



Memorandum

**TO: COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE**

FROM: Paul Krutko

SUBJECT: Auto Row Strategy Plan Update

DATE: May 12, 2008

**COUNCIL DISTRICT: 1,6,10
SNI AREA: NA**

RECOMMENDATION

Direct staff to continue to implement the City Council approved Auto Row Strategy.

OUTCOME

The outcomes associated with the Auto Row Strategy include retention and potential expansion of new auto dealer activities in San Jose include Capitol Auto Row, Stevens Creek Auto Row and east side dealerships and maintenance of the City's General Fund revenue.

BACKGROUND

New automobiles continue to be one of San Jose's largest sales tax generating segments. The new automobile segment generates approximately 10% of San Jose's annual sales tax revenue. 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 dealerships to allow more room to display new models is a pressing need for the dealerships, as is larger signage.

The competition for land, in particular for the development of housing is also an issue. Increasing land costs is a significant threat to existing dealerships. 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. Council approval of the Framework for Land Conversion in October of 2007 will

give the City tools to limit potential conversions, but some areas within the City's Auto Rows have parcels that are zoned for residential and will likely need to be addressed over time.

Significant auto related revenue has already been lost from San Jose largely due to land costs and operational constraints. Courtesy Chevrolet has opted to expand truck operations outside of San Jose. Piercey Toyota is now operating on Hwy 880 in Milpitas. 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. In response to the concerns related to an important economic engine, the City Council approved a Work Plan related to Auto Dealers in May of 2006.

ANALYSIS

Automobile sales are an important component of the City of San Jose's sales tax revenue generation. Auto dealers not only produce a large amount of sales tax, but the dealers do so using a small amount of land with a significant return of dollars to the City.. Less than 1% of City land generates approximately 10% of City sales tax. Business license data indicates that those new auto dealerships in San Jose employ over 2,300 individuals. Dealers further 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 34% more than the 12 new car dealerships on Stevens Creek Boulevard.

In order to maintain and possibly expand San Jose's new auto segment it is critical that San Jose be proactive in its efforts with the auto dealers. The work plan approved by the City Council in May of 2006 focuses on the following areas:

City Wide

Business Outreach – make clear that the Auto Dealers understand that they are important to the City of San Jose and that they are appreciated.

Interdepartmental Team – engage an interdepartmental team to address Auto Dealer concerns and address any related issues seamlessly.

Stevens Creek Auto Row

Stevens Creek Auto Row Working Group – Include Auto Dealer representatives, staff from Santa Clara and San Jose to begin review land use and operational issues that impact the Auto Row.

Urban Designer – Retain an urban designer to help determine what if any changes in the design and infrastructure of the area will assist the future needs of the dealerships. A complimentary contract with an appropriate financial analyst will also be included to consider various methods of financing any significant improvements that may be suggested. An amount of \$135,000 was approved by City Council to pay for both the urban designer and financial analyst.

Stakeholder Group – Prior to coming back to Council with any recommendations related to proposed design, land use, or infrastructure staff was directed to engage the community in a Stevens Creek area plan with representatives from Auto Dealers, area residents, businesses and

the Valley Transportation Authority. Council directed that the group should not exceed 12 members and that staff should work with District 1 to appoint the members.

Capitol Auto Row

Urban Designer – Designer to review land use and operational issues that may support Capitol Auto Row. Insufficient auto storage is a common issue for Capitol Auto Row dealers, City assistance in finding solutions to auto storage is desirable.

Potential Future San Jose Auto Locations

Work with Auto Dealers to identify opportunities for additional locations for new dealerships in San Jose. Beshoff Motors has been successful adding a Mercedes dealership and is in the process of adding an Infinity Dealership on the east side of San Jose. Staff should be proactive in considering additional potential auto dealership sites within the City.

UPDATE

Outreach

The Office of Economic Development (OED) has been engaged in numerous conversations with Auto Row Dealers through out the City. Dealers are responding positively to contact from the City. The economic climate is challenging for most auto dealers, new car sales overall have declined in San Jose 10% in the last year. Dealers appreciate having contacts in City departments that can address concerns as they arise and appreciate the contact with OED, particularly when they are not sure who to approach for assistance.

Development Activity

The Department of Planning, Building, and Code Enforcement has undertaken extensive work in assisting dealerships throughout the City. The Department of Transportation, Public Works, Fire, Environmental Services and OED have come together to address development related issues as projects move through the pipeline. Examples of permit activity include: Beshoff Infinity, Oak Tree Mazda, Smart Car, Smythe European, Stevens Creek Dodge, Joe Kerley/Car Max, Capitol Volkswagen, Capitol Toyota.

Capitol Auto Row

Staff is exploring options for car storage in the area of Capitol Auto Row.

Stevens Creek Auto Row

Work has been delayed related to the Stevens Creek Auto Work Group and Area Committee. Santa Clara Planning staff has not been available due to stadium related work load. A meeting of the interested Auto Dealers, staff and a representative of the Silicon Valley Auto Association is planned for June.

Planning staff is process a staff initiated General Plan Amendment for the 5.3 acre Joe Kerley site on Stevens Creek. The Kerley family has ceased operations of their dealership and Car Max has expressed interest in the site. The current General Plan and Zoning for the Kerley site is split into two different uses and inhibits the ability to effectively develop the site.

EVALUATION AND FOLLOW-UP

Staff proposes to provide an update of further Auto Dealer activity to the Community and Economic Development Committee in December of 2008.

COORDINATION

This report has been coordinated with the Department of Planning Building and Code Enforcement.

FISCAL/POLICY ALIGNMENT

The Auto Row Work Plan and Strategy furthers the efforts of several initiatives of the City's Economic Development Strategy: #6. Improve Speed, Consistency, and Predictability of the Development Review Process, and Reduce Costs of Operating in San Jose; #8. Diversify San Jose's Economic Base and Preserve/Create Middle-Income Jobs; #11 Revise Key Land Use and Transportation Policies to Reflect the new Realities of the San Jose Economy.

COST IMPLICATIONS

The City Council approved \$135,000 for an urban planner and financial analyst. The funds are located in the Contingency Reserve.


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For questions please contact Nanci Klein at (408) 535-8184.