



Memorandum

TO: MAYOR REED

FROM: Councilmember Sam Liccardo

SUBJECT: BUDGET DOCUMENT

DATE: May 22, 2013

Approved

Date

5-22-13

RECOMMENDATION

That the following recommendation be enacted.

Proposal

Program/Project Title: Startup San José -- Filling Vacant Storefronts Pilot Project

Amount of City Funding Required: \$250,000

Fund Type (i.e. General Fund, C&C funds, etc.):

Building Development Fee Program Reserve (General Fund) (p. VII-18, VIII-212)

Proposal Description, including anticipated outcomes (describe how change would affect services for San José residents, businesses, community groups, etc.):

Direct the City Manager to create an incentive package to fill ground-floor vacant parcels in City-designated Neighborhood Business Districts (NBD's), Strong Neighborhood Initiative (SNI) areas, and the Downtown. It would apply primarily to retail or technology-focused start-up office tenants seeking to fill a ground floor space vacant since December 1, 2012, where the property owner also reduces the effective lease rate, thereby lowering the barriers to entry for small startup businesses.

In January, the Rules Committee heard and approved a memorandum advocating for the creation of this program from Councilmembers Herrera, Campos and me (attached). In February, staff weighed in with some modifications of the proposal, and the Community & Economic Development Committee favorably accepted the report from staff on the program structure (attached).

Since that time, I have proposed supplemental measures to assist small start-up businesses as part of this Startup San José initiative: the provision of Ruckus boosters to provide free wi-fi access to small businesses that qualify, and the use of in-bound links to the City's website to support internet traffic to the business' website.

With regard to the source of funding, the Building Development Fee Program Reserve will exceed \$10.5 million by the beginning of the fiscal year (p. VIII-212), but the year's anticipated operations will not cost

(net of revenues) more than \$5 million of that amount (p. VII-18). Drawing from that funding source keeps the dollars within Development Services, where they were generated.

Strong response has already emerged from the local community. By allowing this pilot program to proceed, this budgetary action will send a strong signal to brokers, landlords, potential entrepreneurs, and investors that San José is serious about helping small businesses, by eliminating obstacles to fill empty storefronts.

Funding Source

Essential Services Reserve (\$2 million)

Other (Program/Project/Fund):

Building Development Fee Program Reserve (General Fund) (p. VII-18, VIII-212)

Department or Organization: Office of Economic Development

Department or Organization Contact (list contact information for the individual that certified cost estimates contained within your recommendation):

Name: Chris Burton

Phone number: 535-8114

E-mail address: chris.burton@sanjoseca.gov

This change is:

One-time Ongoing

The City Service Area to which the change best relates:

- Community and Economic Development Services
- Environmental and Utility Services
- Neighborhood Services
- Public Safety
- Strategic Support
- Transportation and Aviation Services



Memorandum

TO: RULES COMMITTEE

FROM: Councilmember Xavier Campos
Councilmember Rose Herrera
Councilmember Sam Liccardo

SUBJECT: FILLING EMPTY STOREFRONTS

DATE: December 12, 2012

APPROVED:

X. Campos *Rose Herrera* *Sam Liccardo*
RIT

12-12-12

RECOMMENDATION

Direct the City Manager to return to Council (and if the Rules Committee requires, through CED committee) to determine whether to implement the following (or substantially similar) proposal:

1. Creating an "Open for Business" incentive package to fill ground-floor vacant parcels in City-designated Neighborhood Business Districts (NBD's), Strong Neighborhood Initiative (SNI) areas, and the Downtown, (and any other storefront retail corridors appropriately identified by staff or Council), for any new or expanding business that:
 - a. Meets existing zoning requirements of the parcel, with a space no greater than 5,000 square feet, which has been vacant since at least December 1, 2012;
 - b. Elicits a commitment from the participating property owner that she will lease the relevant space for a "teaser" period of at least 12 months at no more than \$1 per square foot, triple net (or at a lower rate to be determined by the City Manager) and;
 - c. Commits the City, in exchange, to:
 - i. Waive fees for all City-issued permits and licenses for tenant improvements, occupancy and operations
 - ii. Commit the Small Business Ally and Downtown Business Manager to reduce permit delays, so as to meet targets to:
 1. Respond within 14 days after submission of building permit applications;
 2. Respond within 3 days to any corrections or resubmittal of plans;
 3. Respond within 48 hours to requests for inspection.
2. The City Manager, or her designee, shall identify criteria of businesses eligible to participate, in order to focus the pilot on businesses that meet the City's economic and retail strategy goals, as opposed to categories of businesses that tend to discourage adjacent occupancy.
3. Through the budget process, allocate up to \$250,000 to account for revenues foregone by the waived permit fees.
4. Leveraging free print media, relationships with brokers, and partnerships with chambers of commerce and other business organizations, employ a broad outreach effort to inform prospective business and property owners about the incentive program.
5. After 12 months, or upon anticipated exhaustion of the \$250,000, return to Council with an evaluation of the pilot, to assess the program's benefits and drawbacks, including an estimate of new revenues generated by the pilot. Recommend to Council whether to continue, modify, or terminate the program.

RULES COMMITTEE :

ITEM:

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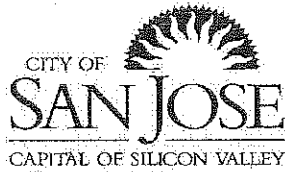
BACKGROUND

Despite the resurgence of employment statistics in Silicon Valley, the ubiquity of vacancies in our neighborhood business districts and the Downtown plainly indicates that the recovery has not reached many of our neighborhoods. Large-mall vacancies remain relatively low, to be sure, reflecting rising sales activity, particularly for the more affluent consumers. Empty storefronts in several NBD's and the Downtown persist, however.

It is these street-level vacancies along our pedestrian-friendly retail corridors that have a unique impact on surrounding communities. Vacancies reflect missed opportunities for entry-level employment in many struggling neighborhoods, and reinforce the perceived dearth of consumer goods and services in underserved ethnic communities. Vagrancy, graffiti, and street-level crime proliferates in the absence of "eyes on the street" and back-lit storefronts. Adjacent businesses suffer from reduced foot traffic, and from the perception that pedestrians don't "feel" safe walking along deserted sidewalks and empty storefronts. Landlords forego maintenance and basic investments in vacant buildings and even their occupied neighbors, thereby perpetuating a vicious cycle of urban decline. Surrounding neighborhoods feel the impacts, both in blight and in the decline of quality of life that walkable urban retail districts typically afford to nearby residents.

Other cities have launched efforts to incentivize "pop-up retail" to fill vacant space, in the blind hope that some retailers will remain beyond their typical "pop-up" tenure. This proposal reflects a more measured approach, seeking tenants with a longer view, but by no means excluding pop-up concepts.

To counter the stubborn persistence of vacant storefronts we urge the implementation of an incentive package that will send a strong signal to brokers, landlords, potential entrepreneurs, and investors that San Jose is serious about clearing obstacles to small business.



Memorandum

TO: COMMUNITY & ECONOMIC
DEVELOPMENT COMMITTEE

FROM: Kim Welsh
Joseph Horwedel

SUBJECT: FILLING EMPTY STOREFRONTS

DATE: February 15, 2013

Approved

Date

2/15/13

COUNCIL DISTRICT: City-wide

RECOMMENDATION

Accept staff's report outlining an Empty Storefronts Incentive Program to support filling ground floor vacant retail spaces and provide direction on further refinement of the program.

BACKGROUND

On December 12, 2012, Councilmember's Campos, Herrera and Liccardo forwarded a recommendation to the Rules and Open Government Committee directing the City Manager to return to Council to determine whether to implement a proposal that supports filling ground floor vacant parcels in the City-designated Neighborhood Business Districts, Strong Neighborhood Initiative areas, and the Downtown for any new or expanding business.

On January 23, 2013, the Rules and Open Government Council Committee accepted a report on the workload assessment prepared by staff to determine the feasibility and resources required to implement a program of this nature. The Rules and Open Government Committee added the item to the Community and Economic Development Committee workplan for further review and discussion.

ANALYSIS

The following analysis reflects a narrower scope for the program that will maximize the program's impact while minimizing staff resources required. The proposal also considers ease of implementation and alignment with existing policies and programs.

Eligibility:

The incentive program will be available to existing, ground floor, street-facing spaces requiring tenant improvements for retail uses (with minor structural calculations) up to 10,000 square feet,

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or tenant improvements for office/R&D office use (with minor structural calculations but no HazMat) up to 20,000 square feet. These limitations reflect the current restrictions on entering the Commercial Express Permitting Program and reflect those projects which will be able to meet aggressive permitting timelines and are not likely to incur large permitting costs. The commercial express program provides same-day permitting to eligible projects and will meet the intent of the program proposed by Councilmembers Campos, Herrera, and Liccardo. The program will also be restricted to appropriately zoned, ground floor, street-facing spaces that have been vacant since September 2012, which will mean those properties with storefronts vacant for approximately nine months or more (assuming the program starts in July).

Program Benefits:

To provide a variety of opportunities to multiple locations the incentive program will be structured as 15 grants of up to \$16,000 each, to offset the cost of City of San Jose fees, charges and taxes. To ensure near-term results, awards will be paid for 50% of estimated fees at issuance of building permits (up to \$8,000 will be credited against permitting costs) with the remainder of the award being made as a reimbursement at issuance of occupancy, which must occur before December 31st 2014. Selected projects will be eligible for expedited permitting through the Commercial Express Building Permit Program and will also receive additional "concierge" service provided by the City's Small Business Ally, who will serve as a point of contact throughout the entire permitting process. Staff sees opportunity to hold a marketing event with successful program awardees to promote available space to prospective tenants.

Timeframe:

Property owners, brokers or tenants will be required to submit complete applications prior to July 31, 2013, with selections being made by September 9, 2013. All improvements will be required to have been completed and occupancy granted by December 31, 2014. The intent of this timeframe is to make the program applicable to property owners who are currently engaged with prospective tenants, but also allow property owners and brokers who are not engaged with prospective tenants to add a preapproval of the incentive program to their leasing package. To avoid grant awards being tied up without sufficient follow-up action by a property owner granted an award, staff will consider appropriate performance measures related to tenant attraction. Staff could also consider grounds for extension of the grant deadlines in the event that a property owner secures a tenant without sufficient time to meet the formal deadline; however, these considerations would only be made in conjunction with a signed lease to accommodate build out of the space.

Focus Areas:

Limiting the geographical scope of the program on key development areas would help promote other development policy objectives; however, to ensure maximum opportunities for participation, staff is recommending opening the pilot to all of the Neighborhood Business Districts. The program will reflect the City's interest in aligning with other economic development policies by providing additional weighting in the scoring criteria to those applications that cluster investment in retail areas that align with other major policy objectives. By concentrating the attraction of new retail businesses with other major policies, the program has the opportunity to attract additional private sector investment.

Scoring Criteria:

Upon receiving all applications prior to July 31, 2013, staff will score projects based on the following criteria and select the top 15 projects. Applications will be reviewed and scored by an inter-department panel of the Community and Economic Development CSA. To provide opportunities for due process, unsuccessful applicants will have access to an appeal process, appealable to the Director of Economic Development.

Location Impact:

Location criteria will be scored based upon the impact filling vacant spaces will have on surrounding retail and or street environment. Higher scores will be awarded to projects encompassing end-caps, "missing tooth" sites, and multiple tenant spaces within a single block (up to 3 spaces on an uninterrupted block – applicants will be encouraged to encompass multiple property owners). Additional scoring may also be provided to those projects which contribute or align to other City policies.

30%

Lease:

The evaluation will provide favorable scoring to those projects that can demonstrate reduced lease rates for new tenants within the Business District and over the full term of the lease.

30%

Tenant:

Applications with actively engaged or signed tenants will receive higher scores. Special consideration will be given to spaces that encourage creative entrepreneurs.

30%

Time Vacant:

Applications will be scored on the length of time prime retail locations have remained vacant.

10%

Grants Management

While staff's previous workload assessment estimated research and implementation of the proposed program would amount to over 300 hours of staff resources, the revised scope would minimize this impact significantly. Staff resources will be required for program preparation, ongoing grants management, and project coordination as the program is implemented but staff estimates that this would be closer to 120 hours. Additional staff resources would be required for the marketing and promotion of the program; however, staff will continue to look at partnership opportunities with business support organizations such as local business organizations, the Chamber of Commerce and the Downtown Association, to help to promote the program to property owners and prospective tenants.

Other Resource Considerations

The Small Business Ally and the Downtown Association's Business Development Manager would be key actors in the promotion and facilitation of the proposed program. The Economic

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Development Business Development Team would provide significant support through the management of the program. This would require staff resources otherwise focused on business outreach to retain and expand driving industry companies located in San Jose, responding to incoming inquiries for business relocating to San Jose, and facilitating major development projects.

This refined program scope would significantly reduce required staff resources in the implementation process. The program has been structured to ensure that property owners and prospective tenants will need to ensure eligibility. Creating a defined number of grants in defined amounts, staff limits the amount of time necessary to administer the program over its duration. The possibility remains that all grants may not be issued in the first round, or that applicants may not require the full amount of funding granted to them. Any residual funds remaining as a result of these circumstances could be reissued in subsequent grant rounds as applicable. In planning for these circumstances, staff requests that committee provide input on whether the intent of the program should be to issue the full amount allocated to those projects selected to participate in the program, which could include expanding the use of funds for other-start up costs from other government agencies (such as the County Health Department), or whether staff should look for opportunities to maximize private sector investment in empty storefronts by providing preference to those projects that do not currently have tenants.

The program does present opportunities to promote further economic development through the filling of key retail storefronts in focused areas. Based on the Committee's feedback on the program, the proposal could be to the full Council through the budget process.

COORDINATION

Preparation of this memorandum was coordinated with the Department of Planning Building and Code Enforcement, the Department of Transportation, Department of Public Works, and Fire Department.

/s/

JOSEPH HORWEDEL
Director of Planning, Building and
Code Enforcement

/s/

KIM WALES
Director of Economic Development
Chief Strategist

For questions please contact Chris Burton, Business Development Manager, at (408) 535-8114.