



Memorandum

TO: DRIVING A STRONG ECONOMY
COMMITTEE

FROM: Stephen M. Haase
John Weis
Paul Krutko
James R. Helmer

SUBJECT: SEE BELOW

DATE: September 14, 2004

Approved:

Date:



COUNCIL DISTRICT: 3&4

SUBJECT: UPDATE OF THE NORTH SAN JOSE AREA DEVELOPMENT POLICY

RECOMMENDATION

The Department of Planning, Building and Code Enforcement, the Office of Economic Development, the Redevelopment Agency, and the Department of Transportation recommend that the Driving a Strong Economy Committee accept the following status report on the proposed update of the North San Jose Area Development Policy.

BACKGROUND

The proposed update of the North San Jose Area Development Policy was previously discussed at the March 22, 2004 DSE Committee meeting.

The Economic Development Strategy, adopted by the City Council in December, 2003, included the "Revise Key Land Use and Transportation Policies to Reflect the New Realities of the San Jose Economy" as a strategic initiative. One key tactic under this initiative is a review and update of the North San Jose Area Development Policy. This effort was also identified by corporate and development community experts who testified at the Getting Families Back to Work study session at City Council as a key work program item for the Economic and Neighborhood Development City Services Area.

City staff from the Department of Planning, Building and Code Enforcement, the Department of Transportation, the Department of Public Works, the Office of Economic Development and the Redevelopment Agency began working collaboratively in January 2004 on an effort to update

the North San Jose Area Development Policy. With Redevelopment Agency Board approval, traffic and environmental consultants were hired at a cost of \$600,000 in February to assist staff on this effort.

The project area consists of 4,700 acres of prime industrial land in the Rincon de Los Esteros Redevelopment Area. The technology park is currently developed with 44 million square feet of industrial office, research and development and light manufacturing space and 6,675 residential units located within the Renaissance, North Park, River Oaks and Rincon South area. Land use entitlements have been issued for an additional 7.5 million square feet of industrial development. The current average Floor Area Ratio (FAR) for industrial development throughout the entire project area is 34%.

The current North San Jose Area Development Policy, which was adopted in 1989, provides a less restrictive traffic Level of Service (LOS) General Plan standard for new development within the Rincon de Los Esteros North San Jose area. Under this policy, any identified traffic impacts for new development within North San Jose must be mitigated to reach an overall average LOS of "D". In contrast other parts of the City have a standard in which each individual intersection must maintain LOS "D". In compensation for this more flexible standard, the City has imposed an FAR cap of 40% for all North San Jose industrial properties located within 2,000 feet of a light rail station and a cap of 35% upon all other North San Jose industrial properties. As a result of this cap, typical industrial development in North San Jose consists of one or two-story buildings with surface parking lots. Through the transfer of development rights between properties, some sites including the Alterra, Cisco, eBay and BEA campuses, have been granted entitlement at higher densities of up to 140% FAR. As suggested by the fact that the overall FAR for North San Jose has reached 34%, a minimal amount of development potential remains for the area as a whole, and in many cases individual properties are already developed at their fully allowed density. It should be noted that the current Area Development Policy sets the same FAR cap for properties east of Interstate 880 (outside of the Rincon de Los Esteros boundaries), even though development on those properties cannot take advantage of the LOS averaging methodology.

ANALYSIS

Project Benefits (Scope and Goals)

The goal of the proposed update to the North San Jose Area Development Policy is to establish a new policy framework to provide for additional industrial R&D and office development capacity within North San Jose in a flexible manner. As part of this effort, the City also intends to provide project level environmental clearance for this new industrial development, simplify the procedures for the allocation of density bonuses to particular properties, and establish a funding mechanism for necessary transportation improvements.

The timing of this effort is critical to respond to current corporate interest and real estate conditions. According to the development community in this area, the City's current policies have become a significant constraint upon new development and several large corporations are

seriously pursuing mid-rise developments within the North San Jose area. Corporate representatives and property owners have expressed strong support for the update. As a result, the City has an excellent and time sensitive opportunity to facilitate an increased high-tech presence featuring corporate headquarters along the North First Street light rail corridor.

The project scope includes replacement of the existing North San Jose Area Development Policy with a new Policy. The new Policy area boundaries would be significantly reduced to match those of the current Rincon de Los Esteros Redevelopment Area. The proposed project scope also includes revision of the North San Jose area flood policy to incorporate revised flood plain information, General Plan revisions, preparation of a new North San Jose Deficiency Plan, and formation of a Community Facilities (assessment) District. The latter two items are scheduled for consideration sometime in 2005 if the new Policy is adopted by the City Council.

Following the completion of an updated traffic model for North San Jose, the traffic model was used to test various development scenarios to determine how the City might best allow additional industrial development to occur in the North San Jose area. These model runs incorporated roadway improvements and the addition of residential units within the project area (west of Interstate 880) as mitigations to the potential traffic impact created by the new industrial development.

Industrial Development

Based upon the outcome of the traffic modeling exercise, it was determined that the addition of 20 million square feet of new industrial development capacity would provide adequate growth potential within North San Jose to address the near term concerns that have been expressed by this community while not creating undue traffic impacts once appropriate mitigation measures are provided. It was assumed under this analysis related to the new Policy that the City would also allow for full build-out of the development potential existing under the current policy, resulting in the construction of an additional 6.5 million square feet of industrial space if the new Policy is approved. Traffic analysis was then conducted based upon the addition of 26.5 million square feet in total within the project area.

It is proposed that 16 million square feet of the new development be concentrated within a core area centered along North First Street between Brokaw Road and Montague Expressway, resulting in a typical FAR of 120% within this core. Development of the 6.5 million square feet allowed under the current policies would take place throughout the project area based upon the existing FAR of individual sites. The remaining 4 million square feet would be made available for properties outside of the core area, with preference given to sites located within 2000 feet of a light rail station.

Residential Development

In order to reduce the traffic impacts of this new industrial development to a reasonable level, it is necessary to add residential units within the project area. Adding residential units within the project area allows for the internalization of trips between residential and employment areas and reduces the project's citywide and regional traffic impacts. Because the freeways that form the project area boundaries act as barriers to movement in to and out of North San Jose and the limited points of access across these barriers have a finite capacity, adding residential units outside of the project area is considerably less effective at mitigating the project's traffic impacts. An important exception is that the addition of residential units along the light rail corridor promotes use of the transit system as an alternative means of access to North San Jose. Through the traffic modeling exercise, it was found that the addition of adequate residential units to house 60% of the workforce tied to the new industrial development provides a good balance between the loss of valuable industrial land and the mitigation of traffic impacts. Due to the importance of maintaining as much of the industrial land within North San Jose as possible, it was assumed that all residential development within the North San Jose area would take place at high densities with roughly half of the new units developed at 55 dwelling units per Acre (55 DU/AC) and half at 90 DU/AC. At these densities, approximately 285 acres of land would need to be converted to residential use, resulting in the addition of 24,000 new residential units.

Traffic Improvements and Implications

The traffic modeling exercise also identified roadway improvements, both within and outside of the project area, to provide mitigation for the project's traffic impacts. The total cost of these improvements is currently estimated to be \$370 million. Further analysis of this cost projection is currently underway and the projection is likely to be revised. It is proposed that revenue needed to pay for these improvements would be provided through the collection of traffic impact fees for both industrial and residential development within the project area and possibly through establishment of a Community Facilities District. The Redevelopment Agency has also indicated a possible contribution of \$30 million in its "Futures" list of projects, but that money has not been budgeted. If those fees are collected on a fair-share basis, derived from the proportional amount of traffic generated by use, it is estimated that they would equate to approximately \$10.50 per square foot of industrial development and \$4,200 per residential unit.

The Traffic Impact Analysis (TIA) completed for the proposed update has found that the project would result in traffic impacts at 18 intersections within North San Jose, impacts to 11 intersections in neighboring jurisdictions and impacts to 23 City of San Jose intersections outside of the project area under the current policy. While the project includes mitigation measures for many of these intersections, in some cases the construction of traffic mitigations would be counter to other City policies currently under consideration and mitigation may not be feasible. Specifically, the proposed LOS Policy Update, if approved, would classify 5 of these

intersections as “protected” and thereby restrict their further expansion. An additional 6 of these intersections meet the criteria for protected intersections under the Proposed LOS Policy Update and most likely should be reclassified as protected given that mitigation does not appear feasible. Absent the reclassification of these 11 intersections as protected, the North San Jose project scope would need to be reduced from 26.5 million square feet to 600,000 square feet in order to be consistent with the General Plan city-wide LOS Policy. Amendments to the North San Jose Area Development Policy are thus dependent upon City modification of the LOS Policy in order to move forward in the form described in this memorandum.

Next Steps (Schedule)

At this point, traffic analysis for the project has been largely completed and preparation of the project Environmental Impact Report (EIR) is underway. It is anticipated that the EIR will be distributed for public review at the end of November, allowing preparation of a Final EIR in January of 2005. The Planning Commission could then consider the project in February and by the City Council in March as part of the 2005 winter General Plan hearings.

CONCLUSION

Amending the North San Jose Area Development Policy is critical to the future vitality of the City’s economy and to North San Jose in particular. Current development in the area is based on suburban development standards and does not meet the needs of San Jose’s current and future business needs. The proposed change to the Area Development Policy is founded on Smart Growth principles that enable transit oriented design, at a density that truly encourages commuter use of light rail. Further more it allows companies such as BEA and eBay the opportunity to continue to grow in San Jose. The proposed policy incorporates the addition of up to 24,000 new units of housing in North San Jose in addition to the roughly 10,000 approved residential units to mitigate potential traffic impacts and to continue San Jose’s leadership role in providing housing in Silicon Valley. Taking a bold leadership role sends an important message to the corporate and development community about San Jose’s commitment to promoting industrial development within North San Jose. Now is an ideal time for the City to revise the North San Jose Area Development Policy, in advance of a resurgence of the area’s real estate market. A delay in revising the Policy could result in significant missed opportunities for companies seeking to expand or locate in San Jose if the market improves in the near future.

PUBLIC OUTREACH

Initial public outreach activity for this effort has focused on the primary property owners and tenants of properties located within the core of the study area. An initial meeting with the property owners took place on April 16, 2004. Property owners have so far expressed support and enthusiasm for the proposed update.

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More extensive outreach efforts are currently underway, including staff level meetings with officials from neighboring jurisdictions (Milpitas, Santa Clara, Sunnyvale, Mountain View, Palo Alto and the County) and coordination with regional public agencies (Santa Clara Valley Transportation Agency and Caltrans). A community flyer is under preparation and is to be sent to property owners and residents within the project area, adjacent properties and within the Downtown area in September. The project will be presented at the October General Plan community meetings and additional community meetings will be held in specific neighborhoods in October and November.

The project Environmental Impact Report (EIR) includes additional outreach activities for the general public, neighboring jurisdictions, interested public agencies and the affected property owners. General notification to the public and neighborhood groups will also be conducted through the winter 2005 General Plan update proceedings (see attachment for a summary of the project outreach schedule).

ENVIRONMENTAL REVIEW

Pursuant to State law, an Environmental Impact Report is being prepared for consideration as part of the policy update.

COORDINATION

This report has been prepared in coordination with the Department of Public Works and the City Attorney's Office.

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Attachments

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