



March 19, 2019

The Honorable Mayor Sam Liccardo
City of San José
200 East Santa Clara Street
San José, CA 95113

RE: Stimulate San Jose Growth

Dear Honorable Mayor Liccardo and City Council,

The San Jose Downtown Association and The Silicon Valley Organization (The SVO) share your desire to facilitate the development of real estate projects in San José and are pleased that you are actively working to tackle this issue. We recognize the need to create additional jobs and build more housing in our city. While we commend the promise to create 120,000 new housing units by 2040, we are concerned that the City of San José currently does not have the appropriate policy framework in place to realize this goal. We believe the three initiatives Mayor Liccardo recently announced – reduce and simplify fees, more flexibility regarding rules, and taller height limits – are steps in the right direction. We also wanted to share some of our ideas, which we believe will help create a policy structure necessary to stimulate real estate development and get us closer to fulfilling the commitment to build new housing.

While we may not be able to control the steep increase in land, materials, and labor costs, there are several other areas within the city's control that could be improved. We feel strongly that the policy adjustments suggested below would help San José grow.

Reduce the Cost of Development

Right-size Impact Fees: The city charges two impact fees for new residential construction: park fees and affordable housing fees. Given the relatively few housing projects under construction during a strong economic cycle, it is reasonable to conclude that these fees substantially add to the cost of building housing in San José, which have serious consequences for housing development - reducing housing affordability and even hindering housing production. While park fees were recently right-sized, we suggest restructuring the affordable housing fee based on square footage rather than per unit, which will lower the costs for dense multifamily, co-living, and townhome projects. The more housing that is developed, the more affordable housing will actually become due to the law of supply and demand.

Incentives for High-Rise Development: This is a critical time for building in San José, especially in downtown ahead of the proposed Google project. Therefore, we need creative solutions to encourage high-rise development of at least 12 floors. We recommend: 1) Reinstating the downtown high-rise development program for a limited period of time to include drastically reducing impact fees and construction-related taxes for projects that qualify and 2) Deferring fees and taxes to be paid at the time of issuance of a Certificate of Occupancy.

- a) We support Mayor Liccardo's memorandum on the Housing Crisis Workplan that directs staff to explore this change as it helps to provide financial relief to expedite getting shovels in the ground and cranes in the sky; and
- b) We would also like the city to explore converting the completion dates in the old high-rise incentive to ground-breaking dates, which would provide some flexibility for developers to meet timelines given unexpected delays that arise and provide certainty to lenders that a project will receive the incentive.

Eliminate Parking Minimums in Downtown: Allowing parking ratios to be set to the lowest number that projects are willing to provide would allow them to save space and money, leading to increased development and density. Additionally, it would encourage residents to use public transportation and other transportation alternatives like e-scooters and ride sharing, therefore creating a more urban San Jose.

Shorten the Development Timeline

Bolster Planning, Building, and Code Enforcement: In order to improve efficiency and speed the permitting process, we need a robust Planning Department. We should fund the Planning Department through the General Fund in order to fund an increase in staff and raise salaries to improve retention. Adding staff at higher salaries, while a large initial investment, will pay off as staff retention is increased and more permit applications are processed, fees collected, and property tax revenue increased. Additionally, moving at least a portion of the Planning budget to the General Fund would allow for resources to be devoted to long-term planning, zoning, and ordinance changes that are for the greater good of the city and not tied to a specific project. It would also be worthwhile to consider public-private partnerships to fund these positions – for example asking large companies or projects who require much of the Planning Department's time to contract out positions and/or using grants to fund positions.

Team of Permit Expeditors for High-Rise Development: A dedicated team of permit expeditors/project coordinators would facilitate high-rise development and expedite the approval process for these projects. Having a "one stop shop" system where developers are assigned a single point of contact for high-rise projects would help remove delays and frustrations that projects are currently experiencing.

CEQA Reform: Ensure the city is not asking for more than what is required by CEQA, which only extends an already-long process. We appreciate the policy priority as proposed by Councilmember Foley, which would have compared and contrasted the city's CEQA review process to other cities in order to improve efficiencies. Further, we support the city working with other cities and the private business community to lobby Sacramento for further streamlining of the CEQA process (e.g. expanded use of exemptions, fast tracking for residential, mixed-use residential, or employment center projects within transit priority areas). In the meantime, the city should grant exemptions to standard real estate product types in the downtown area. There is more than enough data on residential, commercial, and mixed-use designs in this area to approve them without lengthy secondary and tertiary reviews. In order to take advantage of the

rest of this economic upswing, we need to be bold, and not so conservative in our approach. We suggest the use of downtown as the pilot project or proving ground to study whether or not fast-tracking projects can include less environmental review.

Increase Certainty

Universal Fee: The permitting and entitlement process is complex and can be less than transparent. Several developers have told us this is the largest deterrent to development in San José, therefore, we support Mayor Liccardo's policy priority of adopting a universal fee. A publicly available, per-square-foot cost for development services and all attendant fees for any standard real estate product type would spur investment from outside investors, as they would have the certainty to enter an amount into their pro forma with an assurance that it will not change. This thinking should also be applied to small business projects as much as possible, as this uncertainty plagues even the smallest tenant improvement projects. As part of this change, we would like to build in certainty on when this fee would need to be paid. If developers could pay in phases upon receiving building permits and upon receiving their Certificate of Occupancy, then we believe that more projects would be built. Investing in technology that allows the developer to check on the project's permitting process online would also improve transparency.

Driving up the cost of development, delays in timeline, and uncertainty only exacerbate the housing shortage. We believe that adopting the measures mentioned in this letter would be a step in the right direction, making San José a more attractive destination for development and helping to alleviate the housing crisis. We look forward to working with you as you continue to examine what can be done to encourage real estate development. We hope the City of San José continues to make this a top priority.

Sincerely,



Scott Knies
Executive Director

San Jose Downtown Association
28 N. First Street, Suite 1000
San Jose, CA 95113



Matthew Mahood
President & CEO

The Silicon Valley Organization
101 W. Santa Clara Street
San Jose, CA 95113

Cc: Dave Sykes, City Manager