

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Councilmembers
Rocha & Jimenez

SUBJECT: URBAN VILLAGE FINANCING
PLANS

DATE: December 1, 2017

Approved Don Rocha Date 12/1/2017
Jimenez

RECOMMENDATION

That the City Council approve the staff recommendation and provide the following direction:

1. At the same time as the Urban Village Implementation Framework returns to the City Council, direct staff to bring forward preliminary analysis that explores methods by which the City could capture value from new commercial and industrial development in Urban Villages for the purpose of helping to fund improvements identified in Urban Village financing plans. Staff should have the flexibility to consider using a different method for value capture than is proposed for residential development if there are other approaches (such as density bonuses) that would be more suitable. Staff should also consider ways to ensure that value capture does not impact marginally viable commercial development, such as by establishing exemptions below certain size or value thresholds.
2. If staff decides to begin proactively rezoning Urban Villages, staff should return to City Council before beginning rezonings with a set of criteria that would determine how rezonings would be prioritized.

ANALYSIS

Consistent with our "jobs first" General Plan, the financing plan structure proposed by staff would capture value from residential development in Urban Villages, but not from commercial development. With this memo, we want to ask whether it still makes sense to exclude commercial development from making additional contributions to the public benefit.

There are good reasons to capture value from residential development in Urban Villages: it is generally more valuable in San Jose than commercial development and will be the product of commercial land conversions. There are also, however, good reasons to at least consider capturing value from commercial development.

Economic growth has many benefits—more jobs, more tax revenue, more profits—but it also has negative consequences. The strength of our economy is a primary cause of high housing prices, which lead to homelessness, overcrowding and financial instability. It's also connected to our transportation problems: our residents sit in traffic jams as we struggle to fit public transportation solutions into a mostly suburban context. Gleaming new office buildings and corporate campuses bring many benefits, but they also bring serious challenges. It makes sense that we would ask them to help contribute to solving those challenges.

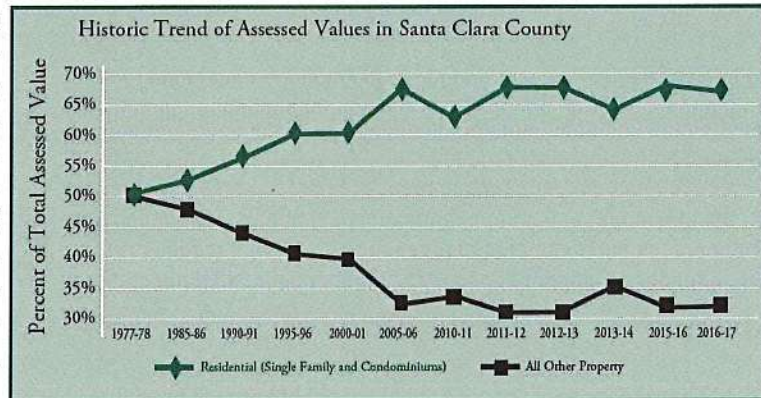
There are a number of different ways we could ask jobs development to contribute to solutions. Our recommendation in this memo is that we explore the inclusion of some commercial projects in our value capture framework. There are other approaches we could pursue instead of or in addition to value capture; commercial linkage fee, for example, has recently been prioritized as a workload item by the Council, and we look forward to it coming forward for consideration. We don't have a firm position on which approach is the right one, but we do think it's an issue we should begin thinking about seriously.

The challenges of growth are so enormous that it's unlikely we will succeed in addressing them unless all parts of our community bear responsibility for the solution. As a Council we have put a great deal of responsibility on housing development: it pays parks fees, affordable housing fees and now will be subject to value capture in Urban Villages. As our economy surges forward year after year and major corporate development is proposed in our city, it becomes increasingly hard to justify why we would exclude all commercial development in Urban Villages from value capture. Even value capture at levels below those proposed for residential could provide benefits to our residents.

The usual justification given for excluding commercial development from fees and value capture is that it brings the City substantial tax revenue, and that increasing our jobs/housing ratio is key to improving the City's fiscal condition. Some of the City's own studies are equivocal on that point, but we've come across another interesting perspective on this issue. The below chart and text is taken from the 2016-17 Assessor's Annual Report issued by County Assessor Larry Stone. It shows that commercial and industrial property have declined substantially as a percentage of the countywide property tax roll since the passage of Proposition 13, while single-family and condominium residential property have increased as a percentage of the roll.

Historical Trend of Assessed Values in Santa Clara County

The chart compares the total net assessed value of single family and condominium properties to other property, including commercial and industrial properties. Since Proposition 13 passed in 1978, the portion of the secured assessment roll comprised of commercial and industrial properties declined 15 percent, a trend consistent with data from other counties.



"2016-2017 Assessor's Annual Report." Stone, Lawrence E. Office of the County Assessor. Santa Clara County (<https://www.sccassessor.org/>). September 2016.

The report seems to suggest a causal relationship between Proposition 13 and the changing composition of the tax roll. There could very well be such a relationship, but it's possible that changes in the quantity and value of residential, commercial, and industrial property also had an effect. It's also worth noting that residential apartment properties seem to be included in the "All Other Property" category along with commercial and industrial. It's always wise to approach complex data carefully, but at the very least this chart should cause us to think carefully about whether commercial and industrial development should continue to be excluded from value capture.

Right now, in our nation's capital, Congress is debating how the burden of supporting the public enterprise should fall between various groups in our society. Should the burden be shifted from corporations onto the middle and working classes, or should it be distributed equitably across society? On a much smaller scale (and hopefully in a much saner fashion) our deliberation on the issues of fees, taxation and value capture revolve around many of the same questions. In our experience, San Jose residents understand the dual nature of economic growth: it has both benefits and challenges. Voters have stepped up again and again to tax themselves and help meet those challenges. It's up to us to ensure that the burden continues to be distributed equitably.