



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Paul Krutko

SUBJECT: SEE BELOW

DATE: March 10, 2004

Approved

Date

COUNCIL DISTRICT: 4
SNI AREA: N/A

**SUBJECT: GP03-04-01 PROPOSED GENERAL PLAN AMENDMENT
FOR ROCK AVENUE**

RECOMMENDATION

The Office of Economic Development recommends denial of the proposed General Plan Amendment to change the land use designation for the Rock Avenue property from HI Heavy Industrial Zoning District to A(PD) Planned Development Zoning District. The Rock Avenue amendment both diminishes employment land and does not significantly contribute to other major goals the City is striving to achieve to improve the jobs/housing balance. The proposal is also not aligned with either the recommendations of Economic Development Strategy Initiative 11 to “Revise Key Land Use and Transportation Policies to Reflect the New Realities of the San Jose Economy,” Initiative 8 to “Diversify San Jose’s Economic Base and Preserve/Create Middle Income Jobs,” or the February 2004 draft of the fiscal impact study entitled “Towards The Future: Jobs, Land Use, and Fiscal Issues in San Jose’s Key Employment Areas, 2000-2020,” prepared by Strategic Economics.

BACKGROUND

San Jose has approximately 13,000 acres of active employment land (Evergreen and North Coyote are not included in this figure because they are not considered “active”). The active employment land represents only 13% of the City’s total land area but contains 54% of the City’s total employment and 72% of total employment in “Driving Industries” — industries that drive the economy. The Department of Planning, Building and Code Enforcement has received approximately 20 General Plan amendments in the last twelve months alone proposing conversion of approximately 300 acres of industrial land to residential or commercial uses.

San Jose has strategic goals with respect to providing housing and supporting the continued economic vitality of the City. San Jose has a proven track record of providing more new housing than all South Bay communities within the County combined. In order to preserve and enhance jobs and revenues, the City must be equally committed to preserving employment land.

The Office of Economic Development (OED) therefore recommends that the conversion of industrial land be done selectively. The subject property is included in the North San Jose 5 sub-area. The study recommends that the San Jose 5 sub-area be preserved for industrial uses. OED also supports the specific recommendations outlined in the February 2004 draft of the fiscal impact study entitled "Towards The Future: Jobs, Land Use, and Fiscal Issues in San Jose's Key Employment Areas, 2000-2020," prepared by Strategic Economics.

ANALYSIS

The property included in the proposed amendment is located in North San Jose 5, the sub-area with the largest employment numbers in San Jose. Approximately 26,000 people work in the area; 57% work in Business Support Industries, and 43% work in Driving Industries.

Driving Industries in San Jose include start-ups, young companies, growing businesses, and established firms that operate nationally and internationally from a San Jose base. These companies typically provide innovative technical services and high-end professional services and include companies in Bioscience, Computers and Communications, Corporate Offices, Electronic Components, Innovation Services, Semiconductors, Software, and Visitor Services.

Driving Industries, which account for about one-third of San Jose's job base, tend to sell their goods and services to customers outside of the region, nationally and globally, bringing in significant revenues that are spent locally. These industries include sectors with specialized expertise and strong concentrations of employment relative to the national average. These sectors tend to have relatively high rates of productivity and pay above-average wages. Although Driving Industries constitute only one-third of the City's employment base, one job in the Driving Industries supports the creation of two or more jobs in the Business-Support and People-Serving Industries. Driving Industries therefore help drive the San Jose economy.

Business Support Industries, which include slightly less than one-third of total employment, sell their goods and services to other companies within the local economy, including Driving Industries. Jobs in these sectors pay solid middle-income wages of \$50,000 and above. Business Support Industries include construction companies, transportation services, manufacturers, wholesale traders, business services, industrial suppliers, and other enterprises that support the Driving Industries. While nearly all of these uses tend to be lower density and pay lower rents than the Driving Industries, they are all critical to the efficient functioning of Driving Industries. If uses like these were to be displaced from San Jose, operating costs for Driving Industries could increase, and the City would lose critical suppliers of mid-wage jobs.

North San Jose 5 sub-area is home to a variety of important industries:

- Electronic Components provide 37% of area employment, the largest concentration of Electronic Component employment in the City;
- Transportation/Distribution provides 13.5% of area employment: only one other sub-area has as much Transportation/Distribution employment;
- Industrial Suppliers and Services provide 21% of area employment, the largest share in any sub-area.

The following list identifies areas of concern presented by the proposed amendment:

- The North San Jose 5 employment sub-area is home to the Industrial Business Park (IBP). The area is outside the boundaries of the redevelopment area and therefore directly provides property taxes to the General Fund, in addition to all the other business-generated funds. The area houses such important companies as Phillips Semiconductor, and Kaiser Electronics, as well as several other companies.
- The proposed General Plan amendment requests conversion of 13.7 acres. Staff anticipates that approval of the request will easily lead to conversion of an additional 20 acres in the very near term and ultimately another 20 acres, for a total loss of approximately 54 acres. Conservatively estimated, the conversion could impact approximately 110 jobs including those in the warehouse, light and heavy industrial, and research and development sectors. The conversion would represent an on-going loss of significant property tax, utility tax, business-to-business tax, and sales tax to City revenues.
- The proposed conversion would be permanent. Once land is converted to housing, for all practical purposes, the City loses flexibility to reconvert the land for jobs and revenue production. By contrast, other non-industrial uses that occupy vacant space in existing buildings for a limited time have a strong potential to re-convert to Driving Industry or Business Support uses.
- The proposed amendment achieves only 11.3 acres per unit or 107 single-family detached residences on 13.7 acres. This is an inefficient use of land for housing and will have marginal impact on meeting the City's housing goals. The project, while adjacent to a mobile home park does little to create a "neighborhood." Development of this project will marginally increase a housing "island" within an area intended for business uses.
- The inclusion of housing in close proximity to industrial uses creates significant operational conflicts that severely constrain the viability of the industrial uses.
- The City of San Jose is undertaking a major planning effort in the Evergreen area of San Jose. It is likely that approximately 300 acres of employment lands will be re-designated

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as housing. The Evergreen effort and the Coyote Valley effort will each generate thousands of residential units. The City's major planning efforts create an important context for consideration of other General Plan Amendments that negatively impact employment lands.

The proposed amendment stands to eliminate initially 13.7 acres of employment land and up to 55 acres of employment land suitable for a mix of Driving Industry and Business Support jobs. In addition, the project adds the challenge of an isolated pocket of residential properties surrounded by employment uses. The City Council has approximately 20 conversion amendments that are scheduled for hearings, several more amendments pending, and a large number of residential units that will be achieved through other major planning efforts of the City. The Office of Economic Development therefore recommends that the City Council deny the request for a change in land use designation for the subject Rock Avenue property.

PUBLIC OUTREACH

Extensive public outreach supporting preservation of employment lands was given by corporate executives at the Getting Families Back to Work meetings held in August 2003. Additional testimony was provided while gathering information for the production of the Economic Development Strategy. In addition, City staff and consultants engaged in a 10-month process carefully reviewing demand for employment lands and related impacts on City revenues.

CEQA

Not a Project.

COORDINATION

Preparation of this memorandum has been coordinated with the Department of Planning, Building and Code Enforcement.

PAUL KRUTKO
Director, Office of Economic Development