General Plan accumulated the highest marks, emphasizing open space, public transportation access, and water efficiency. The City’s other policies also accumulated points in the areas of public transportation access, landscaping, protection of riparian areas, and the preservation of open space. Development policies and/or guidelines in the areas of materials and resources, energy and atmosphere, and indoor environmental quality were weaker and may need to be enhanced in order to align more closely with green building standards.

This initial assessment, along with the findings that will be gained from the private sector outreach, will provide additional guidance on the development of the work plan for encouraging the private sector to use green building practices.

Outreach

In the past month, staff has reached out to a variety of private-sector thought leaders to discuss Green Building practices and ways to catalyze their adoption. These conversations helped staff develop a list of potential incentives and initiatives that the City could implement. Staff consulted with more than thirty thought leaders, including members of the Developers Roundtable, Housing Roundtable, Joint Venture Silicon Valley, Silicon Valley Leadership Group, as well as private developers, architects, business leaders, and academic experts.

Most conversations revolved around a few key questions:

- What role should a municipal government play in facilitating green building?
- Which types of incentives are the most effective?
- How should San Jose balance the use of incentives versus regulations?
- What are the best practices currently being incorporated by industry leaders?
- What is the ultimate objective? What will success look like? How will progress be evaluated?

Early outreach has provided significant insights. Many developers expressed greater interest in shortening the development processing time, rather than receiving traditional cash incentives. They lamented the high level of regulation in some cities that have not invested in increasing the capacity of staff to facilitate projects attempting to comply with newly adopted standards. Staff found that many individuals in the private sector are unaware of existing incentive programs from which they could receive substantial rebates for energy efficiency and are equally unclear about how the numerous recent changes in the state law will affect them.

Staff plans to continue outreach efforts over the next several months.

Outreach: Themes from Thought Leaders

In the course of the outreach conducted by City/RDA, staff noticed that a few common themes emerged during the conversations about green building:

- ***Leverage private sector interest in 'going green':*** Many corporate leaders and developers are reporting a growing demand by employees and homebuyers for energy efficient, green buildings. San Jose is already home to Adobe's corporate headquarters, recipient of the world's first commercial enterprise to receive three Platinum-Level

Certifications for Energy and Environmental Design Excellence in existing buildings and the development of the one of the first zero emission, entirely renewable energy powered commercial buildings is nearing completion (Integrated Design Associates). To capitalize on the desire by companies to 'go green,' San Jose should both ensure that projects such as these are completed efficiently and hassle-free, and incorporate the best practices of industry leaders into City standards and guidelines.

- ***Align incentives with market forces:*** Another recurring theme from business-owners was that successful government incentives must work in concert with existing supply and demand market forces. As such, staff is particularly interested in pursuing initiatives that will increase the demand for green building space and CleanTech products by incentivizing companies to purchase and integrate CleanTech innovations into their business operations, as well as energy efficient products, recycled and biodegradable materials, and locally produced goods. Staff is currently developing a range of incentives to help grow the local CleanTech sector and help companies develop the supply of products necessary to meet the increasing demand. These recommendations will be presented to the Community and Economic Development Committee during the summer.
- ***Focus on big impact initiatives:*** Staff repeatedly heard that efforts to stimulate Green Building practices should focus on initiatives that will have a significant impact on reducing greenhouse gas emissions, reducing non-renewable energy usage, and reducing the harmful byproducts that accompany traditional development. Thought leaders complained that the initiatives of many municipalities seem to be more about 'press releases' than substantive progress. They proposed that adopted policies should be designed to incentivize both energy efficiency and the use of renewable energy technologies. In addition, they urged staff to coordinate with the numerous community, governmental, and business organizations working to develop a coordinated climate action plan.
- ***Lead by example:*** Business leaders, in particular, articulated that City government must not require anything of the private sector that it is not committed to doing itself. While some thought leaders were aware of the 'Green Building Policy' recently adopted by Council, many suggested that the city should initiate bold demonstration projects that showcase innovative technologies that are locally developed and produced. A few developers suggested that this type of financial and operational commitment would significantly improve the credibility of the City when it considers regulatory changes.
- ***Strive for regional uniformity of regulations:*** Several individuals expressed concern about navigating the wide variety of programs and regulatory environments proliferating in Silicon Valley and the Bay Area. To address this concern, thought leaders strongly encouraged San Jose to pursue regional integration of uniform green design standards and greenhouse gas emission goals/regulations in order to simplify the regulatory framework within which developers and businesses must operate.

Staff incorporated these principles into the matrix of potential Green Building incentives and initiatives.

Ideas for Incentives/Initiatives

In an effort to organize the numerous ideas that have emerged to catalyze green building, staff has developed the attached matrix that enumerates various incentives/initiatives identified through internal conversations and initial outreach efforts. While many of these initiatives are already underway, several additional potential initiatives are also listed. Staff is seeking guidance from the Transportation and Environment Council Committee about these ideas. After receiving direction from the Committee, staff will refine the list of incentives and begin an outreach strategy to determine the feasibility of implementation.

During the initial outreach process, staff spent significant time discussing the role of incentives versus regulations. Staff believes that incentives have the potential to catalyze some green building development, but in order to institutionalize these practices some regulatory codification will likely be necessary. Research by the California Research Commission has found that the fastest way to make significant, meaningful progress is with intelligent, practical, and cost-efficient regulations that are phased in over time (industry experts lauded Title 24 as a carefully researched, cost-efficient model to improve energy performance). However, within the conversations about regulations, there was significant discussion about the types of regulations that San Jose should consider. Some experts recommended that San Jose adopt regulations requiring specific technologies that provide maximum impact and a rapid payback schedule. Other thought leaders suggested that specific regulations are ineffective and quickly become out-of-date, because governments generally lack the ability to anticipate market innovations and lack the capacity to update regulations expeditiously.

These individuals suggested adopting more flexible regulations that provide targets, such as emission reduction goals promoted through the United Nations Accords (Action 3), U.S. Conference of Mayors' Climate Protection Agreement, and Joint Venture Silicon Valley's Climate Protection Initiative, which would allow companies to adopt cutting edge technologies to meet an agreed upon standard. Initial internal conversations suggest that a blend of both forms of regulation may be most appropriate, but these concepts will be refined as extensive outreach takes place over the next few months.

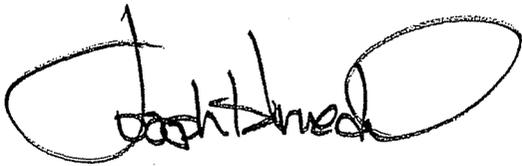
Questions also arose about what criteria should be used to determine whether a project qualifies as 'green.' Various green building standards exist, such as the US Green Building Council LEED standard, Green Globe, and Alameda County's 'Build It Green' guidelines. Staff is currently analyzing the various Green Building rating systems in an effort to develop criteria to determine whether a proposal qualifies as a 'green project.' Criteria may include meeting LEED or another standard, but projects could also potentially qualify if they incorporate a defined percentage of renewable energy, consume significantly less energy than other comparable size/use facilities, or emit zero, or extremely low, emissions. San Jose will host a Residential Green Building Summit on June 7th, to educate interested parties about the standards promoted by these three rating systems and promote environmentally friendly building practices.

Timeline

June 4, 2007: Work plan update to Transportation and Environment Committee

June-August: Revision/Evaluation of private sector incentives and continued outreach

September/October: Propose package of Green Building Incentives for Council Consideration



JOSEPH HORWEDEL
Director of Planning, Building,
& Code Enforcement



PAUL KRUTKO
Chief Development Officer
City Manager's Office

**Potential Incentives/Initiatives to Catalyze Private Sector Green Building
Idea Compendium Version 1.2**

Initiative/Incentive	Status	Description	Next Steps	Budget Implications
Increase Institutional Capacity	Ensuring that City staff has the ability to facilitate increasing demand for Green Building development			
Train staff about Green Building practices	Possible short-term	Encourage LEED training/certification for development services staff	Develop work plan for trainings; Prioritize who should be trained; Determine level of training desired	Training could be paid for out of existing professional development, educational reimbursement funds, or funds from PG&E
Educate staff about existing local, state and federal incentives and regulations	Possible short-term	Ensure staff can provide comprehensive, accurate information to developers	Work with ESD to compile informational brochures to share with developers early in process	Initial education process will require some staff time; Time dedicated to development of educational materials can be partially covered by funds from existing partnership contract w/ PG&E.
Partner with SJSU to provide continuing education on best practices	Possible short-term	SJSU Environmental Studies Department has experts eager to serve as resources for City	Reach out to SJSU to develop plan for partnership	
Dedicate staff to facilitate green projects	Underway	Hire departmental experts to facilitate green projects (Planning, Building, CAO, etc)	A Green Building Planner for PBCE is included in the 07/08 Budget (ESD funded).	PBCE position under consideration as part of the budget process.
Support educational/training opportunities for developers, contractors, architects, business leaders, residents, etc; Serve as a clearing-house of information	Underway	San Jose currently provides approximately 30 educational events per year, including trainings on energy efficiency and green building standards.	SJ will host Green Building Summit June 7; Expand network of contacts to ensure that information is available; Help connect projects to firms providing needed services.	
Help developers receive existing incentives/rebates for energy efficiency and water efficiency	Underway	CPUC Public Purpose Funds subsidize a wide range of energy efficiency incentives from PG&E and other sources which are rarely incorporated into SJ development projects; similar underutilized water efficiency rebates also exist	Ensure information is available to developers early; invite PG&E representative to City Hall to coordinate with builders; Develop program to provide energy efficiency rebates via City staff time subsidized by Public Purpose Funds.	

Potential Incentives/Initiatives to Catalyze Private Green Building
Idea Compendium Version 1.2

Initiative/Incentive	Status	Description	Next Steps	Budget Implications
Incorporate Green practices into City/RDA projects/programs	Possible	Elected Officials and staff could serve as ambassadors promoting the use of green practices	Encourage Elected Official and staff participation in training to ensuring high quality information is at the disposal of all ambassadors.	
Promote Green practices during conversations with private developers	short-term			
Integrate alternative energy products/solar onto City facilities and showcase demonstration projects	Underway	Generate multiple megawatts of power from solar panels on City-owned facilities, preferably using local technology	Overcome legal barrier of 'private activity' on buildings; if not possible, seek change in IRS code (Sen. Boxer)	Once legal problem is solved, City will need to seek creative funding sources (i.e. 3rd Party, etc); An energy specialist for ESD is included in the 07/08 Budget. (Temporary position funded by previous PG&E rebates. Ongoing funding will be justified if energy savings is realized)
Incorporate Green practices into private projects receiving City/RDA funds	Underway	Require private projects receiving financial support to adopt Green practices	RDA is currently evaluating how to have RDA-facilitated projects incorporate green building	Evaluation required to determine additional cost of green requirements
Encourage use of Housing Rehabilitation Grants to purchase energy efficient products	Underway	Recipients of housing grants are encouraged to retrofit with energy efficient products	Evaluate the program; determine if additional utility-administered Public Purpose Funds could be provided to increase scope of installed energy efficiency measures.	
Reduce long-term energy use in affordable housing units by incentivizing energy efficiency	Possible	Adopt programs such as Energy Efficiency-based Utility Allowance (EEBUA) and the On-site Generation Utility Allowance Schedule (OGUA) provide incentives	Housing will explore EEBUA and OGUA, as well as other incentives to lower the utility costs for tenants through energy efficiencies and on-site generation.	

Providing Efficient, Streamlined Development Services for Green Projects

**Potential Incentives/Initiatives to Catalyze Private Sector Green Building
Idea Compendium Version 1.2**

Initiative/Incentive	Status	Description	Next Steps	Budget Implications
Priority for Green Projects		Incentivize Green Building through special perks		
Expedite/facilitate review of green projects	Possible short-term	Similar to successful STI program development services staff could provide priority 'one voice' service to green projects	Determine which projects would qualify. Evaluate if staffing levels make faster service possible. (SJ's regular service is currently faster than many cities' "expedited service")	
Allow increased floor area ratio (FAR)/ densities for green projects	Underway	PBCE has the ability to increase FAR for projects	Determine where increased FAR are possible.	
Increase procurement preferences for green businesses	Underway	Current procurement policies include green preferences	Re-examine procurement procedures giving preference to local green businesses	
Provide affordability points for green building practices	Underway	Reward green building through scoring matrix	Housing will look at adding additional (NOFA scoring) points for green building; could move housing away from goal of affordability	
Change Regulations/Codes		Gradually mandating Green Building practices		
Align design guidelines/codes with green building standards; evaluate if new technologies meet intnt of current codes (AMMC process)	Needs evaluation	Evaluate areas where guidelines can incorporate green building practices; determine where green buidling practices are allowable under State code (initial survey found conflicts between existing codes and cleantech products adoption)	Determine whether regulations are desired and potential implementation timeline; determine which elements of standards will have greatest impact and compare to codes; identify changes that provide cost-effective outcomes (i.e. tankless water heaters).	Staffing reductions make such analysis difficult without performance suffering somewhere else in organization; PBCE does not currently have staff to begin this task
Deregulate/streamline review process for installing energy efficient or alternative energy products:	Possible short-term	Make process of incorporating green building techniques into building projects as easy as possible	Review development process; Ensure changes required under state Energy Codes are facilitated	

**Potential Incentives/Initiatives to Catalyze Private Sector Green Building
Idea Compendium Version 1.2**

Initiative/Incentive	Status	Description	Next Steps	Budget Implications
Facilitate use of Solar & Alternative Energy technologies	Possible short-term	Ensure process of approving and permitting solar panels is as hassle free and low-fee as possible. City has earned significant recognition for exemplary effort.	Examine City of Santa Monica model, which through bulk purchase commitment provides fixed cost residential solar installations coupled with efficiency improvements	Staff resources would be required for analysis, development, and delivery of program.
Facilitate use of Energy Efficient Innovations and Alternative Materials & Techniques	Possible short-term	Make process of installing innovative, and even existing green or energy efficient technologies, such as cool/green roofs, as hassle free as possible	Review development process. Ensure staff are enabled and encouraged to act as ambassadors to innovation.	Ongoing staff training, staff resources, and organizational commitment to support innovation, efficiency, and conservation are necessary. City must continue to provide exemplary service to critical Health & Safety responsibilities.
Establish Green Building Fee	Needs evaluation	Create a green building fee (i.e. PDO) for projects that do not meet a defined standard; fee could be used for environmental initiatives.	ESD has data on other communities developing similar fees (Marin, Santa Cruz, Boulder Colorado, and San Francisco offer models for comparison). determine through outreach the feasibility of an additional fee; Developer opposition to increased fees is expected.	Could provide additional revenues to City
Provide Financial Support	Provide financial incentives/assistance to stimulate investment			
Revolving Loan Fund/Green Bank for residents and businesses, including early adopters of CleanTech demonstration projects	Needs evaluation	Provide low-interest loan funds to residents and business-owners for energy efficiency improvements or alternative energy installation	Evaluate models for RLF funding (i.e. Harvard Green Campus Fund); determine if demand for program exists	Funds would be required to implement proposal; Public Purpose funds (California Public Utilities Commission funds administered by PG&E and distributed to local governments through competitively awarded contracts) may be a potential funding stream
City-facilitated bulk purchasing of CleanTech products (participate in Joint Venture initiative)	Needs evaluation	Bulk purchasing could reduce costs for residents and small businesses looking to adopt technology (i.e. solar)	Study best practices; determine legal feasibility; seek partnerships with JVSV, SVLG, Chamber and other organizations	Program could be approximately revenue neutrality

**Potential Incentives/Initiatives to Catalyze Private Sector Green Building
Idea Compendium Version 1.2**

Initiative/Incentive	Status	Description	Next Steps	Budget Implications
Construction Tax exemption	Needs evaluation	Provide tax exemptions at the Building Permit stage for certain green building features (similar to Affordable Housing projects)	Evaluate cost-feasibility of program; alternatively limit program to certain improvements (i.e. alternative energy systems).	Impact on Building Fees could be substantial, analysis required
Rebates/Tax Credits	Needs evaluation	Provide rebates and credits for the purchase of CleanTech products or green buildings	Work with State to determine feasibility of changes to tax code; Develop incentives proposal to be funded through Public Purpose Funds	General funded incentives are probably not feasible at local level due to budget constraints; SJ can likely directly deliver financial incentives funded by Public Purpose Funds
Subsidization of additional costs ('Santa Claus' Approach)	Unlikely to be viable	Most frequent private sector proposal relating to green building is that the City pay for all costs associated with building green.	Not feasible. Included solely in the interest of comprehensive analysis.	Significant liability with no identified funding source

