Working Paper 2006-10

Fiscal Analysis and Land Use Policy in California:

A Case Study of the San Jose Employment Land Conversion Analysis

Vicki Elmer, Abigail Thorne-Lyman, and Dena Belzer

Prepared for the Lincoln Institute of Land Policy.

Institute of Urban and Regional Development
University of California at Berkeley

Abstract

This report describes a fiscal impact study done for the City of San Jose, California in 2003-04, a time when the city was reeling from fiscal and economic pressures caused by the dot.com bust. With residential land prices rising due to low interest rates and industrial land declining in value, the City experienced a flood of applications for residential conversions. City staff were concerned that wholesale changes in land use to housing, particularly in the city's high tech campus area that forms a major part of the Silicon Valley Golden Triangle, would have negative impacts on local employment and city finances. The case study describes the institutional, political and economic context in California and San Jose before going on to outline the study methods and results. The case evaluates how the fiscal impact analysis was used by the city to set Council policy for conversion applications and how it impacted the thinking of staff, the council and the local real estate community. The case study illustrates how fiscal impact analysis can be used as a planning tool by a city or county to enable the jurisdiction to take a proactive role in preserving high value employment lands while providing for affordable housing and the fiscal health of the city. This case study can be used in a land use planning class, an economic development class, a housing or a municipal finance class.

Acknowledgments

The authors would like to thank the Lincoln Institute of Land Policy for providing them the opportunity to explore one of the most vexing problems facing planners today—how to reconcile the often conflicting goals for housing, employment and fiscal neutrality at the local level. We are also grateful for the enthusiastic response we received from the staff at the City of San Jose about this project. Laurel Prevetti, Kim Walesh, Nanci Klein, and Ru Weerakoon were especially helpful as were Stan Ketchum and Andrew Crabtree. Thanks too, to the former City Manager, Del Borgsdorf and the former Planning Director, Stephen Haase for spending time with us on the telephone. Tracy Gordon of the Public Policy Institute of California graciously shared some early findings from a current study on fiscal matters in California and also reviewed the section of this case on California—thanks again! Mistakes and errors are, however, ours alone.

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I. INTRODUCTION

Fiscal issues have significantly impacted land use planning in the United States since the tax revolts of the 1970's, yet for many reasons local policymakers and planners often find it difficult to approach fiscal issues when making land use decisions. At the most basic level, planners may not understand the state and local context that determines revenues and costs and how these are tied to land use and economic development. Planners may also be familiar with fiscal impact analyses but not how these studies can be tailored to achieve planning goals for development apart from "fiscal neutrality."

This report describes a fiscal impact study done for the City of San Jose, California in 2003-04, a time when the city was reeling from fiscal and economic decline caused by the dot.com bust. With residential land prices rising due to low interest rates and industrial land declining in value, the City experienced a flood of applications for residential conversions. City staff were concerned however, that wholesale changes in land use regulations from industrial to residential could negatively impact San Jose's economic base and also drive up the city's operating costs. The study was therefore commissioned to evaluate the implications of the conversion scenarios on employment and the city's fiscal health.

The case study is noteworthy for several reasons. First, the study focused on the high tech campus area in San Jose that forms a major part of the Silicon Valley Golden Triangle, and is home to many of the innovative information technology firms that initiated the economic and technological transformation of the global economy at the end of the 20th century. Many of these firms still represent the leading edge of technological and economic innovation today. Second, the study's use of GIS to develop market based planning scenarios shows how fiscal analysis can have a spatial dimension—to become fiscal planning. Third, the study shows how fiscal impact analysis can be combined with other planning tools to enable the jurisdiction to maximize other neighborhood and city goals as well. Fourth, the case study shows how with more understanding of local service delivery mechanisms, that it is possible to identify good planning scenarios that are fiscally neutral and that also maximize employment and housing goals.

This case study can be used in a municipal finance class to illustrate how politics often determines local revenues as well as how different types of general fund revenues work and how they are affected by land uses and the economic cycle. It can be used as part of an economic development class to promote discussion about how land use policy can be used to generate desired economic and fiscal growth. The case can also be used in a housing class or a land use planning class as part of a module on fiscal zoning to explore how land uses can be planned to be fiscally balanced, and to understand the aspects of housing that promote its reputation as a fiscal drain on cities.

This report first describes the California context for local government finance before addressing the economic and fiscal situation in San Jose that gave rise to the study. It then describes the methods applied in the study and the study findings before continuing to examine how the study impacted San Jose policy making. Finally some general conclusions are drawn for planners about the relationship of land use planning and fiscal analyses.

II. HISTORY OF FISCAL ISSUES IN CALIFORNIA

Fiscal impact analysis is one of many tools used by planners in California to make informed decisions about changes to land use regulations. The complexities of state and local financing, variable service costs and standards for city departments, and recent instability in local budgets have led cities in California to ask more questions about the relationship of local budgets and land uses. To help address this issue, many local governments require a fiscal impact analysis as part of the development proposal. Some local governments have established policies in their Municipal Codes that new development be "fiscally neutral," or should result in a net zero or net positive impact on the city budget. This is particularly common for annexation applications where the city has not completed any long term land use planning.

Fiscal studies in California must be understood in the context of the state's economic situation and the intergovernmental tension between local and state finance. California's rules for local government finance have been shaped by voters and policy makers in the context of a state economy that is more volatile than elsewhere in the country. California, and San Jose in particular, has been ground zero for the postindustrial transformation of the world's economy into the high tech, information age economy. The rapid product cycle of California's economic base has resulted in a boom-bust cycle of employment throughout the state, with predictable tensions on state and local tax revenues and the need for infrastructure and local services.

California's lawmakers and voters applied the same spirit of innovation that was successful in triggering the emergence of the global economy to the state's fiscal situation. These have had mixed results. Although many of the fiscal innovations were adopted elsewhere, some have worked well while others have had unintended negative consequences. The state is still grappling with how to address the infrastructure and service needs of the boom years in the business cycle without major disruptions during the bust years.

The result is a context that defines the parameters of fiscal analysis at the local level. Though the context is peculiar to California in its detail, it remains similar in spirit to other high growth locations. This section of the case study discuses the fiscal context in California at the state level, and then the local response.

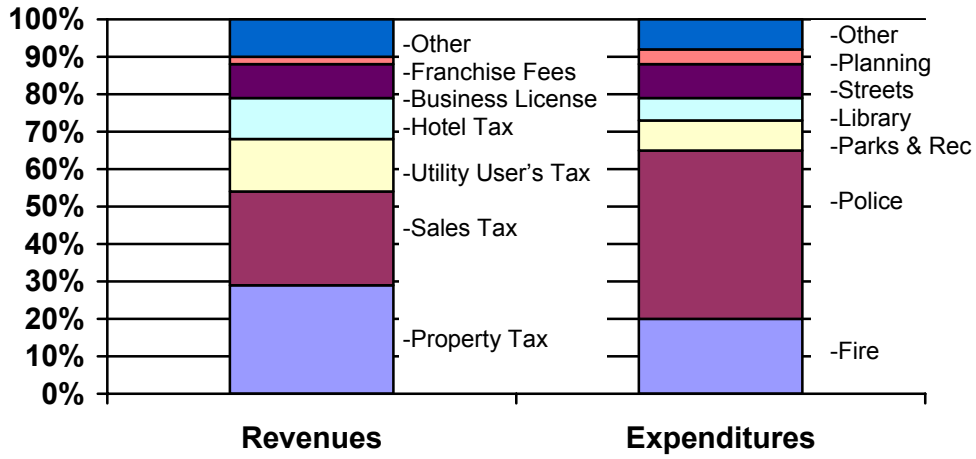
The Fiscal Context at the State Level

California's tax burden (state and local) per $100 of personal income is somewhat above the U.S. average, at $10.66 compared to

$10.43 for the U.S. according to the 2002 U.S. Census of Governments. It is higher than other western states but in the same general range as many large industrial states.[1] Local government tax burdens depend upon what services they provide. For example, less than 25 percent of California cities are full service cities, with their own police, fire, library, parks and recreation and planning services. For 30 percent of California cities, a special district provides fire services funded by property tax revenues that would otherwise go to the city, while the same is true for libraries in 60 percent of California cities.[2]

Slightly over 1/3 or 36 percent of a typical city's revenues are general fund revenues, which are available for discretionary use. Discretionary revenues are typically used to pay for ongoing police and fire services, parks, libraries, local streets, planning and some administrative services. (See Figure 1 below.)

Figure 1: General Fund Revenues and Expenditures of a Typical Full Service City in California



Source: Adapted from Coleman, 2006

Compared to other large states, local governments in California receive a smaller portion of general fund revenues from sources they control and are more limited in their ability to raise general purpose taxes. The state plays a strong role in regulating local revenues, such as property and sales tax, which are locally controlled in other parts of the country. This has resulted in the growth of substitute revenue sources at the local level in California including a well-established legal basis for and the use of development impact fees.

Limitations on Local Government Finance in California: The Role of Proposition 13

Two legal principles established during the progressive era at the turn of the 20th century guided California fiscal policy from World War I through Proposition 13 in 1978. First was the principle of home rule—the right of cities to establish their own charters – and second was the separation of sources doctrine, which differentiated state and local revenue sources. During this era, cities were essentially independent financially from the state. Up until the end of World War II less than 10 percent of city revenues came from state or federal sources. [3]

Prior to Proposition 13, every local government in California could levy a tax on the property located within its boundaries in order to pay for local services. Each jurisdiction determined its tax rate independently (as did most local governments in the United States). Real properties were appraised cyclically at not more than a five-year interval, and the average California property rate was 2.67 percent.

In 1978, voter-approved Proposition 13 rolled back most local real property or real estate assessments to 1975 market value levels and limited the property tax rate to one percent plus any additional rate to cover local voter-approved bonds. The proposition also restricted annual increases in the assessed value to no more than two percent, (without going back to the voters) except when property changed ownership or was significantly renovated. This effectively converted the market value-based system to an acquisition value-based system.[4][1] Since Proposition 13 was expected to reduce local property tax revenues by half, and since the state had a revenue surplus powered by its income and sales taxes—on steroids due to inflation, the state legislature passed AB 8 in 1979 to reallocate the state funds back to local governments to help make up the Prop 13 loss. This legislation also specified the procedure to be used to allocate the reduced property tax among cities, counties, schools, and special districts. [6]

Some observers have found that Proposition 13 and six other voter passed initiatives passed in the ensuing years have been successful in limiting the incidence of locally controlled revenues in California.[7] Although the total amount of public revenue increased in California, as a

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[1] An analysis of property values in Los Angeles and San Mateo Counties done in 1998 found that although there were wide differences in the amount of property taxes paid by properties purchased before 1980 and those afterwards, the differences in the amount of taxes between properties purchased after 1980 were no greater than those found in other states without the Proposition 13 restrictions. (Sheffrin, S.M. and T. Sexton, *Proposition 13 in Recession and Recovery,* Public Policy Institute of California, San Francisco, California, 1998.)

share of personal income, taxes declined from 15 percent in 1978 to under 13 percent in 1995.[8] A study in 1997 concluded that Proposition 13 also shifted the outcome of government dollars so that a larger share of city general fund revenue was spent on services rather than internal administration and that the size of local government was reduced relative to the size of the population.[9] It should also be noted that during the same period California's public revenues were severely affected by downturns in the economy in the early 1990's.

Counties in California suffered the greatest loss in fiscal autonomy; unlike cities, most county services (such as public assistance and criminal justice) do not have the potential to raise fees. In addition, the state restricts the taxing authority of counties.[9] In 1978 counties controlled half of their revenues but by 1995, they controlled only 20 percent.[10] In 1916, 80 percent of county expenditures were funded by property taxes controlled by the county, but this had fallen to 10 percent by the mid 90's.[3] Some suggest that Orange County's widely publicized bankruptcy in 1993 was partially caused by this move to "fiscal austerity" imposed by the voters.[7]

Proposition 13 has also had unintended consequences. Some have noted that Proposition 13 attenuates the relationship between local government services and property values because cost increases for services have little relationship to increases in revenues; the major increasing costs for local governments – health benefits and pensions of employees – do not relate to corresponding changes in revenues.[11]

Perhaps the most contentious of Proposition 13 impacts (and other limitations on local revenues) was the power it gave the state to allocate property taxes between cities, counties, special districts and schools. [8] How this came about is discussed in the next section.

The Impact of Voter Passed School Funding Minimums

School funding played an unwitting role in shifting the balance of power over property taxes from local to state control in California. Unlike some states, local governments in California are not responsible for setting the level of local school revenues. Instead, the state allocates a yearly amount to local school districts based on student population weighted by daily attendance.

Prior to 1973, schools in California were funded with property taxes levied by local school districts. However, concern about the resulting inequalities in per pupil expenditures between high and low

income school districts[2] led to a landmark ruling by the California Supreme Court known as Serrano vs. Priest. In this decision, the Court noted that California's school financing system "fails to provide equality of treatment to all the pupils in the state" and mandated changes. [12] In response, the state legislature enacted legislation (AB 65) in 1976 to equalize spending between jurisdictions by providing state subsidies to the poor districts and capping the expenditures of the wealthier districts. However, before this legislation could take effect Proposition 13 was passed. To mitigate the negative effects of the local revenue loss as noted previously, the state legislature adopted AB 8, which reallocated $2.7 billion in property taxes from schools to cities, counties and special districts. The state then made the schools whole again with state revenues from the state's then healthy general fund.[9]

The state's prosperity in the 1980's enabled the education "subsidy" to continue, but nonetheless during this period California's per pupil funding fell below the national level. Concern about declining achievement levels caused voters to approve Proposition 98 in 1988 to guarantee a minimum level of state funding for education.[3] Ironically, some analysts noted that school spending in California after that period "leveled down" rather than "leveled up."[13]

Facing a budget crisis in 1992 caused by the recession, the state met its Proposition 98 legal requirement[4] to fund schools by redirecting a portion of property tax revenues previously allocated to cities, counties and special districts, into an "Educational Revenue Augmentation Fund" (ERAF).[14] Although in that same year, Proposition 172 provided sales tax funding for local public safety programs along with other measures designed to offset the loss of the property tax to local governments, by 2005/06 the cumulative impact of the ERAF "diverted" from local coffers was estimated to be $1 billion.[15]

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2 For example, per pupil expenditures for FY 1968–69 in Beverly Hills, CA, were $1,232 compared to $577 in Baldwin Park, CA.

3 Proposition 98 does not actually guarantee a minimum level of funding for education. Instead it outlines a series of formulas to be used under varying economic and fiscal conditions. For example, it requires that K–12 and community colleges receive the greater of a fixed percentage of state general fund revenues or the amount they received in the prior year, adjusted for enrollment and inflation.

4 The State legislature has discretion over the state's budget, but must comply with voter passed initiatives such as Proposition 13 and Proposition98.

Economic Bust of 2001 and Intergovernmental War

The economic "bust" of 2001 resulted in an all out power struggle for revenue between the state and local governments in California, and the first successful recall of a sitting governor in that state. This time the main issue was not the property tax but the Vehicle License Fee (VLF). The VLF is another key general fund revenue source for local governments that can provide anywhere from 16 to 24 percent of a locality's general fund. It is similar to the taxes on personal property levied in other states. It is collected by the State of California through car registration fees and then redistributed to counties and cities according to population. Until the late 1990's the VLF was assessed at two percent of the value of the vehicle.

In the late 1990 boom years, pressure from anti-tax factions about the hefty surplus in the state's general fund caused California Governor Gray Davis to reduce the VLF tax to 2/3rd of one percent. To make up the difference in local government revenues, the state surplus was used for "backfill" payments to cities and counties. However, in 2002, when the economic bust curtailed state revenues, Governor Davis proposed reinstating the two percent VLF. The state legislature approved the increase and the VLF increase became an issue in the recall election of 2003. The successful gubernatorial candidate, Arnold Schwarzenegger, promised to repeal the increase in the VLF if elected. However, once elected, Schwarzenegger faced the same budget deficit and the same lobbyists. For several months the budget crisis occupied center stage for state and local officials, lobbyists, public interest groups and the media. Local governments were well organized by the League of Cities with public safety employees playing a major role in blocking measures to reduce local government revenues.

Finally, in 2004 a fiscal balance point of sorts was reached. There were three elements to this. The first was voter approval in March of a deficit reduction bond measure (Proposition 57) whose proceeds were to be used for annual operating expenses. The second element was an agreement called the "triple flip" which restored property tax revenues to local governments, restored state general funds to education and reduced local sales taxes by ¼ percent in order to pay off the bond over 14 years. This diversion ends when the state deficit bonds are repaid.[1, 16]

The third element was voter approval in November of Proposition 1A – a local government fiscal "bill of rights." This proposition prohibits the state legislature from shifting property taxes away from cities, counties or special districts in the future. It also protects the remaining local portion of the sales tax and the VLF from being reallocated by the state

legislature.[17] Since 2004, as the California economy improved, voters also passed bond measures for education and reduced local requirements for education bond measures from 2/3rds to 55 percent.

How these most recent initiatives will play out over time remains to be seen. However, prior to 2004, local governments in California controlled only about half their general fund revenues, compared with over two thirds in Florida and Texas. This was still well below the national average of 62 percent.[5] As Table 1 shows below, California's share of locally controlled revenues has decreased over the last 25 years, while the reverse is true in other high growth states.

Table 1: Local Government's Share of General Revenues from Own Sources: California Compared to Other Large States and the U.S. in 1977 and 2002

	1977	2002
California	58 percent	51 percent
US-California	57	62
Florida	56	69
Illinois	62	65
New York	54	61
Texas	64	70

Source: Personal Communication from Tracy Gordon, Public Policy Institute of California April 1, 2006, as computed from U. S. Census of Governments [18]

The Fiscal Response from Local Governments

State restrictions on local tax sources caused local governments in California to turn to other mechanisms to finance infrastructure and services. State limitations have also contributed to the so-called fiscalization of land use, which in turn has spurred local interest in the fiscal impact of new development. The following addresses each of these in turn.

Alternative Sources of Financing

Faced with a rapidly growing influx of migrants from other parts of the country in the booming 1980's and from overseas in the 1990's, the pressure to provide additional infrastructure and services caused local governments in California to turn to a complex host of other revenue

[5] Note that the correct figure for locally controlled revenues in California is probably lower than 51 percent, since the Census of Governments treats California property tax as local revenue though the state controlled its level and allocation in 2002.

sources to balance their budgets, such as development fees and exactions, user fees, and local taxes such as utility user's tax, the property transfer tax and the transient occupancy (hotel) tax. Heavy use has also been made of redevelopment agency powers to raise local property taxes.

Since the passage of Proposition 13, local governments in California have increasingly relied on fees and charges to pay for infrastructure and utility services such as water, sewer, and sanitation. Today these services are expected to pay for themselves and usually do not compete for local general funds.[19] Developer fees for the initial capital costs are authorized by the state constitution and include parkland acquisition fees, school facilities fees, or street construction fees that are needed by the development along with connection fees for water and sewer lines.[2] [20, 21]

One-time development costs can also be financed by public bonds, where debt service is paid with other public finance mechanisms such as Community Facilities Districts (also known as Mello-Roos Financing) or redevelopment tax increment revenues. Cities have even turned to non-general fund revenues for ongoing infrastructure maintenance funds that are specifically earmarked for certain activities; many cities have established voter-approved landscape and lighting districts or parks districts to pay for maintenance of infrastructure.

Local governments in California have also pursued property tax revenues by aggressively using local redevelopment powers. Whereas cities only receive an average of 16 percent of the total property tax, California redevelopment law allows cities to collect up to the full 100 percent of paid property tax revenue, excluding funds for schools. The San Jose Redevelopment Agency collects approximately 45 percent of total property tax in its redevelopment areas; the remainder goes to the 20 percent housing set aside required for all redevelopment funds in California, and to other districts including schools.

California has 351 redevelopment agencies, most of them within city government. More than half were created after the passage of Proposition 13. In 1995, redevelopment agencies collected $1.5 billion in property taxes, which was 8 percent of all property taxes collected in California. Redevelopment policy has met with some objections: a study conducted at the end of the 1990's concluded that these agencies take more than their fair share of the tax increment.[22]

According to the U.S. Census of Governments, (See Table 2 below) local governments in California in 2002 relied on fees and charges for 30 percent of their general own-source revenue, compared to 25 percent nationally (including California) and around 20 percent in New

York and Illinois, and Texas. In 1977, this proportion was only 15 percent in California, compared to the national figure of 19 percent. Other large states had increases in the share of revenues from fees and charges but not as steep as in California. Interestingly, during this time period Florida's reliance on user charges and development fees has remained high and unchanged.

The trend toward increasing user and development fees continues unabated, both in California and the rest of the nation. Surveys undertaken in California and the United States in 2004 indicate that the most frequent fiscal activity undertaken by local officials in the prior year was to raise development and other fees, with this activity more frequent in California than in the rest of the country.[11, 23]

Table 2: Local Government's Share of General Revenues from Fees and Charges: California Compared to Other Large States and the U.S. in 1977 and 2002

	1977	2002
California	15 percent	30 percent
US-California	19 percent	25 percent
Florida	32 percent	32 percent
Illinois	15 percent	19 percent
New York	14 percent	20 percent
Texas	22 percent	22 percent

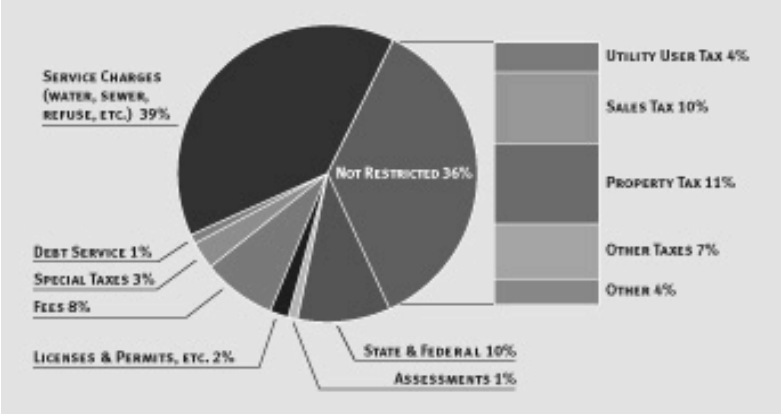
Source: Personal Communication from Tracy Gordon, Public Policy Institute of California, April 18, 2006 as computed from the U.S. Census of Governments [12]

A typical full service city in California has almost two-thirds of its revenue restricted for specific uses. Service charges for water, sewer and refuse account for about 40 percent of the revenues, and a large proportion (see Figure 2) of the revenues from various sources are restricted in what they can be used for. General funds account for only 36 percent of revenues for the average California city.

The Fiscalization of Land Use

In addition to property taxes, VLF, and impact fees, California cities rely heavily on sales tax as a general fund revenue source. In California, sales tax may be as high as 7.5 percent, with 1 percent reserved for a local option that can be returned to the local government where the sales occurs. Some believe that Proposition 13 and the other limitations on local government revenues made new commercial development more attractive than residential to local land use officials. Conventional wisdom in the development industry is that residential development does not pay

Figure 2: Typical California City Revenues



Source: Coleman, 2005. A Primer on California City Finance.

for itself unless it is high priced. In California, this is perceived to be even less attractive since the controlled property tax revenue appreciation of two percent a year does not keep up with public employee cost-of-living adjustments and other pay increases, which are often estimated to be as high as four percent a year in some jurisdictions (such as San Jose). Retail and office development, however, provides additional revenues through the local share of the sales tax, the business license tax revenue, and also costs cities less to serve.[24]

At the national level, a study of mid-sized cities found that in states with revenue limitation policies and fiscal pressures, cities developed high value residential units, excluded multi-family units and proportionately developed more retail than housing. This study found that cities subject to property tax limitations and those with rising expenditures do limit affordable housing but that fiscal impact requirements as part of the comprehensive planning process helped to produce more balanced land use decisions. Such requirements as part of the development process however, did not appear to have the same beneficial effect. Those cities that evaluated fiscal impacts in the comprehensive plans had more limited retail development than those which did not, and interestingly but not surprisingly, cities with more retail development were not as likely as those with less to require fiscal impact analyses during the development process. [25]

In 1998, local officials in California rated retail and office uses as the most desirable new land use development, with single and multi-family residential further down the list. Least desirable was heavy industrial development. Local officials indicated that retail projects were the most likely to receive favorable zoning changes and financial incentives. However, total sales tax revenues of all cities in California,

measured in real dollars per capita, have only grown by a slight amount in the two decades since Proposition 13 passed. At the same time, some cities have been more successful in generating sales tax revenues than others with a range of a low of $2.25 to as much as $56,900 per resident in 1999. Still, the overall ranking of cities by per capita sales taxes has been stable over time. Although some cities may have been successful in attracting retail, or successful in paying subsidies to developers of retail, it does not appear to have made a difference compared to those which did not take these same actions.[26]

Over time, the presence of fiscal zoning has leveled out in part due to shifts in the retail market and the build-out of many cities in California. Still, emphasis remains on making new development pay for itself regardless of its land use type. Local governments now manage to provide a greater balance in their budgets by establishing development impact fees for new infrastructure, requiring developers to establish benefit assessment districts that pay for service and maintenance costs, and generating general fund revenues through locally established taxes such as the utility users tax, the business license tax, and the property transfer tax.

Fiscal Impact Studies

Fiscal impact studies of new development are an important tool to assist local governments in addressing rapid growth and shrinking budgets. Fiscal impact analysis is becoming a regular step in the development entitlement process, so much so that many developers pay for fiscal impact studies whether the city requires it or not.[27]

In a fiscal impact study, the net impact of any proposed land use change is examined by comparing estimated revenues to the city's general fund with estimated costs for serving new residents. Fiscal impact studies typically focus on the City's ongoing costs and revenues, although occasionally a fiscal study will also compare needs for new infrastructure such as parks or libraries. Schools are not typically included in fiscal impact studies, because in California they are financed by the state as described earlier, albeit from property taxes and other state revenues.

The patchwork of local finance sources described above, in combination with variable service costs, makes it most accurate to complete fiscal impact analysis at the local level rather than on a state or regional level. It has already been shown that the share of sales tax revenue in cities can range from a few dollars to thousands of dollars per capita. Likewise, the ratio of police per 1,000 residents varies significantly depending on the need for services. Some have developed models that roughly look at the costs and revenues of new development on

a larger scale, but these models only offer a conceptual glance at costs and revenues and cannot be used by any one local government in particular as an estimate of the net impact. [20]

In one case where fiscal impact analysis was conducted for a multi-county area in California, the American Farmland Trust sought to educate the public on the fiscal impacts of developing housing on agriculturally rich land in the Central Valley region. This study compared a smart growth development scenario where new housing was accommodated within limits of existing cities such as Fresno and Modesto with a "typical growth" scenario where housing was developed at 3 units per acre throughout the Valley. In this study, the fiscal impact study (conducted at a general level) found that the typical scenario resulted in a net negative impact of over $1 billion by 2040, whereas the more compact growth scenario offered a revenue surplus to cities of $200 million in the same time period.[28]

Fiscal impact studies vary in their magnitude and cost, depending on the complexity of the development, acceptance by the community, and whether the local government is sensitive to fiscal impacts over other impacts. The average fiscal impact study costs between $20,000 and $30,000 to complete, although simple fiscal studies have been completed for as little as $5,000, and larger studies can cost over $100,000. The cost may also vary with the level of community involvement that needs to be done during the study; fiscal impact studies can function as a dialogue piece between developers and local governments for infrastructure payments and other concessions made as a requirement for development approvals.

Additional Resources

California Budget Project. School Finance in California and the Proposition 98 Guarantee. Revised 2006. http://www.cbp.org/2005/0504bb_prop98.pdf

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See also, www.CaliforniaCityFinance.com and the Public Policy Institute of California's website at www.ppic.org

III. SAN JOSE CONTEXT

Description of the City

Size and Demographics

San Jose is the eleventh largest city in the country, larger than San Francisco, Boston, Washington, D.C., Seattle, Miami and Denver, with a population of almost one million. San Jose is the county seat of Santa Clara County which is also home to the cities of Palo Alto, Santa Clara and Sunnyvale (Figure 4). San Jose was the first civil settlement in California in 1777 with 68 different ethnicities even at that time. For a two year period in 1849, it was even the state's first capital although only for a short period of time because of flooding and lack of hotel space. During the 18th and 19th centuries, San Jose was an agricultural community providing food for military encampments in San Francisco and Monterey. A series of floods, earthquakes and fires stymied San Jose's growth in the early 20th century, but in the next decades it was transformed from an agricultural community to ground zero for the high tech transformation of the global economy. [29]

Over the past several decades, San Jose has continued to become more racially and ethnically diverse. Between 1990 and 2000, the non-Hispanic white population declined from 50 to 36 percent. The city's Hispanic population has doubled in size from 1980 through 2000, and presently constitutes 30 percent of the population, and of these, 82 percent are of Mexican descent. In 2000, about 27 percent of the population was of Asian descent, with increases over the past two decades in the Vietnamese, Chinese, Asian Indian and Filipino populations. San Jose has the largest Vietnamese population of any city in the United States.[30]

The median household income in San Jose in 2000 was $70,243, an inflation adjusted increase of 10 percent from 1990.[6] This was lower, however, than incomes in the rest of Santa Clara County. Income differences exist between ethnic groups in San Jose, with Hispanics at 2/3rds the figure of non-Hispanic white households. Asian households had incomes slightly under non-Hispanic white. About 9 percent of the City's population is below the U.S. Census threshold for poverty, with most of these being families with children.[30]

[6] For context, the median housing price in San Jose was $462,000, and the median household income was $70,240 in June 2003, the time of the study (2003 dollars).

Government and City Hall

San Jose has a City Manager form of government with a ten member City Council elected by district. The Mayor is elected citywide. San Jose permits its elected officials two 4-year terms. One observer noted that short of scandal, each councilmember will serve his or her 8 years and then move on, either to another elected position or back to private life.

The City has a tradition of professionalism and a customer service orientation. The budget talks about "business plans" and "city service areas." Even the casual visitor to their sparkling new City Hall is asked multiple times whether her parking chit needs to be validated. The City of San Jose enjoys a reputation for high quality service delivery, and staff routinely work on an interdepartmental basis to deliver seamless services to the public. Another observer noted that the city hall operates in a "culture of quality."

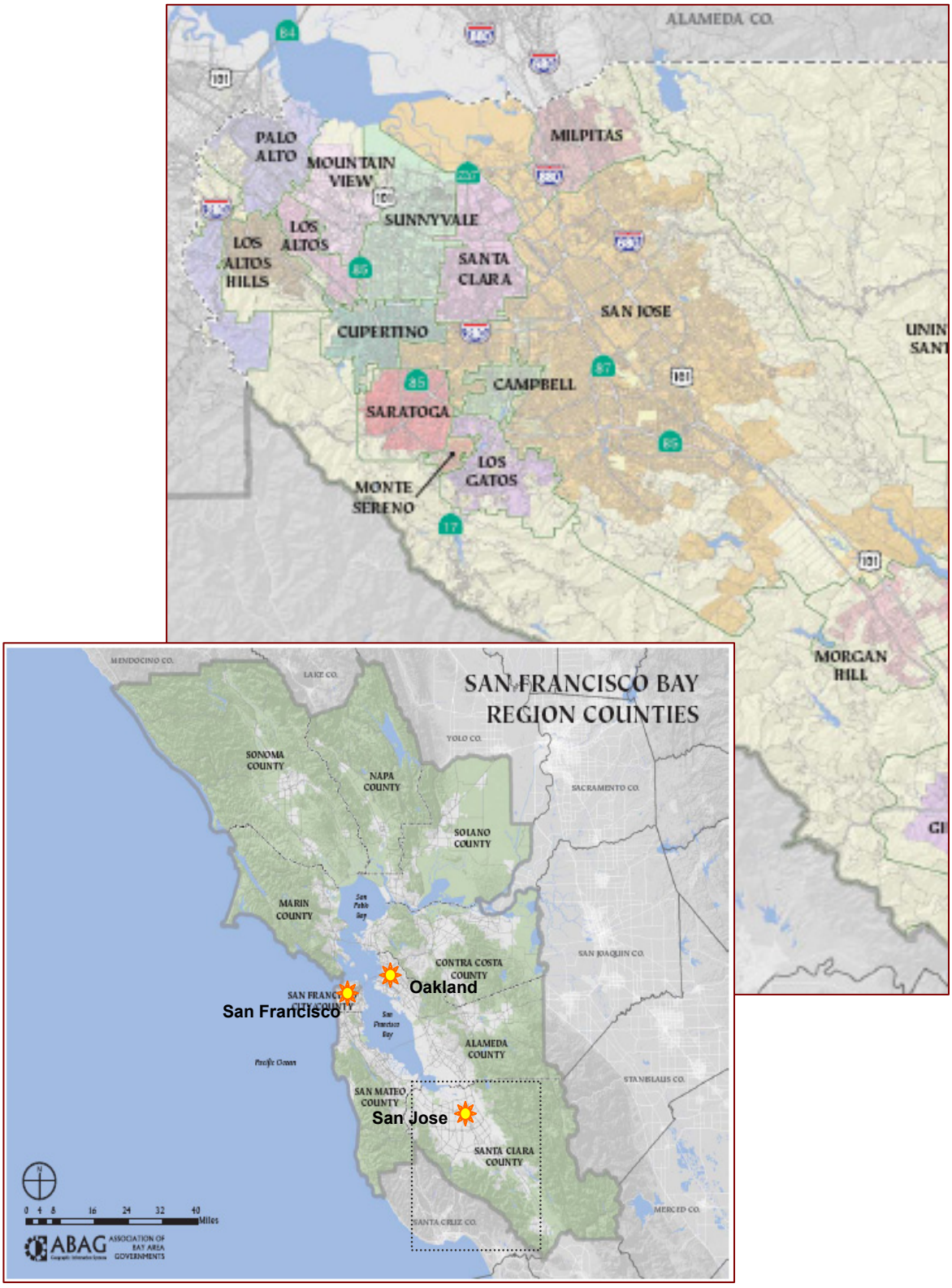
The 2005–06 adopted budget for San Jose was $2.7 billion, similar to the previous year. Like many other California cities, general funds were about 1/3 of the budget while special funds accounted for another third. Operating funds account for $1.5 billion with a hefty $1.1 billion going into capital improvements. The City had 6,672 positions budgeted for 2005-06 which was roughly equivalent to the staffing level in 1998-99.[31]

Land Use Patterns and Plans

The city has evolved intentionally and proactively for many years. As noted above, San Jose was established as an agricultural community to support its farming hinterland. As the economic base of the area shifted from agriculture to technology after World War II, the city grew by annexation and rapid population growth as a predominately residential or "bedroom" community for households working in Palo Alto, the city of Santa Clara, and others. Piecemeal development patterns however, made it difficult to provide utilities, street maintenance and school services in San Jose. The downtown began to decline, and local leaders began to be concerned about creating a strong economic basic to complement the residential growth.[32]

In 1970, in a pivotal moment for future growth in the area, the city initiated a growth management program with the establishment of an Urban Service Area (USA) and an agreement with the county to only approve development within that boundary. The city's Urban Development Policy as it was known, was followed by the adoption of the General Plan of 1975, the City's first "modern" land use plan linking state

Figure 3: San Jose in the Context of the Bay Area Region and Santa Clara County



Source: Association of Bay Area Governments, Projections 2005.

mandated elements, including land use and transportation, into a coherent whole.[33] This plan also designated land for a range of job generating activities. A key strategy was to use redevelopment authority to attract electronics industry growth, along with activities to reverse the decline of its downtown. An office of economic development was formed in 1986.

In 1994 the City adopted the San Jose 2020 General Plan which presaged the transit-oriented development philosophy of the 2000's throughout the country. This plan used a detailed fiscal analysis to make decisions about the location and density of future growth, including providing for increased densities along existing and planned light rail corridors. The plan also limited growth at the city's edge and designated some lands entirely off limits for development. This plan also addressed issues such as how much industrial land could be turned over to other uses.[33]

The City's economic development strategy of preserving land for industry and using redevelopment to attract jobs was a key part of San Jose's high technology success in the 1980's and 1990's. Today, although residential uses still dominate San Jose's land use, accounting for nearly 60 percent of the land within the Urban Service Area, the jobs/employed residents ratio has risen from 0.73 in 1990 to 0.86 in 2000, and to 0.93 in 2005 (ABAG). Parks and other public/quasi-public lands account for an additional 25 percent. Retail uses account for only 5 percent of the land within San Jose's urban service area. Active employment land inside the City of San Jose accounts for only 13 percent of the city's total land area. [34]

The Planning Department and Current Issues

The City of San Jose has consciously tried to promote interdepartmental problem solving and seamless government services to the public by grouping city departments into larger functional areas in its budget and other public documents. The planning department, along with the redevelopment agency, the department of economic development, the transportation and the housing department, form the Economic and Neighborhood Development City Service Area. Staff from these areas typically work closely with each other on development and planning issues.

The Planning, Building and Code Enforcement Department, hereinafter referred to as the planning department, is responsible for long-range planning, code enforcement, building permits, land use and development permits. It had over 300 employees and a budget of $36 million in 2005-06. Although the long range planning function has only

30 employees, a small portion of the department's total staffing, it has the responsibility for formulating development and land use policy for the city as a whole. Long range planning employees are highly regarded and play a leadership role in strategic thinking for the city. This division is headed by a Deputy Planning Director, Laurel Prevetti, who played a key role in the fiscal impact analysis that is the subject of this case study. She and her staff were joined in this effort by counterparts in the Office of Economic Development, Kim Walesh and Nanci Klein, and the Redevelopment Agency, Ru Weerakoon, head of industrial development.

The city has worked in a coordinated way with its surrounding jurisdictions on land use and transportation issues particularly during the late 1990's dot.com boom. Although the most recent General Plan amendment for the North San Jose area (discussed further below) was met with litigation from the County and the City of Milpitas, the city remains committed to a regional approach to land use issues.

The city's General Plan plays a major role in directing development in the city. Because the San Jose is a charter city, it is not required under California law to have a zoning ordinance that is consistent with its General Plan. However, city staff and the council attach great importance to the General Plan which has detailed land use designations. In San Jose, unlike many older cities, the "entitlement" to develop is seen as deriving from the General Plan, not just the zoning ordinance. Although land use changes in other built up charter cities are often made by amending only the zoning ordinance, in San Jose land use changes occur with a General Plan Amendment (GPA)—much like a land use change in a county or rural area that is developing rapidly. Therefore, unlike many other communities, San Jose amends its General Plan frequently. The General Plan itself even has a section that regulates the process for amendments.[7] City staff is currently considering proposing to the Council that GPA's be limited once again to a yearly appearance on the Council agenda.

Politically, land use changes within the city have become more decentralized and under the political jurisdiction of the district based council members. During the past 8 years council members are said to have evolved into mini-mayors for land use issues in their districts. Council members are perceived as deferring to their colleagues on GPA's in their district. A former councilmember likened the effect on land use as

[7] The change that was made to the General Plan that authorized General Plan Amendments to occur 4 times a year instead of once a year in the late 90's was itself a General Plan Amendment.

having 10 different cities and the local newspaper has periodically called for more citywide leadership on land use issues.[35]

Economic Base

San Jose is an integral part of the "Golden Triangle" which was the designation given to the area bounded by the three highways, 237, 101 and 880 back in the late 80's. At that time the adjacent jurisdictions came together to plan land use and transportation needs that were affected by the booming high tech employment centers. San Jose is also a key player in Silicon Valley—the term used today to describe the geographic area populated by the high tech industry that now reaches from southern Alameda County down through Santa Clara County into Santa Cruz County.[8] San Jose accounts for 40 percent of Silicon Valley's population and 1/3 of its job base. Today, the City is committed to maintaining its pre-eminence as a leader in innovation and actively partners with regional organizations such as Joint Venture Silicon Valley, and the Silicon Valley Leadership Group.

San Jose/Silicon Valley has undergone four waves of economic change since the 1970's, triggered in part by its proximity to Stanford, and by government R&D spending. In these waves San Jose's primary industries have shifted from defense electronics (1950's, 1960's), to commercial integrated circuits (1960's), to microprocessors and personal computing (1970's, 1980's), and most recently to Internet and software programming (1990's).[36]

Since the beginning of 2001, the city has lost over 200,000 jobs and has undergone an intense period of research, reflection and activity in order to re-position itself for the next wave of innovation. As of this writing, the city is seeking to retain and expand its job base by recognizing that the core of global innovation is shifting from semi-conductors and computing to software, innovation services and bioscience. The city has recently adopted a new economic development strategy which includes addressing changing business needs for more dense real estate development and employee needs for housing, retail and cultural activities.[36]

Employment sectors in San Jose can be divided into three sectors: driving industries, business support industries and household serving industries. *Driving industries*, which account for about one third of San

[8] The core of Silicon Valley are the Santa Clara County jurisdictions but this area now extends northward through San Mateo County and into Alameda and south to Santa Cruz.

Jose's job base, are the source of innovation, and also the ones that "drive" the rest of the local, (and global) economy. These businesses sell their goods and services to customers outside of the region. The competitors for these businesses are not located in Cupertino or Sunnyvale or even Austin, but in Singapore, Taiwan, Mumbai and Costa Rica. *Business support industries* include less than one third of San Jose's total employment and sell their goods and services to other companies within the local economy including the driving industries. *Household serving industries* provide goods and services to city residents. Household serving industries account for the remaining third of San Jose's employment. These include retail jobs, and personal services including education and health care.[34]

Table 3: San Jose Employment by Industry, 1993–2002

Group/Industry	1993	1999	2000	2001	2002	Share of Total Jobs in 2002
Driving Industries	64,721	103,029	114,611	133,230	112,413	32%
Business Support Industries	102,513	132,580	136,970	114,968	108,381	30%
Household Support Industries	142,488	120,268	124,305	133,303	134,552	38%
Total	309,722	355,877	375,886	381,501	355,345	100%

Source: Strategic Economics, 2004 Building San Jose's Future[34]

The bulk of jobs in *driving* and *business support* industries are concentrated along a central North-South corridor, and particularly in the North San Jose/First Street area and the Downtown. These areas are home to slightly over half the total employment in the City, and almost three quarters of the employment in Driving Industries. North San Jose accounts for most of the traditional "high tech" employment in San Jose (the Golden Triangle area). Much of this land is also in the Redevelopment project areas, which were established in the late 1970's and 1980's as part of the city's explicit strategy to attract more employment.

Despite the dot.com bust of 2000-01 and the weakness in the job base in San Jose for the subsequent 6 years (described further below), a well known observer of the high tech industry, Anno Saxenian notes that "Silicon Valley is still the best location in the world for the definition of new system architectures, high-level design, management of cross-cultural projects, and basic as well as first-generation engineering research." And

although the global economy has seen the rise of innovation nodes overseas, Saxenian states that "Silicon Valley is…at the core of this rapidly diversifying network because it is the largest and most sophisticated market as well as leading source of new technology." [37]

Jobs/Housing Balance Issues

In Northern California, the main "jobs/housing" balance issue is a shortage of housing to accommodate the influx of workers lured by high paying jobs. This concern resulted in a state funded Inter-Regional Partnership (IRP) between the counties of Santa Clara (San Jose) and the other nine counties in the Association of Bay Area Governments (ABAG) along with counties from two other Councils of Governments adjacent to the job rich Bay Area that are feeling the pressures of growth. The purpose of the IRP was to assist "job rich" areas in increasing their supply of housing and to foster employment in "housing rich" areas. Santa Clara County has the highest jobs to housing ratio of all these counties, and this is expected to increase by 2025 as Santa Clara County will continue to add more jobs than the other counties. The problem will be compounded by employment growth in the rest of the Bay Area, further exacerbating housing shortages and driving up housing prices. In turn, this will fuel housing construction in outlying areas and cause increasing traffic congestion, water and air pollution in all the IRP counties.[38]

Housing shortfalls are particularly prevalent in the full service cities of Santa Clara, Palo Alto and Sunnyvale in Santa Clara County—all high employment areas with high-income residents. These cities have jobs/housing ratios of 3.53, 4.12 and 2.37 respectively, meaning that most of their employees have to commute from farther reaches of the Bay Area. The housing supply in San Jose has also not kept pace with employment even though the city maintains a relatively balanced jobs/housing ratio of 1.55. However, this ratio is projected to grow by 4 percent by 2025 and because of its larger size compared to its neighbors, a shortfall in San Jose affects the entire Bay Area housing situation. Those cities in Santa Clara County which do have strong housing growth projections are the very wealthiest. San Jose plays an important role in housing the less affluent residents of the area.[39]

San Jose has long been concerned about being a bedroom community for these job rich cities as noted previously. The City's 1994 General Plan compares the jobs per employed resident for the Fiscal Year 1991-92 in San Jose at 0.78 to other cities in the area that are over twice that amount—Palo Alto at 1.99, Santa Clara at 2.05 and Sunnyvale at

1.81. The 1994 Economic Development Strategy stressed the need for San Jose to share the area-wide job growth.[40]

The 1994 General Plan also expresses concern about the lack of a solid financial base to provide the services needed for residential growth. It notes "land uses that generate jobs do not require as many public services and typically generate greater revenue than residential." This plan indicated that nearby full service cities had property and sales tax revenues per capita that were two to three times larger than San Jose's figure of $163, with Palo Alto topping out at a hefty $410 per capita at that time. [41] Although San Jose has increased its jobs per employed resident in the past ten years, its per capita taxes are still well below those of their wealthier neighbors. For the Fiscal Year 2002-03, San Jose's per capita taxes were $453 compared to Palo Alto at $777, Santa Clara at $588, and Sunnyvale at $484.[42]

San Jose Economic and Fiscal Conditions in Early 2000s

Ground Zero for the Bust

The year 2001 was the "perfect storm" for San Jose's economic problems. Employment in San Jose started to decline slowly during the first few months of the year and then more rapidly after the stock market lost 25 percent of its value in March. Commercial vacancy rates started to climb. The California energy crisis of 2000 had become the California energy crisis of 2001 and the state-imposed rolling black outs negatively affected Silicon Valley's server farms and global networks. The terrorist attacks in September 2001 dealt the crowning blow to the local economy. Unemployment in San Jose rose from 3.4 percent in 2000 to 5.6 percent in 2001. By 2002 the rate had skyrocketed to 9.3 percent, and held steady at 9.3 through 2003. Statewide, the unemployment rate rose from 4.9 percent in 2000 to a high of 6.8 percent in 2003.[43]

Although the rest of the nation and the state made steps towards economic recovery, the Bay Area continued to see the loss of jobs from 2001 through 2004. During this period, the Bay Area lost 11.3 percent of its job base, despite the fact that California's growth as a whole outpaced the nation.[44] As recently as October 2005, the senior economist at Wells Fargo said, "San Jose is still the weak spot in the State. California's employment growth is running at about 1.9 percent year over year. San Jose isn't even close to that. It isn't even close to what's happening in the East Bay [the Oakland/Berkeley area].[45]

The road back for the Bay Area and the San Jose economy has been sluggish, due to continuing structural changes in the technology sector. While information technology is California's leading industry in

the manufacturing sector, and its leading export industry growing rapidly between 1997 and 2000, it declined by over 30 percent between 2000 and 2003. Computer and electronic product exports fell by 1.2 percent in 2005. [46] Much of this stemmed from reduced purchases of Silicon Valley exports by the rest of the world, as high tech production facilities moved to other states and outside the U.S. [47]

The Siren Song of Industrial Land Conversion

Commercial vacancy rates soared after 2001 as Silicon Valley business leaders responded to new economic imperatives by outsourcing and cutting local costs. One commercial real estate broker noted in 2001 that 'the demand side[for Silicon Valley real estate] has just frozen" while another Silicon Valley agent lamented that as "venture capital and stock market funds dried up, so has the demand for real estate."[48] Silicon Valley tech firms began to dump millions of square feet of industrial and office space. One casualty was Cisco Systems' plan to build a 6.6 million square foot headquarters in San Jose's Coyote Valley. As rents plummeted more than 70 percent, the market value of industrial land also dropped.[49] In 2002, the office vacancy rate topped 15 percent – four times its rate at the beginning of 2001. From 2000 to July of 2002, full service office rents fell from $6.54 a square foot to $2.80 in while those for Research and Development (R&D) property fell from $4.50 per square foot to less than $1.50.[50, 51] By October of 2002, vacancy rates were over 20 percent for R&D, and 18 percent for office, and full service office rents fell to $2.66 a square foot. At the end of 2003, the combined commercial vacancy rate was nearly 25 percent and nearly 70 million square feet of industrial property space was vacant.[52]

The stock market and local commercial real estate values were in free fall, but so were interest rates for long-term housing mortgages. Record low interest rates encouraged homeownership with the result that housing prices in the Bay Area were going through the roof, although both multifamily and luxury home prices in Silicon Valley continued to take a beating. By 2002 commercial and residential land values had flip flopped, and it was becoming more profitable to use commercial and industrial land for residential development. In 2004, vacant industrial land was worth $15 to $20 per square foot, or less than $1 million per acre. Conversely, land zoned for medium to high density residential was worth a minimum of $45 a square foot or nearly $2 million an acre. In some instances residential zoned land was worth $69 per sq ft, or about $3 million an acre. Towards the end of 2004 some residential sites were worth almost $90 a square foot or $4 million an acre.[53, 54]

The disparity in land values caused at first a trickle, then a flood of General Plan amendment applications to convert land designated as industrial to residential. In 2002, the Sobrato Development Company proposed a 4.9-acre conversion in San Jose, and a 5-acre conversion in Sunnyvale. Similar proposals were directed to the city of Santa Clara on a 40-acre site. In the North San Jose area, Palm proposed a conversion for 39 acres and KB Homes proposed a conversion for 57 acres owned by Cisco Systems.[55]

By the end of 2002, the city had nearly 20 conversion applications, and some had already been approved by the Council. Stan Ketchum, Principal Planner in San Jose, said, "We had seen 300 acres convert to housing. This was not large compared to the total of 13,000 acres in the city, but the trend was there. There hasn't been an industrial conversion application that the City Council hasn't liked."[56] Another planner noted, "our council was happy to approve housing anywhere. We have housing based General Plan amendments which are being approved right now in poor locations. Over time they will become slums because the Homeowners Association will fall apart; they have substandard streets, and there is a patchwork of ownership and land uses." [57] The planning, redevelopment and economic development staff were concerned that this trend would result in San Jose's hard won industrial base being lost and San Jose becoming, once more, a bedroom community.

The Changing Business Model for High Tech

The changing nature of innovative business enterprise in Silicon Valley was also putting pressure on existing land use standards, which had been developed 15 years earlier to accommodate the low density, two- and three-story office and research buildings characteristic of the high tech campus at that time. Decreasing space requirements for employees, along with the desire for mid and high rise buildings located in more amenity-rich urban environments were driving requests from high tech firms for higher density, multi-use general plan amendments. As early as 1998, a proposal was made to increase the Floor to Area Ratio (FAR)[9] in North San Jose from 0.40 to 0.45, but this was not approved. The desire for higher density land use was reinforced by the turn to "cleaner" office workspace rather than manufacturing or R&D as global competition pushed firms to outsource these functions to lower cost areas of the United States and overseas.[58]

[9] Floor-to-area ratio: the allowable square feet of development per square foot of land.

Crucial in the decision to stay in San Jose for the remaining high-value functions of the business, was the ability to attract top talent. This in turn required close-in and lower cost housing and employment locations near cultural, environmental, and entertainment amenities. In 2002, Cisco Systems complained to local officials that their engineers could not afford to live in the Silicon Valley and that they wanted to locate jobs near retail services, which was not really an available option at the time. "These engineers work hard and play hard." [59]

Land use changes sought by two of San Jose's largest employers in 2002 and 2003, BEA[10] and EBAY, exemplified the new real estate needs of high tech industries undergoing a changing business model. In 2002, the newly hired economic development staff began to work with these firms to keep them from relocating outside of San Jose. In early 2003 city staff was working to find appropriate sites and density accommodations for these companies in the North San Jose, Golden Triangle area. EBAY wanted to add 1.2 million sq ft of development entitlement to their existing 800,000 sq feet by building 6 to 8 story buildings in an area that only permitted 2 to 3 stories. This would result in an FAR of about 1.0 compared to the existing standard of 0.40. Similarly BEA wanted to go from 1.4 million to 2.8 million sq feet of entitlement with an FAR of 1.4.

To get the right or entitlement to more intensive development, industrial property owners began to use residential development as a bargaining chip. A transfer of development rights program left over in the San Jose municipal code from the dot.com boom allowed any business to develop residential units in exchange for allowances for additional industrial square footage. This provision led EBAY and BEA to find common cause with the residential conversion interests. The companies discovered that they could lobby for residential conversion on their properties, turn the entitlement over to the City, and get increased industrial square footage. [60]

The Fiscal Situation Inside City Hall

As early as 2000, local officials were aware that all was not rosy with the information technology led boom, both nationally and in Silicon Valley. NASDAQ, the tech-rich stock exchange, had been falling since April 2000. Local companies in San Jose and the Golden Triangle were reporting lower earnings and some of them were conducting limited layoffs. Yet for the most part, through the end of that calendar year, the

[10] BEA, Systems, Inc. produces software that serve as platforms for other programs such as networks, customer service programs. It employs about 3,000 people worldwide and 15 percent is owned by Fidelity Investments.

party rolled on. At the end of 2000, employment in San Jose reached a peak while unemployment was at an unprecedented low of 1.8 percent. General revenue collections by the City were strong, and new employees and programs were being added. The new Council that had been elected in 1998 was empowered. Although the city's budget documents for that year contained warnings of what was to come, the sky was the limit.[61]

But by 2001, the mood inside City Hall was grim. As City Manager Del Borgsdorf noted, "I came to San Jose in 1999 and the words 'economic-development' never crossed anyone's lips. However, in 2001, the City Council was demanding, 'Where's our economic development plan?'"[62] The Planning Director, Stephen Haase added, "the Council was scared to death—suddenly they had to cut $50 or $60 million. In 2000 and 2001 everything looked bright – then the bottom fell out. The Council had been spending the skyrocketing revenues…the boom created unsustainable revenues. If you look at the revenues of SJ from 1991 through 2004, a straight line would project where they were in 2004. But the boom caused the newly elected Councilmembers to spend the money." [63]

The situation in 2002 was no better. Within the organization, officials were trying to control costs as the triple whammy of increasing employee costs, reduced local revenues, and additional state incursions into traditionally local revenues became felt. Borgsdorf noted that "we had eleven back-to-back quarters where the sales tax declined compared to the recession of the early 1990's when it declined two quarters in a row." By January 2003, city officials were not sure how much longer it would take before San Jose employment and general fund revenues would stop their slide. The mid-year budget review in January 2003 noted that "conditions and collections continue to worsen and it is still an open question whether we have seen the worst of this downturn, or just how much further away the bottom may be."[64]

Simultaneously, the cost of living in San Jose held steady and even began to rise. Across California, the average cost of living adjustment was about four percent a year, and with major losses in the public employees retirement system (PERS), cities found themselves in intense salary and benefit negotiations with public service unions. Many cities had accumulated a slight general fund surplus over the past years for emergency use, and could only now balance their budgets by dipping into these funds. The State of California was in the same dire revenue situation as the cities--made worse by inflated energy prices in the Enron scandal. The struggle for public revenue funds, which was already unpredictable at best, became volatile in the eyes of many local finance directors by the time that Governor Davis was recalled in 2003.

The Staff Response

The recession and the global restructuring of the economy caused a ripple effect in San Jose that ultimately resulted in city staff undertaking three interrelated efforts. The first was an update of the land use policies in North San Jose—heart of the Golden Triangle. The second effort was the preparation of an Economic Development strategy. The third was the Fiscal Impact study which analyzed, among other things, the fiscal impact of converting industrial land to residential. All three efforts proceeded in tandem with many cross connections and sharing of information and data.

Stung by the loss of Webex and Synaptics to a neighboring jurisdiction with provisions for more intense zoning, and intrigued by the desire from BEA and EBAY to stay in North San Jose if higher FAR's and a more urban setting could be developed, the city embarked on a staff generated General Plan Amendment for the North San Jose area known as Vision North San Jose. This effort started in late 2002, and was approved by the City Council in June 2005.

The city started pulling the pieces together on the Economic Development strategy in 2002. It filled the position of Director of Economic Development which had been vacant for a year. Paul Krutko, from Jacksonsville, Florida hit the ground running in successful efforts to work with BEA and EBAY to find appropriate sites. In January 2003 a young woman with 14 years of experience consulting with local and state governments on their economic development strategies came to work at San Jose. Kim Walesh immediately began to set up a series of focus groups and interviews with over 60 Silicon Valley employers trying to determine what was happening with the local economy and what San Jose could do to staunch the flow of jobs. The Economic Development Strategy, published in November 2003, had results that went far beyond the original directive of the City Council. Its results profoundly affected the General Plan amendment process for North San Jose (above) and resulted in a new attitude inside City Hall about how to assess the employment potential of land along with a realistic assessment about what trying to stay ahead of the innovation game in the 21st century would entail.

The third piece, the Fiscal Impact study was an effort to provide guidance on the industrial conversion issue. It became inextricably intertwined with both the Vision North San Jose, as well as the Economic Development strategy. More on the origin of the Fiscal Impact study is contained below.

Origin of the Fiscal Impact Study

The idea for the Fiscal Impact Study grew out of staff discussions about the issue of General Plan Amendments for industrial conversions. The amendments were being processed on an ad hoc basis and City staff felt that a more systematic approach was needed. The working group included staff from redevelopment, planning, economic development and housing. As Laurel Prevetti, Deputy Planning Director said, "this was the core team, but depending on the issue we would go up and down in the organization. We used an interdisciplinary, multi-level approach. Sometimes we took what we were doing to a standing meeting of department heads--whatever was needed. The organization rallied behind the effort." [57]

This working group recognized that Vision San Jose would result in updated land use policies for the North San Jose area, which in turn would benefit from an analysis of the fiscal impact of alternatives. In addition, Kim Walesh was convinced that the strategies and recommendations of the Economic Development Strategy should not rely only on her focus group and interview information, but should also be based on a quantitative understanding of the structural foundation of employment in the city. The working group also wanted a way to measure the longer-term implications of converting vacant industrial land and/or older industrial areas to residential uses.

Under other circumstances, a General Plan update might have been in order. But there was no interest by Council for this.[56] Instead, the working group needed something quickly. The planning department turned to an item in the budget for consulting services for fiscal performance indicators that where the scope of services had not yet been written but could be tailored to the needs of the working group. Laurel Prevetti brought the idea to the multi-departmental working group which enthusiastically endorsed the concept.

The internal project manager for the study Stan Ketchum noted, that the development community supported the study which was packaged in the context of the economic development strategy. [56] Ru Weerakoon, head of Industrial Development for the San Jose Redevelopment Agency and part of the working group, added, "the study was also done because developers were getting different messages from different staff entities. Several of the internal departments were working together, collaboratively, but the perception of the development community was that they weren't getting consistent messages from the city on the conversion issue. So the City Manager, the Council and Redevelopment Director said, get it together because it's confusing the public."[59]

The City Manager was immediately in favor of the idea and became personally involved throughout the study, meeting with the consultants and insuring that the city departments, such as police and fire, devoted the time needed to come up with cost and service standards. Laurel Prevetti noted that "The City Manager stood behind it and created a strategy team at the department head level so that we had good access to peers."

Stan Ketchum, who was the Project Manager for the Fiscal Impact Study, joined the committee in February 2003 and prepared the first draft of the RFP after working with economic development staff so that it would result in the answers that they needed as well. The draft was then circulated to the committee for comment before being issued in May 2003.[56]

The contract for $135,000 was awarded in June 2003 to Strategic Economics, a Berkeley-based planning firm whose founder had worked a decade previously on San Jose's General Plan comprehensive update. The study team for the effort was a collaborative partnership of four consulting firms: Strategic Economics, Whitney & Whitney, Hamilton, Rabinovitz, and Alschuler, and Urban Explorer. Dena Belzer and Gerald Autler of Strategic Economics were responsible for managing the analysis and providing the local and regional economic context. Bill Whitney of Whitney & Whitney, a Los Angeles-based firm, analyzed market trends, real estate conditions, and projected the demand for various employment and residential land uses. Paul Silvern of Los Angeles firm Hamilton, Rabinovitz, and Alschuler, conducted preliminary analysis of the City of San Jose budget, and developed cost and revenue assumptions for the fiscal model. Cheryl Parker of Urban Explorer offered GIS expertise and worked to create a user-friendly GIS interface for the fiscal model. Additionally, Dr. Karen Chapple, an assistant professor in the Department of City and Regional Planning at UC Berkeley, offered guidance on characterizing the employment types.

Additional Resources

Link to San Jose's General Plan—this gives you the table of contents and the chapters in text form.
http://www.sanjoseca.gov/planning/gp/gptext.asp

Link to San Jose's Office of Economic Development—
http://www.sjeconomy.com/

San Jose's Economic Development Strategy, adopted in 2003:
http://www.sjeconomy.com/publications/pressreleases/economic.strategy.final.pdf

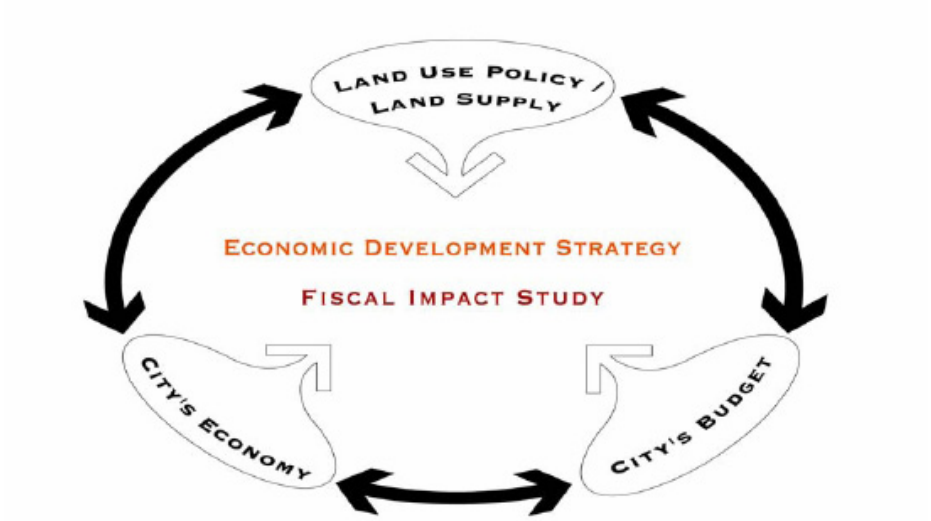
Link to copy of the Fiscal Impact Study:
http://www.sanjoseca.gov/planning/gp/special_study/fiscal_impact_study/San_Jose_Fiscal_Impact_Study_w_modif.pdf

Link to San Jose's Budget Office. This has archives for the budgets and the budget messages. http://www.sanjoseca.gov/budget/

IV. CITYWIDE ANALYSIS: OVERALL EMPLOYMENT AND THE NEED FOR LAND

Though the request for proposals called for a "fiscal impact study" of land conversion issues, it was clear that the issues requiring study extended far beyond the city budget. Realizing that land was finite in supply but critical to San Jose's economic health, city staff was seeking a comprehensive understanding of the long lasting impacts of land use decisions. The team set to work exploring the interplay between economics, land supply, and the City budget. A simple flow chart (Figure 4) came to represent the study's concept.

Figure 4: Flow Chart Used to Introduce the Relationship Between Land Use, Economics, and Fiscal Policy



Excerpt from Building San Jose's Future

The formal product of the Fiscal Impact Study was a 120-page report whose title reflects its ambitious coverage: *Building San Jose's Future: Jobs, Land Use, and Fiscal Issues in Key Employment Areas, 2000–2020*.[34] However, the work also included a wide array of shorter memos and presentations that were designed to educate and involve the development community, City Council, and staff from various city departments.

The study consisted of a city-wide look at employment, fiscal and land supply issues as well as a detailed fiscal analysis of land conversion alternatives in certain subareas of the city. The rest of this chapter will describe the methods and findings of the citywide analysis, while the chapter that follows will explore the methods and findings of the subarea analysis.

Characterizing Employment in San Jose

Kim Walesh's interviews and focus groups with industrial leaders in San Jose revealed that changes were occurring in the high tech industry in the wake of the dot.com bust which would have profound effects on its land use needs in San Jose. The study's first task was to characterize San Jose's employment base and to identify its incidence throughout the city.

The Team worked with city staff using zoning maps such as the one shown in Figure 6, and the boundaries of existing planning and redevelopment areas to carve out 21 major employment areas for further analysis. There were small pockets of employment elsewhere in the city, but these were discarded as being too small.

Once the employment boundaries had been defined, the team set to work creating a GIS program that linked parcel data to business-level taxable sales data maintained by the City, and to confidential jobs data provided by the California Employment Development Department (EDD). This time series employment data was classified by SIC/NAICS codes, and was translated from tax return information, resulting in a highly accurate picture of jobs in San Jose. This step additionally offered a tangible link between the three otherwise only conceptually-related fields that were the focus of the study: land use, employment, and fiscal performance.

However, actually connecting this data from the address level to the parcel level was an extremely long and arduous process, particularly given the presence of multiple addresses on one parcel, and parcel boundaries that did not match up accurately with streets. A program was written to do the translation, but even so some parcel boundaries had to be redrawn by hand. Parcel data had been provided by the Santa Clara County Assessor and included assessed value, improvement value, the size of parcel, and physical information about the existing land uses on-site (such as a 40,000 square foot R&D building, or a three bedroom, 1,400 square foot single family home), as well as General Plan designated land uses.

This database was then used to evaluate how each of the 21 employment areas contributed to the City's economic and fiscal situation. To use this wealth of information the team synthesized the detailed SIC/NAICS industry data into broader categories that reflected each industry's role in the regional economy. Often, industries are classified into two categories, where *basic* represent those firms exporting outside of the region, driving growth in *non-basic* firms that provide supporting services or household goods. Because the City of San Jose wanted to understand the interplay between land uses including retail and residential,

Figure 5: Employment-Related Zoning Categories Used to Define Subareas

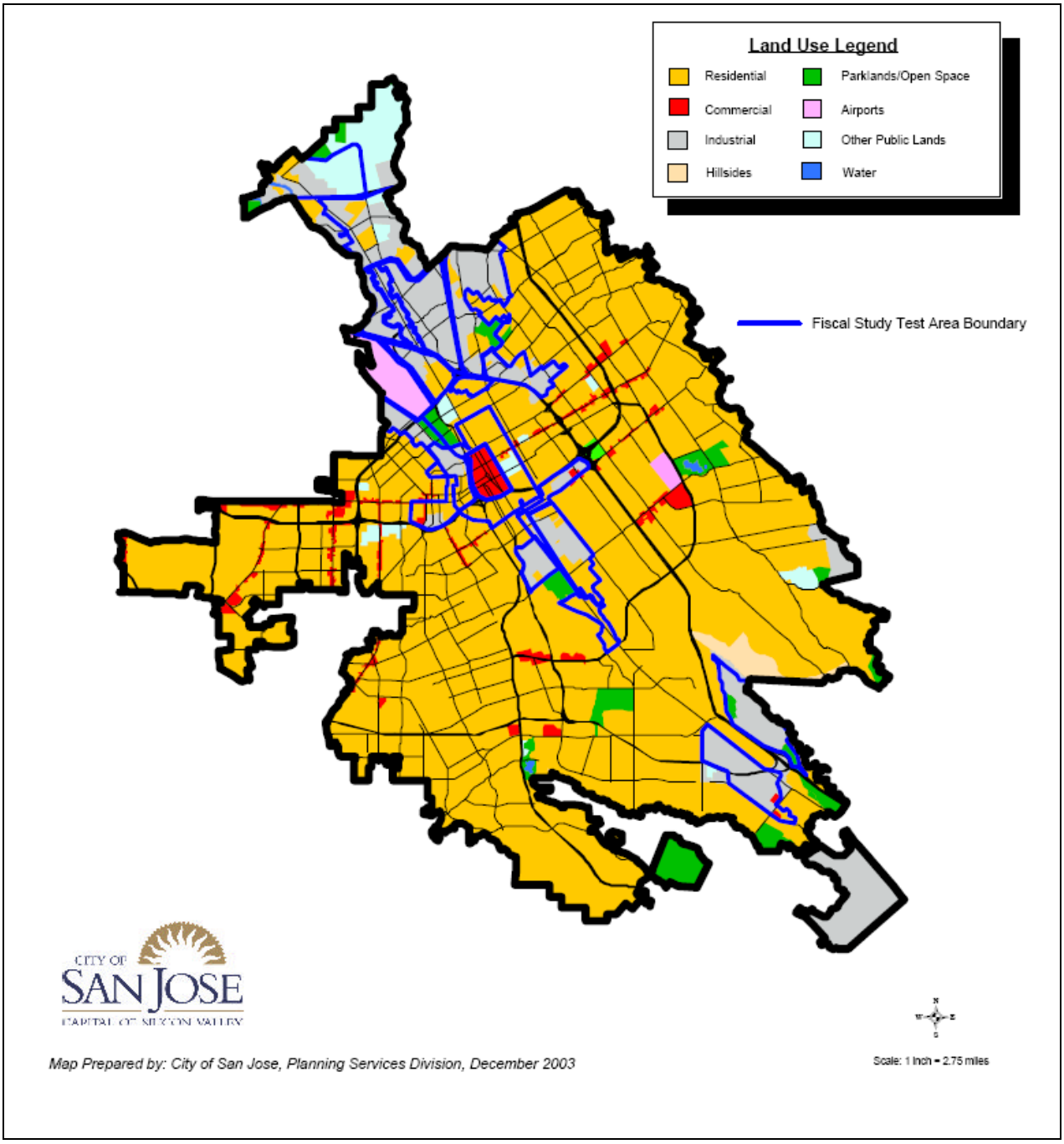
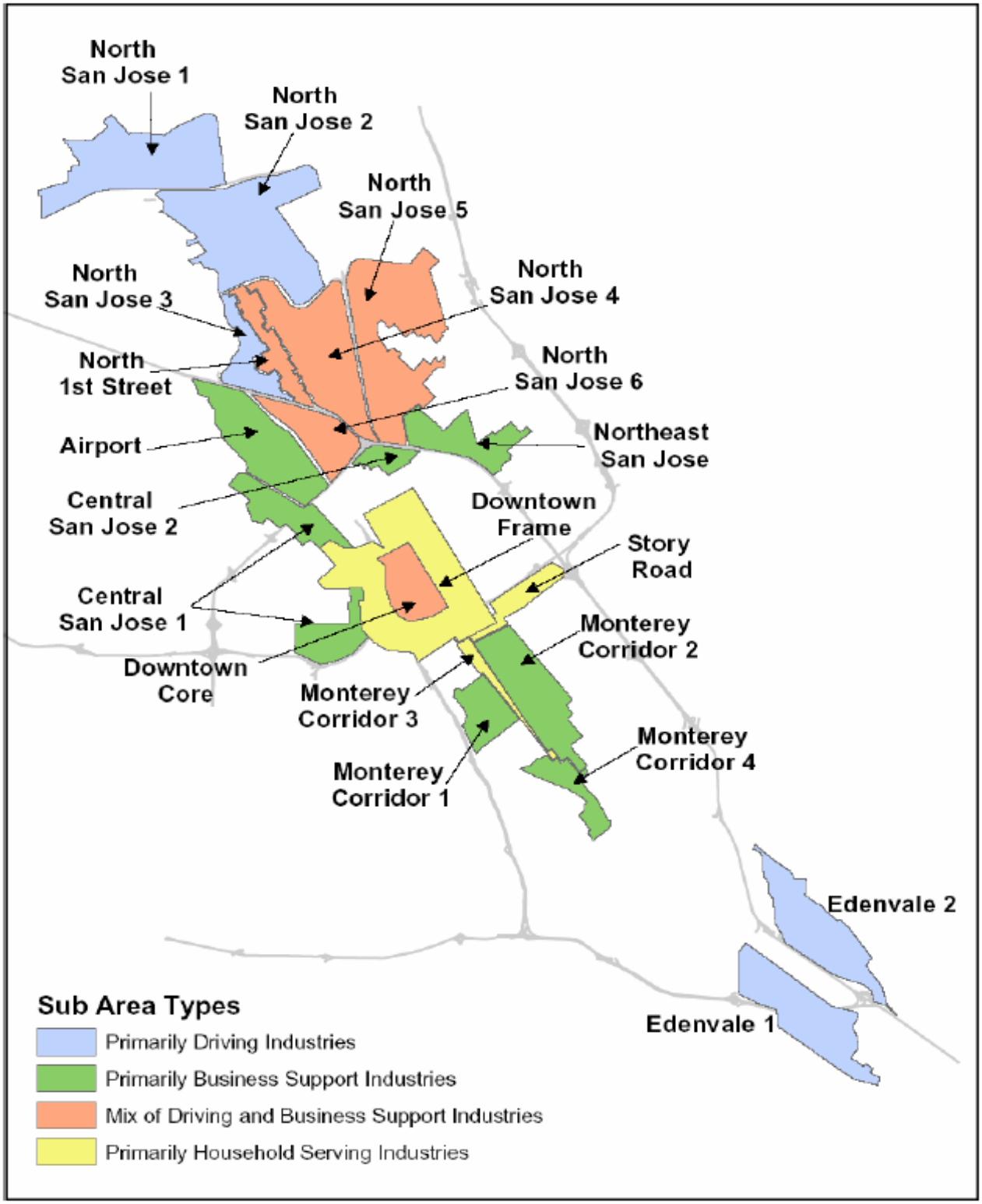


Figure 6: Employment Subareas Classified According to Economic Development Strategy Typology



Excerpted from Building San Jose's Future: Jobs, Land Use and Fiscal Issues in Key Employment Areas, 2000–2020. 2004.

the team used a three-part typology, classifying industries as *driving industries*, *business support* and *household serving*.[11] Each of the employment areas was then evaluated based on whether its job composition was primarily made up of one of these categories (Figure 6).

The findings of this analysis are summarized earlier in the case study.

Comparing Land Supply and Demand

The second part of the city-wide analysis was to develop projections of the demand for land by major category and to compare it to the supply. This was done for employment, residential and other uses at the city wide level. In addition, the employment land projections were evaluated for the 21 employment areas.

The basis for the citywide projections was a regional analysis done by the local council of governments (Association of Bay Area Governments—ABAG) which in turn is based upon statewide projections of populations and employment done by the state's Department of Finance—an organization highly regarded by demographers throughout the country. ABAG's biannual work is considered the authoritative word on employment and population projections for the region.

ABAG produces a highly detailed projection of employment and population growth for each census tract, city, and county in the 9-county Bay Area. Some of the detail includes age breakdowns, and job projections at the 2-digit SIC level for each city in its 9 county jurisdiction. The study team needed to translate ABAG's employment projections into San Jose's employment categories and then to transform these figures into spatial needs. A similar analysis needed to be done for residential and other land uses.

Employment Land Supply Projections

Key to the projections of employment land needs in San Jose was an understanding of development trends through analysis of the real estate market. This typically provides a current snapshot of land supply and demand and generally would not be particularly helpful in making

[11] As previously mentioned, Driving Industries are defined as those that sell the vast majority of their goods and services to customers located outside of the City, bringing in significant revenues that are spent locally and help drive the San Jose economy. Alternatively, Business Support Industries sell their goods and services to other firms within the local economy. Finally, Household Serving Industries provide goods and services primarily to City residents based on the needs of their households rather than their place of work.

decisions about the multi-decade prospects for land development. However, the evidence from city staff that San Jose's major employers were encouraging the City to pursue new, more intensive land use regulations indicated that researching the current market would provide critical insight into future needs of high tech and other employees.

The team conducted focus group discussions with developers and brokers of commercial and industrial land uses along with key businesses to obtain their insights on building occupancy and development trends. These experts agreed that the land use regulations in San Jose's employment areas did not allow the new types of higher intensity buildings that tenants were looking for. In fact, while high tech tenants were already showing an interest in increased development intensities and higher FARs, these experts were unanimous that this was only the beginning of a long term trend that would likely only intensify in the future.

In order to quantifiably translate jobs and population into square feet, units and acres, the team gathered information about recent development in San Jose that reflected the new wave of land uses. This included employment densities (square feet per employees), floor to area ratios (FARs), changes in household size, and densities of new residential development. The team then made assumptions about how these factors would continue to change over the next 20 years, and applied them to the long term job and population projections.

The team used the ABAG projection as their basis for the land demand estimate, translating each 2-digit SIC into a different type of land use, or in some cases multiple land uses (for example, high tech industries would require office, R&D/Flex, and industrial space in different quantities). Employment growth from this projection was translated into short and long term demand for six building types based on the focus groups and market studies: industrial/warehouse, R&D or "heavy office," low rise office, mid and high rise office, retail, and other institutional. Table 4 shows largely the types of industries falling into each of these three categories and some of the typical building types associated with each.

The team had developed a citywide estimate of demand for acres in the six categories described above; the next step was to compare this demand with land supply in each of the 21 employment subareas by employment type. In this way, the City could understand if the steady flow of land conversion applications indicated an overall shortage of land for development elsewhere, and whether it made sense overall to accommodate a wider variety of uses in formerly industrial areas.

Table 4: Three Categories of Industries in San Jose and their Building Types

	Driving Industries	Business Support Industries	Household Serving Industries
Examples of Included Industries	Technology Related Companies Hotels and Other Visitor Related Industries	Construction Transportation Services Wholesale Traders Business Services	Retail Government Education Medical Personal Services
Possible Building Types	Industrial/Light Industrial Warehousing Research and Development Office Hotel	Warehousing Office Retail Hotel	Retail Office

Source: Strategic Economics et.al., Building San Jose's Future (2004).

Projections for Residential and Other Uses

At the same time as the land supply projections were being developed for employment needs, residential needs for land were also projected, again using the ABAG projections as a starting point. The methods used were the normal ones employed for developing housing plans and will not be detailed here—ie, looking at singlefamily and multifamily separately and so on. (The avid housing student should see page 92-97 in the Study for more on these methods.)

The results of the city-wide analysis are presented below.

Citywide Findings

Finding # 1: The total of vacant and underutilized land in the employment sub-areas will meet the City's employment growth needs through 2020, but this assumes more dense land and building development and careful management of the land supply (more efficient use of land).

The study found that there were 13,000 acres of active employment land in the city, which was 13 percent of the city's total land area and contained 54 percent of its total employment, including 72 percent of its highly valued *driving industry* sector. It further found that the 21 areas could be grouped into four categories: those where driving industry predominated, those where business support was dominant, those with a mix of driving and business support, and subareas where household serving industries predominated. This analysis became an important input to the development of the Economic Development Strategy.

The study also found that the majority of new job growth in the next 20 years in San Jose will require construction of new space and this translates into approximately 2,700 acres of new development. Half of the demand for new land is expected to be used for driving and business support industries. The current supply of vacant land in the employment subareas is almost 1,600 acres with 20 percent of this that will never be absorbed because of small parcel size or other factors that make the land unsuitable for development, leaving 1,250 usable. Driving industries and business support industries, the firms for which a location in the active employment subareas is most important, will require 1,450 acres, only slightly more than the usable vacant 1,250 acres. The study concluded that much of the demand for new built space for these uses could be accommodated on vacant land in the active employment subareas.

Demand for retail land –750 acres—and civic uses –400 acres, is substantial but this need not be in the employment sub-areas since retailers and civic uses typically prefer locations near residential uses. High value employment in San Jose is shifting towards a more efficient use of land, with an intensification of space per employee and building density.

Finding # 2: Demand for housing will outpace that of employment uses through 2020, and because of its ability to pay more for land, there will be on-going pressure to find more land to accommodate housing in San Jose.

San Jose currently has 1,800 acres of vacant residential land within its Urban Service area, but demand for housing through 2020 will need 2,900 acres to accommodate the 63,000 new units based on populations projections developed by the state department of finance the local council of governments, ABAG. This estimate is based on the projection that roughly one-quarter of the new units will be singlefamily homes, both detached and attached. Despite their small market share, these units will likely account for two-thirds of the total projected housing land consumption.

During the worst of the dot.com bust, industrial or employment lands plummeted in value. But the study concluded that even when economic recovery occurs, residential uses will be able to afford to outbid non-residential uses. This situation will be exacerbated in San Jose by its jobs-rich but housing-poor neighbors who are not likely to emphasize affordable housing strategies for their communities.

Finding # 3: The overall strength of the economy is a far more important factor in revenue generation for the city than individual development applications or projects.

The study found that from a fiscal point of view, the overall strength of the economy is a far more important factor affecting General Fund revenues in San Jose than small scale development projects. The city's major revenue sources are sales tax, property taxes, redevelopment tax increment, utility taxes and franchise fees, accounting for 56 percent of general funds. These revenue sources are more affected by the economy than by individual development projects.

On the cost side, labor agreements for cost of living and step increases, combined with pension obligations, are more significant drivers than individual development projects. Factors outside the development process are more significant in driving up service costs than individual development projects. Employee salary and benefits are 70 percent of the city's general fund budget. From 2001 to 2003, the aggregate of employee salary increases has outpaced the growth in city revenues. San Jose also faces steep increases in health insurance and workers compensation costs. Finally, the City faces a severe spike in costs for employer contributions to retirement funds (the city is self funded) driven primarily by lower investment earnings than those that were achieved in the boom years.

V. SUBAREA LAND USE AND FISCAL ANALYSIS

Once the information was developed that supported the need for increased development densities by the driving industries; and once the citywide shortfalls in land for residential and employment were quantified, it became possible to further focus the analysis. The next phase of the Study looked at alternate land uses in the subareas from two points of view: planning suitability and fiscal impact. This chapter describes selecting the study areas, analyzing the parcels from a real estate and planning perspective to develop alternate scenarios, calculating their fiscal impacts, and finally, evaluating the results to make recommendations about land use changes in the employment subareas.

Selecting the Study Areas

The subarea analysis was targeted in four of the 21 employment areas of San Jose that reflected the different types of employment found above. These areas also included those where most of the land use conversion applications were occurring as well as requests for increased development densities. These four areas were:

- North First Street,
- North San Jose 2,
- North San Jose 5, and
- Monterey Corridor 2.

North First Street was where BEA and EBAY wanted to locate if increased development intensity were permitted. It consisted of a mixture of *driving* and *business support* industries. North San Jose 2 and 5 were areas where most of the conversion applications were coming from, but also were also two of the city's five employment areas with a concentration of driving industries. Monterey Corridor 2 was primarily business support industries, but was in a completely different part of the city, south of the downtown, and had different building characteristics than the other area. Three of the subareas—North First Street, North San Jose 2, and Monterey Corridor 2—were entirely or almost entirely included in a Redevelopment Project Area, while North San Jose 5 had only a small portion of its parcels under Redevelopment. Household serving industries were not fiscally evaluated since San Jose had no desire to become a mecca for regional shopping needs and felt these types of uses should be part of any residential scenario.

Development of Planning Scenarios

Most fiscal impact studies are done in response to a particular development proposal in an area with little or no development. As a result they compare two scenarios – a development scenario, and a "no growth" scenario. When comparative analysis is done for more general land use planning – such as a specific plan for part of a City – the scenarios compared in the analysis are again created with some other purpose in mind, for example revitalizing an older retail corridor with new development. These types of plans test scenarios to determine which is both economically and politically viable, and to offer multiple choices to a community as part of an outreach process.

This effort used the GIS database and its capabilities to first analyze parcels within the subareas to determine which ones would be the best suited from a real estate market perspective for a range of uses. The second step was to use the GIS to quickly display the selected parcels for the entire subarea to develop a development scenario for the subarea that was optimum from a planning point of view.

GIS is increasingly being used to evaluate infill development potentials for cities. At the state level, for example, John Landis of the University of California recently used parcel-level information to mark sites with a low improvement to land value (I/L) ratio to evaluate the infill potential at the state level for the Dept of Housing and Community Development. William Fulton used a similar method in Southern California.

Development Categories and their Attributes

To create the scenarios, the study team identified a menu of ten development categories based on actual developments in San Jose that were used as prototypes (See Table 5). The team recognized that new development projects were being built at much greater intensities than past projects and the prototypes were selected with this in mind. City staff insured that the proposals for conversion of land use reflected those that were currently on the table as well as other kinds of development that the council might be interested in. The land use scenarios would contain a mixture of these development prototypes, depending on what the parcels could best be used for.

The application of the development prototypes was yet another departure from typical fiscal impact analysis. Whereas usually fiscal analysis scenarios only consider three or four unique development types (residential, office, industrial, retail), the ten types identified below reflected the nuanced development that the Team had found was

happening in the different employment areas, and enabled a much more nuanced analysis all around.

The prototypes were not just used as inputs for the development scenarios. When it came to building the cost and revenue assumptions (fiscal profile) for the fiscal impact analysis, these prototypes again became a critical piece of the analysis for enabling nuanced analysis from beginning to end. This is described further in the following section.

Table 5: Development Prototypes Used in the Ten Fiscal Scenarios

Development Type	Prototype(s)
Single-Family Residential	Project at Mirabeau Lane/Arabelle Way
Townhouses (ownership)	Almaden Lake Homes
Medium-Density Apartments (rental)	Avalon on the Alameda; Almaden Lake Village
High-Density Apartments (rental)	Villa Torino
High-Density Condominiums (ownership)	Paseo Plaza
High Rise Apartments (rental)	Avalon on the Peninsula (Mountain View)
Low-rise R&D/Office	Aspect Communications
Mid-rise Office	The Councourse at San Jose International
High-rise Office	10 Almaden Blvd.
Retail	Westgate; El Paseo de Saratoga

Source: Building San Jose's Future

Building the Development Scenarios

The creation of the land use scenarios was in many ways an art rather than a quantified methodology, in spite of the vast technology and data used by the planners. It required judgement calls about the local real estate market and good planning practice both to identify underused parcels as well as the mix of uses for each scenario.

The first step in building the scenarios was to identify vacant or underutilized parcels in the subareas. The vacant parcel information had earlier been taken from the city's vacant land inventory list (VLI). Underutilization was determined by querying the data base on a wide variety of criteria, including the I/L ratio noted previously, low employment densities and low FAR's. Information was generated for these parcels on the business name, number of employees, the industrial designation, the value of the land or and building and taxable sales.

Once this list of parcels was available, the study team continued to evaluate each parcel in the subarea to determine (1) if the parcel would realistically be redeveloped given political, market, and physical factors,

and (2) which of the ten uses in Table 5 might be developed on the parcel. They selected sites for development to develop scenarios that represented viable market based alternatives for each of the four areas that would explore the policy alternatives facing the city in that area.

The second step of this process involved displaying different mixtures of land uses visually with the GIS to see whether the scenario made good planning sense. The final scenarios were based not only on market forces, but also designed to be alternatives that would represent good mixtures of land uses from a planning point of view for the parcel, neighborhood, and area. Not all of the prototypes were used for each scenario, and not all parcels were assumed to change use or be developed for each land use scenario.

Within a single area, the assumptions about which parcels were developed changed in each scenario, sometimes accounting for market limitations or opportunities on certain parcels (i.e. no retail on side streets with low visibility, transit-friendly uses near rail stations), and sometimes offering sensitivity analysis to an area. For example, the 81-acre State-owned Agnews site in North San Jose 2 was included for redevelopment in one scenario, but was assumed to remain unchanged in another to account for the possibility that the State would sell this major land asset.

Perversely, even though the mapping function of the GIS database offered possibilities for creating alluring visual images of the land use scenarios, the maps were not published because they were parcel specific, and in some cases risked offending individual property owners by making assumptions about development on their sites.

Major Elements in the San Jose Fiscal Model

Once the scenarios were developed in the GIS database, the team transferred key data points about each parcel proposed for change into an Excel-based fiscal model. To transfer from GIS to the fiscal model itself, the team selected out the individual parcels proposed for change, and information on these parcels including current property values, square feet, and employees, as well as anticipated development (selected from the ten development prototypes).

The fiscal model then boiled the many cells of data associated with each parcel in the GIS database into seven pieces of information: type of new development, year to be developed, net additional residential units and population, net additional commercial square feet and jobs, and current property value. With this information and the assumptions (algorithms) in the model, the team could project the annual and one-time costs and revenues for each scenario over a 20-year period.

A typical fiscal impact model varies widely in its scope, level of detail, and scale; consultants charge anywhere from $6,000 to $100,000 for a fiscal impact analysis depending on the level of analysis that is desired. Therefore, prior to creating a fiscal impact model, a series of decisions need to be made about the costs, revenues, and results that are appropriate to simulate and most accurately represent the fiscal impact of each scenario.

The following outlines the range of decisions that must be made in doing a fiscal impact analysis along with the choice for this study. Prior to the development of the scenarios, the study team had put together the fiscal profile for each of development prototypes discussed above that include decisions about some of the following issues. Other of the following decision points are reflected in algorithms used by the model in the calculations.

Ongoing Costs

Which Costs to Measure?

Typically a fiscal impact model measures operating costs represented in the City's General Fund budget. The impact on enterprise funds, such as wastewater treatment facilities, are generally not considered in a fiscal impact study because they balance their costs with appropriate fees for services to be self sustaining. Nor are impacts on non-City services such as schools.

Depending on how their services are provided, City departments will experience various levels of impact from development. Internal departments such as human resources, the City attorney, City manager, and long range planning are not generally expected to incur substantial new costs from development because their costs are fixed. Often, but not always, a fiscal analysis will estimate some small increment of new cost to these "general services" departments that are not directly affected by the addition of new residents or employees.

Likewise, departments that directly serve new residents or employees but primarily maintain public physical amenities such as parks, libraries, and streets, will not experience a significant cost if there is unmet capacity at existing facilities. If a fiscal analysis is measuring impacts of development on greenfield or annexation sites, these departments will incur a great cost, because these types of development often require completely new facilities. However, if the analysis is measuring infill or redevelopment scenarios, these departments will incur little or no cost because existing City streets, parks, and libraries can absorb some of the impact.

Other departments, particularly those whose services are based on population or job growth, will always experience a significant impact from any new development and are therefore included in most fiscal impact analyses.

In the San Jose model, ongoing service costs focused on four departments with capital, and operating and maintenance budgets that are directly impacted by new growth: Police, Fire, Parks and Neighborhood Services, and Library. In San Jose, these four departments accounted for 72 percent of the General Fund departmental expenditures, or 56 percent of the entire General Fund operating budget in the 2002-3 Fiscal Year. These departments are also considered "quality of life" services that are critical to attracting both businesses and residents to the City.

The budgets for all of the other City Departments do not vary significantly with increases in new development (e.g. General Government departments), or they receive fee revenues that are intended to offset service costs (e.g. Public Works, and Planning, Building and Code Enforcement). Those services experiencing a significant impact from new development in the four areas are those that are affected by population growth; for example, the public works department does not incur any major new ongoing expenses as a result of adding new population or employees to the already developed four areas, so it is not included in the ongoing costs. It is unlikely that public works will have to maintain significant new linear miles of road, or new storm drains as a result of new development on existing streets.

Calculate Using Average or Marginal Costs?

Fiscal impact studies often use the "average" cost approach, because it is easier to calculate. In general, the average cost approach consists of dividing each line item of a city General Fund budget by the city population, and sometimes including the non-resident working population expressed as a resident population equivalent. This results in the project being charged for an average share of annual city costs, whether or not city costs actually change as a result of the project. In general, the average cost approach is better suited to analysis of large-scale, long-term public investment decisions involving the City as a whole, such as the fiscal impacts of alternative General Plan buildout scenarios, annexation of large land areas, or development scenarios of large, undeveloped areas.

The "marginal" (or incremental) cost approach, in contrast, examines the degree to which a project's service demands can be accommodated by existing service capacities, or would cause the need for

an expansion of capacity. It relies, therefore, on case study analysis of service capacity for relevant city services, which can be place-specific. The marginal cost approach also ignores cost for services that historically do not actually change as each new project is developed. It is also more consistent with the way traffic and other environmental impacts are calculated. On the other hand, it does not account for the sunk (i.e. already expended) cost of producing any existing surplus service capacity, nor the opportunity cost when a project uses up existing service capacity that will then no longer be available to a future project.

The marginal cost approach is particularly useful for any situation where the fiscal impacts of infill development are being measured, because there are likely cost savings from growing within existing service areas. Conversely, the average cost approach is more useful for greenfield areas with no or limited existing service areas. The San Jose team selected to use the "marginal" cost approach to estimate public service costs, because the analysis is very particular to the City of San Jose's industrially zoned lands and not to the city as a whole.

Calculate Using Trigger Point or Immediate Costs?

Through discussions with city staff and evaluation of service thresholds, the consultant team was able to identify a "trigger point" for impacts to these departments from new development. Assuming city departments could absorb some additional services to new residents and employees with current staffing, the trigger point represents the threshold at which a department would have to undergo expansion of staffing or infrastructure in order to serve any new development. The trigger points for each department are shown in Table 6.

The trigger population varies by area and department because services are provided geographically. Current neighborhood fire stations, police beats, libraries, and parks have a certain existing unmet capacity for additional services within current infrastructure and staffing levels. Monterey Corridor 2, for example, has a lower trigger within the Fire Department because its services are already nearing capacity with existing nearby residents and jobs.

Table 6: Trigger Points for Services and Costs After Trigger is Reached

FIRE	Trigger Population and/or Employees	One-Time Costs	Annual Costs
North First Street	10,000	$5,405,000	$1,845,000
North San Jose 2	10,000	$5,405,000	$1,845,000
North San Jose 5	15,000	$5,405,000	$1,845,000
Monterey Corridor 2	7,500	$5,405,000	$1,845,000
POLICE	**Trigger Population and/or Employees**	**One-Time Costs**	**Annual Costs**
North First Street	5,000	$47,000	$100,632
North San Jose 2	5,000	$47,000	$100,632
North San Jose 5	5,000	$47,000	$100,632
Monterey Corridor 2	3,500	$47,000	$100,632
PARKS	**Trigger Population and/or Employees**	**One-Time Costs**	**Annual Costs**
North First Street	167	$1,600,000	$7,500
North San Jose 2	167	$1,600,000	$7,500
North San Jose 5	167	$1,600,000	$7,500
Monterey Corridor 2	167	$1,600,000	$7,500
LIBRARIES	**Trigger Population and/or Employees**	**One-Time Costs**	**Annual Costs**
North First Street	12,500	$4,000,000	$250,000
North San Jose 2	12,500	$4,000,000	$250,000
North San Jose 5	7,500	$1,500,000	$150,000
Monterey Corridor 2	7,500	$1,500,000	$150,000

Source: Building San Jose's Future

Revenues

Which Revenues to Measure?

The revenues measured in a typical fiscal impact analysis are selected based on the ability of the proposed development to generate them. All fiscal impact studies in California will calculate property tax revenues, but other revenue sources vary depending on the type of development. Sales tax, for example, is often calculated only for development scenarios that include retail development, although in some cases a fiscal model calculates "indirect sales tax," which would be generated from spending by new households in a residential development.

The San Jose model calculated property tax, sales tax, utility user's tax, business license fees, document transfer taxes, and franchise fees and forfeitures at the parcel level. More information on all of these revenue sources can be found in the Appendix.

How to Measure Revenues?

Typical inputs for calculating revenues include estimates of per square foot or unit property values, taxable sales per retail or business square foot, and additional units or square feet for development in the given scenario. These inputs can be used to calculate property, sales, and document transfer taxes. Other sources of revenue are often estimated using average per capita calculations from the existing city budget.

Because the GIS model allowed staff to select from ten unique development types, the San Jose fiscal model calculated revenues in a more detailed way than one might find in a typical fiscal analysis. The team worked closely with city staff to calculate specific assumptions for each of the ten development types, which is shown in Table 7. Because each of these types was based on a prototypical development that had recently been on the market, some of the revenue assumptions were based on the revenue generated from these prototypes. For example, the sales prices of units in Almaden Lake Homes – the prototypical townhouse development – could be used as the estimate of property values for all townhouse development in any given scenario.

One-Time Costs and Revenues

One-time costs include provision of new or expanded infrastructure, as well as the city staff time needed for one-time permit reviews and inspection of new development. One-time infrastructure costs are calculated in the San Jose Fiscal Model as part of the trigger assessment completed in calculating new service costs; for example, in the North San Jose 2 study area, the Fire Department anticipates the need for an additional engine company including safety equipment and a single engine station when the study area adds 10,000 new residents or employees. In Monterey Corridor 2, whose station has the fifth highest call volume in the City, the trigger for a new engine company is only 7,500 new residents.

Many fiscal impact studies do not make note of new infrastructure needs for departments because these costs can be offset by development impact fees, and usually are considered in the City's capital improvement program (CIP). However, the magnitude of these one-time costs can be enormous relative to ongoing service costs, and it is important for cities to anticipate the point at which they might reach this development threshold. Therefore it has been included separately in the fiscal model.

The San Jose Model calculates the following one-time revenues:

- Building and Structure Construction Tax (based on assessed value)
- Commercial, Residential, and Mobile Home Tax (based on assessed value)
- Residential Construction Tax (based on a per unit rate)
- Construction Tax (based on a per square foot or per unit rate)
- Parkland Impact Fee (based on a per unit rate)

Static vs. Dynamic Output

Fiscal impact models either assess a static time period after development is complete or a dynamic time period showing fluctuations in the service costs in each year over the development period. The output of a static model is a revenue and an expenditure number representing a typical year after buildout of a project is complete; if the revenue is greater or equivalent to the expenditure, then the proposed project is fiscally neutral or fiscally positive.

The output of a dynamic model shows annual revenues and expenditures over all years of development and beyond. The resulting year-by-year comparison can factor in changes such as development phasing over time, increases in costs and revenues from cost of living adjustments for city staff, inflation, property turnover, and property appreciation. This type of model can also show when a major cost jumps as a result of population growth triggering large service needs such as a new police beat.

The estimates of change over time provided by a dynamic model are useful primarily for larger scale projects or specific plans with a long term (e.g. 10 to 20 year) development phasing plan, or for projects in a Redevelopment Area. The dynamic model is particularly useful in situations where a project is in a Redevelopment Area where property tax revenue to the city General Fund is frozen over time and diverted to the Agency. In this situation, the model can be used to calculate tax increment revenue, providing Redevelopment agencies with a preliminary estimate of the revenue they might collect to service existing or potential future debt from bonds. This estimate can be particularly useful in the development of plans for new Agency-sponsored projects, in determining how much revenue the Agency might recoup from its investments through property tax.

Most fiscal impact analyses in California rely on the static fiscal model, which offers basic output at a fraction of the cost of a dynamic model. Since the quality of expenditure and revenue inputs varies

considerably by jurisdiction, in many cases the output of any fiscal model is only a best guess, and the lower cost ballpark estimate offered by a static model is sufficient for the needs of planners. However, as one fiscal analysis expert stated, "It is better to be roughly right than exactly."

The San Jose analysis elected to use both types of calculations in order to simultaneously take advantage of the accuracy of the dynamic model, and the easy-to-read results of the static model.

The Results of the Fiscal Model

Criteria for Evaluating Fiscal Model Outputs

The fiscal model for the San Jose study produced an overwhelming wealth of information for each scenario in each subarea, including projected land demand and supply, and fiscal impacts of development. To make sense of this information, and to provide San Jose with recommendations about the land use conversion issue, the team asked a series of questions for each area. While many of the employment areas shared economic and geographic characteristics, the team also recognized that there was no need to try to group areas and apply a single formula to determine the appropriate future land use policy. The team had the information needed to assess each area on its own and make unique recommendations. Each question had a different weight for a different area.

1. ***Geographic Benefit:*** **Is there some geographic benefit or other reason (such as presence of transit) to add housing or retail to the area?** For example, the team found that while North San Jose 1 and 2 both accommodated driving industries, proximity to transit and other factors in North San Jose 2 suggested that a mix of uses including housing and retail might be appropriate. Meanwhile, the team suggested that introducing new uses in North San Jose 1 should be limited, and carefully considered if necessary.
2. ***Impacts of Conversion*****: Would it be possible to add housing or retail without negatively affecting employment growth?** For example, the team found that some areas would indeed experience negative impacts if other uses were introduced, particularly where driving industries and business support industries predominated. In these areas, the team made particular recommendations for sites or sub-areas that could be developed as residential, but discouraged conversion elsewhere. For example, the team suggested that portions of the Airport subarea on North First Street could sustain a mix of uses while other areas could not.

Table 7: Revenue Assumptions for Development Prototypes

Development Type	Density (units/acre or FAR)	Assessed Value (Improvements)	Assessed Value (Total)	Utility Users Tax	Sales Tax	Household Size	Square Feet per Employee	Turnover Period	Indirect Household Sales Tax 1	Indirect Household Sales Tax 2
Single-Family Detached Housing	9.28	$349,913	$534,348	$113.190		3.4		7	$284.65	$185.02
Townhouses (12 units per acre)	12.96	$179,298	$319,005	$72.032		3		7	$244.78	$159.11
Apartments (35 units per acre)	34.87	$157,314	$170,747	$58.435		2.4		10	$204.20	$132.73
Apartments (50 units per acre)	52.66	$163,931	$181,199	$36.148		2.4		10	$222.38	$144.55
High-Rise Condos (100 units per acre)	100.00	$162,413	$307,156	$36.148		2.1		7	$237.49	$154.37
High-Rise Apartments (100+ units per acre)	111.05	$134,337	$160,574	$36.148		2.1		10	$232.58	$151.18
Low-Rise Office/R&D	0.44	$148	$199	$0.188	0.03		350	8		
Mid-Rise Office	0.73	$150	$249	$0.087			300	8		
High Rise Office	4.14	$228	$252	$0.087			300	8		
Retail	0.31	$54	$109	$0.187	3.56		500	8		

Source: *Building San Jose's Future (2004)*

3. ***Future Intensification of Uses:*** **If employment and residential densities were to intensify in the future, would that then make it possible to add housing and retail in areas that would today be at risk of negative impacts?** For example, as residential and employment development intensifies over time, the team found that land supply was not as critical an issue in some areas. In one area south of the downtown, (Edenvale 1) a mix of uses including retail and residential could support driving industries by offering amenities to workers, provided these uses were introduced in combination with driving industry buildings built at a higher FAR.[12]

4. ***Fiscal Sense:*** **If it makes sense to add housing from a geographic, land use, and economic standpoint, what mix and intensity of uses could be added without resulting in a negative fiscal impact?** Where residential development was appropriate from an economic and geographic standpoint, such as the Agnews site in North San Jose 2, the team suggested a mix of uses rather than residential alone, in order to generate a complement of revenue.

Summary of Fiscal Impact Findings about Conversions

Housing, the study found, would be appropriate in seven of the 21 employment areas, and under certain circumstances could be considered in some of the other areas. Housing would not be a fiscal drain and would not negatively impact employment land needs, provided that it occurred in the context of a planning process that would provide for a mix of uses.

Portions of the downtown and midtown areas had already been planned for high density housing and/or mixed use development and the study suggested that these areas might be able to accommodate even higher densities on sites already designated for housing. In addition, available vacant or underutilized land in the driving industries area (the North San Jose area) could support as many as 19,000 units, on only 122 acres, which would satisfy 40 percent of San Jose's total demand for multi-family housing for the next 20 years.

The study also found that the fiscal balance was determined by the overall mix of land uses in the scenario, rather than by a single land use or

[12] In 2006, the San Jose Council approved a residential, office, and retail development proposal on land adjacent to Hitachi headquarters in this area—called Edenvale 1, which would add the same number of jobs as the area's previous zoning in a taller building format, while also incorporating hundreds of new condominium units and retail space.

parcel. Commercial development generates significant one-time revenues but does not usually trigger the same level of capital costs as residential. In general, if there is more commercial/industrial (employment) development than residential, the scenario can yield a positive balance of one-time revenues and capital costs. (This excludes utilities whose revenues are expected to cover development costs.)

The study found that parks are among the largest capital costs associated with residential development. The cost of parks is high, and unlike other costs which only increase when a relatively high population threshold is met, the cost of parks increases more or less in direct proportion to changes in the population. This is due to the city's policy of not making residential development bear the full cost of providing park facilities through the parkland impact fee.[13] Only single-family houses and high density condominiums are able to generate enough one-time revenues to cover the associated parks cost and this is because of the property transfer tax (conveyance tax). Other service costs for residential (and employment) are triggered only by large increments of growth. Fire costs can also be high, but only occur when the level of development is high. Police costs do not make a difference to the fiscal balance for a scenario.

Additional Resources

Link to the Study.

http://www.sanjoseca.gov/planning/gp/special_study/fiscal_impact_study/San_Jose_Fiscal_Impact_Study_w_modif.pdf

Link to San Jose's Vacant Land Inventory.

http://www.sanjoseca.gov/planning/data/vli/default.asp

[13] As a result, the City of San Jose put a parklands bond issue on the ballot which passed. This is the topic of a related case study done for the Fiscal Project by the Lincoln Land Institute by Shishir Mathur of San Jose State University.

VI. OUTCOMES: FISCAL, LAND USE AND ECONOMIC

The Study was undertaken at a critical time in San Jose's history. Staff, Council and the real estate industry were at a point in time where they desperately needed answers to address the rapidly changing tech industry and its needs for land. This was an opportunity to influence basic understandings about the relationship of land use, economic development and fiscal matters. It was also an opportunity to harness the energy of the real estate market to outcomes that would positively impact San Jose's future for decades to come. The following tracks the impact of the Study, first on perceptions, second on Council behavior, and third on the land use plan for North San Jose's Golden Triangle.

Change in Perceptions about Effects of Land Use

Perhaps the most important result of the Study was a sea change in the way that staff, the elected officials and the larger community began to look at the issues of housing, employment and land use. Three important changes in perception occurred. First was the re-characterization of housing from the 1970's stereotype of "always a drag on the local government budget" to one where local governments could pick from a menu of land use choices with varying levels of housing and different kinds of employment uses to produce a revenue neutral solution. Second was the development of a typology for employment that moved away from the standard Bureau of Economic Analysis categories of industrial, retail, services, government and so on, to one more appropriate for the twenty-first century. The third major shift was an appreciation of the changing real estate needs of the restructured high tech industry.

Planning Director Stephen Haase, who had come to San Jose in 2001 after many years in the Development Services Division in San Diego noted that originally 'the emphasis was on 'protect land for jobs'—very old school. We turned it into a new school version—creating jobs. It was a shift in viewpoint. We needed to find out what jobs we wanted to attract, and then figure out what land is needed instead of the reverse." [63] Laurel Prevetti added, "it wasn't just total employment acreage that was important—it was the number of jobs that could be generated."

The finding that under certain circumstances residential, particularly in multi-use areas, was not necessarily unattractive fiscally and was also desired by their major employers, changed the approach of the economic development and redevelopment staff. As Ru Weerakoon, manager of the industrial development for the Redevelopment Agency, said, "Ten years ago, I would not have supported housing [in the industrial areas." Before the findings of the Fiscal Impact Study and the Economic

Development Strategy interviews, she added, "we were crazy land-use Nazi's" about industrial conversions. [59]

Kim Walesh, author of the Economic Development Strategy document and her staff member Nanci Klein indicated one of the most important contributions of the combined efforts was the understanding by the councilmembers about the linkage the economy has to the land and the importance of land use. "The Fiscal Impact and the Economic Development Strategy affirmed quantitatively for the Council what they had been hearing from companies anecdotally about the future of the workspace and high density needs," said Walesh. "Place matters!" Council learned from the series of workshops and study sessions about the results of the two efforts that companies want to build up and so perhaps the needed industrial land is already available in the built up areas of SJ and just needs to be redeveloped. "Some folks are saying that you don't need Coyote Valley[14] for jobs," Nanci Klein added. The Council also learned that whether infrastructure was in place or not influenced fiscal needs. Finally, according to the OED staff, the biggest takeaway for the Council was that it is not a foregone conclusions that housing does not pay its own way—that it depends upon how housing is packaged with other uses, how services are delivered and what kind of housing it is.[58]

Planning staff added that the Study helped them to understand the basic relationship between revenues and costs and where to locate the Public Works infrastructure.

Council Policy Framework for Conversions

City staff translated the detailed recommendations of the Study into a document entitled "Framework for Evaluating Proposed Conversions of Employment Lands" for action by the San Jose City Council.[65] With some qualifications, such as including inserting the words "as a Guideline" into the title, the Council passed the policy on April 5, 2004.[66]

The "Framework" as it is known around City Hall, contains the criteria for evaluating the appropriateness of a GPA conversion application. It also identifies by parcel and area, based on the Study's findings, locations in San Jose where:

[14] Coyote Valley is outside the current urban services area, and has been designated for job generation as needed by the City in plans as far back as the 1970's. During the dot-com boom, a major development proposal was made for the area by Cisco Systems that was later withdrawn.

- Conversions to housing, retail, mixed use or other household serving industries should be promoted or facilitated.
- Conversions to the above should be considered only in certain circumstances.
- The main emphasis should be on preserving "driving" and "business support" industries.

Despite the reservations about the strength of the final version of the Framework, Ru Weerakoon, head of Industrial Development for the city's Redevelopment agency is enthusiastic about its positive impact on the staff and Council. "On Thursdays," said Ru, "we meet as a team with the Department Heads and go over all the development applications that are going to Council. Before the Study, when a conversion proposal would come through, we would call the OED staff and say, quick, help us to see what the impact on the tax increment would look like. They would do a quick and dirty analysis but we really didn't have the data to explore the full impacts. Now the Fiscal Impact Study and the Framework give us the basis of what we can use to put into the Council report for these projects." She added, "This one we use on a daily basis, let me assure you!"[59]

Another former council aide noted that when a conversion application came to Council "we would look at the staff report, spend time with the neighborhood and the developer. We'd go through the letters on it and then the councilmember would decide." He further noted that every staff report after the Fiscal Impact analysis referenced the Framework, so the council staff became familiar with its findings and recommendations.[59]

However important the Fiscal Impact Analysis was in setting the policy for the conversions, on a project-by-project level it seemed to lose its impact. Laurel Prevetti, Deputy Planning Director noted that this watering down of the policy began at the time the Framework was adopted. "It lost a lot of its meaning when it got to Council," she said, "since they didn't want their hands tied. So the Framework was an achievement but not as strong as we had hoped. Intellectually, the Council understood the need for a consistent framework, but on a project-by-project basis they found excuses to approve a huge number of conversions that staff recommended against. This was caused in great part the fact that the district council and term limits makes them look short term, not long term. My staff was frustrated, but our staff reports will influence future planners and they are part of the public record. The City Manager was always very supportive of our recommendations. It was hard though for the staff group—that's the messiness of the legislative process."[57]

In October, of 2005, a progress report to the Council on the impact of the Framework, noted that since its adoption in April 2004 over 600 acres of industrial lands have been converted to residential and other uses, but that 70 percent of them were consistent with the Framework and were supported by staff -- North San Jose Vision, the Downtown Strategy and a General Plan amendment for land in North San Jose owned by Hitachi that staff had expended considerable time and effort on crafting the appropriate mix with the industry. The report indicated that several major General Plan Amendments for industrial conversions were withdrawn both by staff, and by the developers, including the KB/Cisco Systems/Alviso proposal that had been one of the original conversion applications back in 2002.

The report noted another disturbing trend, however. It observed that 'high residential land values have also led to conversion proposals on sites with existing industrial tenants…demonstrating the market forces at work. Originally the conversion issue focused on the health of the City's long term economic base, however, now even the current economic base is threatened by residential uses." The report proposed some changes to strengthen the framework along with other initiatives to strengthen the economic appeal of the industrial lands including streamlined development regulations, the exploration of industrial/commercial condominiums.[67]

Since then an unlikely competitor for industrial lands has emerged on the horizon in San Jose and other jurisdictions in Silicon Valley—local churches seeking to find an area with adequate parking and little neighborhood opposition.

North San Jose Vision 2030

Starting at roughly the same time as the Economic Development Strategy, *Vision North San Jose* was the redesign of the General Plan requirements in North San Jose triggered by the desire of EBay and BEA desire to locate there but with much higher densities than then permitted by the City. New staff from outside the city looked at the FAR for that area and also indicated that NSJ densities were way below the current needs of the high tech industry and their surrounding neighbors. The need to take another look at development standards for North San Jose, and First Street, was reaffirmed by the progress reports from the field during the development of the Economic Development Strategy. Kim Walesh met with city staff throughout the spring and summer of 2003, briefing them, educating them and jointly pondering the implications of the results of her interviews and focus groups with industry leaders in the area.[58]

Planning Director Steven Haase noted that the Economic Development effort had the most impact on NSJ planning effort as it became clear that the changing business model that endorsed higher density buildings in a more urban setting than the previous high tech wave wanted.[63]

Vision North San Jose was also assisted by the Fiscal Impact Study—although perhaps more important than the fiscal constraints for this area, were the traffic impacts which were evaluated from the beginning of the effort. Laurel Prevetti noted that "all three efforts (the FI Study, the NSJ Vision and the Ec Dev strategy) were moving in parallel and they were all happening at the same time. We were all involved in all of the issues concurrently. North San Jose became the pilot where we tried out the new ideas. Andrew was not part of the working team for the Fiscal Impact study but he reported to me and was aware of what we were finding. Most of the NSJ Vision trailed the FI study."

Throughout its progress, Vision NSJ had the consistent support of the Councilmember for that district, who had begun advocating for increased densities in the area beginning in 2002. [55] The Vision San Jose was formally adopted by the Council in November, 2005. It permits greater intensity of development for jobs and residential conversions in designated overlay areas that closely match the areas developed in the fiscal impact study process. The NSJ Plan also includes a development impact fee designed to defray the transportation improvement costs of mitigating some of the negative transportation impacts and a plan for providing water and sewer infrastructure for the increased development.

The new plan for the area is not yet a year old but it has resulted in litigation with neighboring cities over CEQA/traffic impacts. Staff notes wryly that one of these cities "put a shopping center right on our border without considering traffic impacts on us, but now they dispute the traffic imbalance that the NSJ Vision (First Street) will bring."[57] Another staff member is confident that this will be worked out because of the agglomeration benefits to all of Silicon Valley.[59] And, it must be noted, to the health of the California and U.S. national economy as well.

Additional Resources

Link to the Framework as a Guideline, 2004.
http://www.sanjoseca.gov/planning/gp/special_study/fiscal_impact_study/Adopted percent20Modifications percent20to percent20Framework percent20with percent20Logo.pdf

Link to the original staff report for Council Adoption of the Study as the Framework, 2004.

http://www.sanjoseca.gov/planning/gp/special_study/fiscal_impact_study/employment_lands__memo.pdf

Link to documents regarding Vision North San Jose. Most are dated 2005.
http://www.sanjoseca.gov/planning/nsj/

VII. CONCLUSIONS

While this case study describes a particular circumstance for one city in California, it offers a variety of new perspectives on how land use planners throughout the country can think about fiscal issues in a broader and more substantial way. The integrated approach to land supply analysis, economics, and fiscal issues helped staff in the City of San Jose, as well as the consultant team, to realize that when planning, one should be thinking about fiscal issues. Conversely, when considering fiscal impacts, one should think about larger planning goals. The following are some ideas that have emerged from this case study.

The Relationship between Fiscal Impact Studies and Planning

Fiscal planning and fiscal impact analysis are two different concepts. In California, there are only two places where the city budget and land use planning generally overlap: investments in new public facilities, and fiscal impact analysis of new development. Fiscal impact study and fiscally neutral policy requirements for new development result in a piecemeal and reactive system, and often lead developers to create assessment districts and other privately operated financing mechanisms that replace city services rather than working within their bounds. This results in an inequitable two-tier system where certain areas pay more for the same services.

Conversely, good fiscal planning is a proactive process where the city with a greater understanding of how police, fire, public works, parks and libraries operate, long range plans can take advantage of service efficiencies, make better capital improvement plans, and encourage growth in the right places while discouraging growth in areas that are overcapacity. This also helps with long-range public safety plans and other intra-departmental service planning.

Fiscal impact studies can be helpful, when done comprehensively for a larger area and in concert with other analysis. It is possible for a locality to satisfy its need for fiscal neutrality from new development while still incorporating higher level planning goals. The San Jose report provided hard data for policy makers showing that a mix of land use types within an area can create a fiscal balance among some individual projects that have a negative fiscal impact and others with a positive. The presence of commercial or industrial space can balance out the additional costs of housing, which can help a city achieve goals related to workforce or affordable housing without absorbing new service costs. In many of the San Jose employment areas, redevelopment played a major role in determining whether an area could achieve a fiscal balance, but other

unrestricted sources of revenue could also be used to offset costs to the general fund. Utility users' tax for example, in California can provide general fund revenues from office and industrial buildings.

Fiscal impact analyses should not be used in isolation from other kinds of analyses. The general conclusions about land use in San Jose reinforced the report's overall recommendation for planning with a more comprehensive understanding of fiscal and economic issues. From an economic perspective, the report suggested that residential and commercial development in non-driving industries should be redirected to the employment areas that did not presently have a significant presence of driving industries. From a fiscal perspective, the report suggested a redirection of development to areas with existing service capacity, and achieving a mix of uses that could provide a fiscal balance even if any single project were fiscally negative.

The Economic Cycle

In spite of efforts to predict and plan for it, cities can be caught unawares by the economic cycle. One of the most striking conclusions that can be drawn from this story is how vulnerable cities (as well as counties and states) are to larger regional and national economic cycles. At the same time it is clear how inadequate the available financial tools are to deal with the ebb and flow of municipal financial fortunes over the long term. Although financial and budget officials cope with this fact as part of their daily jobs, and are concerned about budget reserves and keeping down long term financial commitments such as pensions and staffing, the general public, politicians and planners, are more concerned with the finances of the moment. This leads to tax cuts or increased spending in the boom part of the cycle, and program cuts, many of which might be haphazard during the bust part of the cycle. This may also lead to the approval of short-term development projects because of an initial burst of revenue to the city that may not be sustained in the future.

Long-term planning efforts exist, and can be built upon. At the local level, general fund revenues are often projected far into the future, but local operating budgets, usually cumbersome to prepare, are only beginning to be prepared on a biannual basis, and capital budgets on a three to five year time horizon. Although it is not possible to predict a boom or bust at the national level, armies of economists employed by banks, investors, the Federal Reserve and others try. In fact, the San Jose budget for 2000-01, prepared well before the bust, correctly read the economic indicators and cautioned against taking on additional on-going obligations. This advice was not heeded, however. Recent requirements

by GFOA to require local governments to project the long term impacts of pension expenses as part of the budget process is a good first step, but unless it is matched by a similar exercise for all general fund revenues and expenditures, this will only result in a fearful approach to budgeting. Local governments are also particularly vulnerable to fluctuating state policies that regulate general fund revenues.

Implementation Issues with Fiscal Planning

City functions are interrelated. When long-range land use planning is done, fiscal issues should be considered. Conversely when long-range budget projections are studies, land use issues should be considered. The most stable, enduring resource that a city controls is its land, and its use should be carefully controlled and planned. Yet, currently the state of the art is proactive, rather than reactive.

City staff involvement is important. Working out a clear understanding of city service functions and growth plans also benefits the development community. In the case of San Jose, planning, building, economic development, and redevelopment staff arrived on the same page about growth, and presented a consistent message about development, making it easier for developers to understand what they need to contribute to the community throughout the entitlement process.

Short-term political interests are a major challenge. While San Jose staff managed to coordinate their efforts to get the Council to approve the fiscal impact study, the biggest impediment to implementing the results of the study has been retaining the interest of the Council even as developers push for unsustainable land conversions. Perhaps the biggest impediment to smoothing out local government expenditures is not the lack of financial tools, but the web of relationships between politicians and their constituents, and the embedded nature of local government staffing. Politicians have a short-term time horizon for budget decisions, while most government staffing decisions (for example, San Jose's staffing budget was 70 percent staff costs) have long-term implications. The general public also shares the politicians' short-term horizon both with respect to financial and land use planning. It is a rare government that is able to take a longer view.

Overall Summary

A detailed long-term look at the fiscal impact of land use decisions in an urbanized area is not common, although with the recent emphasis on infill development, more efforts such as the San Jose one can be anticipated. Such an effort is expensive, not merely in consultant fees but

in the staff commitment required to insure that the study explores policy issues relevant to the locality, but the outcomes can provide valuable insights into how and where new growth should be directed so as to maximize revenue opportunities and minimize costs without jeopardizing community quality.

In areas with strong market demand, it is becoming more common for developers in California to routinely include a fiscal impact analysis in a project application. However, this is not a substitute for the local government taking a comprehensive look, even at a small area, to see how market forces for development can be channeled to achieve local goals. Just as it is important to project out infrastructure costs and revenues for a 30 to 50 year time frame, the planner is in a position to argue for a comprehensive long-term look at costs and revenues on the operating side for likely land use options.

In areas with weak or unclear market demand, detailed fiscal and economic analysis at the sub-city level is an important economic development tool. It enables the locality to explore the implications of alternative land use options on employment and the financial health of the city.

APPENDIX: FISCAL MODEL ASSUMPTIONS AND ANALYSIS

Calculation of Ongoing Revenues

As noted above, the major sources of local unrestricted revenues are the property tax, sales and use taxes, the vehicle license tax, and other local taxes including the utility users' tax, the business license tax, and the hotel tax.

Table A-1: Local Taxes, Rates and Comments

Local Taxes	Current Rate	Comments/Description
Property	1 percent plus voter approved debt service	Levied on assessed value which is purchase price plus 2 percent annual inflation factor.
Local Sales and Use Tax	1 percent to 2.25 percent[1]	Local option; collected with state sales tax of 5 percent.
Vehicle License Fee (VLF)	0.65 percent[2]	Applied to depreciated purchase price. Distributed to cities and counties on basis of population.
Other Local Options	Varies by jurisdiction	Includes utility users tax, business license tax, hotel tax, real estate transfer tax.

Source: Adapted from California Legislative Analysts Office, Cal-Facts, 2004, State-Local Finances, page 13. www.lao.ca.gov.

These revenue sources make up a large share of the General Fund Budget. While the Vehicle License Fee is distributed on the basis of population and therefore calculated on a per capita average, property and sales tax are calculated specifically based on the unique characteristics of the proposed development.

Each revenue source in the San Jose fiscal analysis was calculated separately for each of the given development prototypes at the parcel level. A summary of the revenue calculations is shown in Table 7.

Assessed Valuation

The assessed valuation of property is an input needed in order to calculate many different sources of revenue to the City, most importantly, property tax and one-time fees from new development. The assessed valuation is based on assessor's data for the prototype projects described above in the User Inputs section. In the dynamic fiscal model, the assessed valuation increases at two percent a year under Proposition 13 restrictions, although the actual appreciation rate for property is generally much higher than this. When a property is re-sold, its assessed value

jumps to the actual market value, meaning every time a property turns over the annual appreciation rate over the life of the development becomes relevant again.

The team determined that residential ownership units "turn over" or resell every seven years, multifamily development resells every ten years, and office development resells every ten years. While these rates are based on research including interviews with local real estate brokers, it is still difficult to anticipate when a unit or building will actually sell. Therefore it is assumed that one-seventh of the developed properties will resell each year, which smoothes the revenue received each year even though it may actually be generated in more fluctuating increments.

Property Tax

The property tax is an ad valorem tax that is levied on real property. It is capped at 1 percent of the property's assessed value plus the rate necessary to pay off voter approved bond issues. The average rate across the state in 2002-03 was 1.08 percent although in many new developments the rate may be as much as 1.8 or 2.0 percent in order to cover the cost of services. For example, in Orange County it is over 1.8 percent. One analyst notes that people start complaining if the effective rate is over 1.6 percent, but it is not uncommon in new developments in coastal areas for the rate to be 2.0 percent. In these cases the landowners vote in the election, and if the rate is used to pay off bonds, it cannot be voted out for the term of debt service.[20]

As noted previously property value assessments can be raised by 2 percent per year to cover inflation or to cover the cost of improvements.[15]

The county assessor's office collects the revenues, which are allocated by the state to a variety of governments, including the county, cities, school districts, redevelopment agencies and special districts. On average, the tax on a typical property in California (not in a redevelopment area) is distributed as follows: 58 percent to the state and schools; 16 percent to the city; 15 percent to the county; and 11 percent to special districts that have jurisdiction over the property. These percentages however, vary widely from city to city—the amount that goes to the local city where the property is located can vary from a low of 8 percent to a high of 25 percent. [14]

Property tax in the San Jose Fiscal Model was calculated by estimating the assessed value of new development and applying the

[15] For actual rates by jurisdiction, see California State Board of Equalization, California City and County Sales and Use Tax Rates available at www.boe.ca.gov.

appropriate property tax allocation rate. Of the one percent tax, the City of San Jose is allocated 15 percent. However, many of the tested subareas overlap with City Redevelopment Areas, in which the majority of the one percent tax rate goes to the Redevelopment Agency and the City receives almost no revenue. In this analysis property tax was calculated by multiplying the assessed value by 0.15 percent in non Redevelopment Areas, was assumed to generate no revenue to the City in Redevelopment Areas. Existing development in the subarea has no effect on the property tax calculation, since this analysis is looking for the net change from new development.

The property tax calculation methodology is the typical approach for most fiscal impact studies in California.

Sales Tax

The sales tax is levied on retail sales for tangible personal property in California. Use taxes are similar to the sales tax but are levied on personal property bought outside of California for use in that state. The sales tax does not apply to services, food for home consumption or electricity and gas delivered through pipes, among other exemptions. It is collected by the State Board of Equalization.

The sales tax rate for the state is 6.25 percent, which includes 0.5 percent for county health and welfare programs; 0.25 percent for county transportation programs; and 0.5 percent for Public Safety. An additional 1 percent goes to the cities (with some sharing part of this with the county) making a base sales tax in California of 7.25 percent. In addition, many counties and some cities add sales taxes in increments of 0.25 if approved by a 2/3 city council or board of supervisors along with a majority vote of the citizens. These are often for transit, open space or libraries. The combined city and county rate may not exceed 2 percent. These additional rates cause the total California sales tax to vary from 7.25 percent to 8.75 percent in some areas. In San Jose, the sales tax rate is 8.25 percent

In the San Jose Fiscal Model, the sales tax has been calculated in two ways: as direct sales tax and indirect sales tax. Direct sales tax is generated from sale of taxable items within new development. Retail development is the primary contributor of direct sales tax, but businesses can also sell equipment and other items that generate sales tax for the City of San Jose. Direct sales tax is calculated by estimating annual taxable sales per square foot of occupied retail or business space, and multiplying this number by the total new occupied square feet of space (assumed to be 95 percent of all retail and R&D space).

Indirect sales tax is generated by local residents who shop at surrounding stores. The indirect sales tax is calculated by estimating the share of household income that is spent on taxable goods in San Jose. Income is derived from estimating the necessary annual household income needed in order to purchase or lease a new home, and the captured taxable sales are estimated using consumer expenditure reports from the Bureau of Labor Statistics and retail leakage analysis for San Jose. When a development scenario is mixed use, the indirect sales tax is reduced by 35 percent to avoid double counting spending by new households at new stores.

This approach to calculating direct and indirect sales tax is a typical way of calculating sales tax in fiscal impact studies

Utility Users Tax

This is a tax levied on the users of utilities such as telephones, electricity, gas, water and cable television. They can vary from 1 to 11 percent and for those cities that impose them (over 150 cities in California representing the majority of the state's population), they provide an average of 15 percent of the general revenue and up to 22 percent. This should not be confused with franchise fees, which are the "rent" for a utility to use the public right of way. The ability to levy a franchise fee is tightly regulated by the FCC. [2]

In San Jose, the utility users tax amounts to five percent of the total utility charges. The tax was estimated in the model by looking at data from Pacific Gas & Electric as well as the City's water companies for the different building types. A per-square-foot and per-unit estimate of the utility users tax was calculated for each type.

Business License Fee

This is a fee charged on a local business as part of a local license. The rate is set by the city, which collects the funds. They are usually based on gross receives but they can also be levied based on the number of employees, square footage of the business or as a function of the inventory of the business. If the business operates in more than one location, cities can only tax the portion transacted in that locality. Most cities in California have such a license requirement and have adopted the tax as a general fund tax. They provide on the average about 3 percent of city general revenue but can be as much as 6 percent.[14]

In the San Jose Model, the business license fee was calculated using the City's formula for charging businesses. If a business has less

than eight employees, they are charged a flat rate of $150 each year. The rate increases at various employee thresholds but cannot exceed the maximum rate of $25,150 per year for firms with more than 1,397 employees.

Property or Document Transfer Tax (Known as Conveyance Tax in San Jose)

This is a tax on the transfer of real estate, and is sometimes known as a real estate transfer tax. Cities that impose this fee often use it to subsidize low and moderate-income housing. [2]

In San Jose the conveyance tax rate is $3.30 for every $1,000 of assessed value. While this is officially considered a one-time source of revenue, it is received by the city any time a property is resold. Therefore the assessment rate, appreciation rate, and turnover rate described in the assessed value would apply here.

Both property and conveyance tax were particularly complicated elements of the fiscal model in San Jose. Because property taxes jump, and conveyance tax is levied in the year that a property is sold, the dynamic fiscal model had to factor in each time that a property changed hands, but it could not calculate revenue in interim years. In reality, the resale of property would lead to a choppy jump in property taxes and conveyance taxes every several years, and in particular during strong housing markets such as the most recent boom. However, the model could not factor in this unpredictable jump, therefore the team estimated the number of years between resale of property for each development type (shown in Table 7—Turnover Period), and assumed that a smooth fraction of development would turn over each year. For example, a single family home might be expected to turn over every seven years. If a block of homes was built in 2000, the model assumed that none of them would be resold until 2007, at which point only 1/7 of the homes would be resold each year. This was not a realistic assessment but enabled the model to factor in revenue that was related to turnover of property, without creating increases that might skew the fiscal impact in any given year.

Per Capita Revenues: Franchise Fees and Fines and Forfeitures

Franchise fees and fines and forfeitures are a collection of revenues that can be important to the city General Fund, but that are also difficult to estimate each year. Because these fees will increase with population or job growth, the San Jose Fiscal Model assumes a straight per capita estimate based on the 2002-2003 City Budget.

Revenue Sources Not Included in the San Jose Fiscal Model

A variety of revenue sources were not included in the San Jose Fiscal Model, but are often calculated in typical fiscal impact studies. These revenue sources were not included either because they were not relevant to the possible development types (i.e. transient occupancy tax is only generated by hotel uses), or they were considered unstable sources of revenue at the time of the analysis and were omitted to avoid skewing the fiscal impact study in the long term. This was the case with the vehicle license fee, whose future was uncertain at the time of the fiscal model's development. The omitted sources are:

- *Vehicle License Fee (VLF).* A VLF is a tax imposed by the state on owning a personal vehicle instead of taxing vehicles as personal property as used to be done in many states. Most VLF revenue goes to fund county health and welfare programs (75 percent) and DMV administration charges (14 percent), but the balance is allocated to cities on the basis of population and provides a share of the City budget ranging from 16 to 24 percent. (Planning Commissioner's Handbook)
- *Hotel Tax (Transient Occupancy Tax--TOT).* A TOT is a tax charged on the rental of a room for less than 30 days in a hotel, and each city determines their own TOT rate. Rates range from 4 percent to 15 percent. More than 380 cities in California impose a TOT and for them it provides between 7 and 17 percent of general fund revenues. A TOT is only measured in a fiscal analysis when the development scenario includes a hotel that would directly generate this revenue.[14]

Scenario Results for North San Jose 2

This section provides the results for one of the four employment areas: North San Jose 2, heart of the Golden Triangle.

North San Jose 2 Fiscal and Employment Impacts by Scenario

In North San Jose 2 the three land use scenarios that were evaluated by the fiscal model were: medium density development with residential intensification, residential and commercial intensification, and commercial intensification with low-intensity residential development. **Tables A-2 through A-4** show the scenarios and the static and one-time fiscal impact results.

Scenario 1: Medium-Density Development, Residential Intensification

3,250 new housing units and 1.6 million square feet of new commercial space. This scenario, which adds 7,800 new residents and a smaller but still significant amount of new employees (4,560), yields a large negative balance between capital costs and one-time revenues. This is due to the high cost of parks, which is not compensated for by sufficient revenues from commercial development.

The positive balance of annual General Fund costs and revenues is due primarily to the sales tax from the large amount of retail. The utility tax and business-to-business sales tax generated by the large amount of R&D development also contributes significantly to the annual revenue stream.

Scenario 2: Residential and Commercial Intensification

2,830 new housing units and 2.6 million square feet of new commercial space. This scenario assumes involves much less land than Scenario 1, about 97 acres. In spite of this, the density of both residential and commercial development is high enough that the total amount of new development is larger, with somewhat fewer housing units but significantly more commercial space and employment. In total, the scenario adds roughly 6,290 new residents and 8,310 new employees.

The fiscal outcome of this scenario is nearly the opposite of the first one: the commercial development is sufficient to cover one-time parks costs without triggering excessive service capital costs of its own, but the high annual cost of fire service, combined with the property tax revenues flowing to Redevelopment Agency programs, yields a negative balance of annual costs and revenues, albeit not a large one. The fact that there is very little R&D space compared to the previous scenario also reduces the utility tax and sales tax revenues to the General Fund, although it is not clear that changing this proportion would yield a positive balance, since other annual taxes that are based on the number of employees would be reduced due to lower employment densities.

Scenario 3: Commercial Intensification, Low-Intensity Residential Development

588 new housing units and 1.8 million square feet of new commercial space. This scenario uses the same land area as the previous one, but includes less development overall, and in particular less housing. The development would yield roughly 1,410 new residents and 5,480 new

employees. This is the only scenario of the three to yield positive balances for both capital costs/one-time revenues and annual costs/revenues. This is primarily due to the fact that no new fire station is required.

Overall Comparison of Impacts

The three scenarios show that sufficient commercial development can offset capital costs generated by new housing, but high-density development in Redevelopment Project Areas could not generate sufficient recurring revenues to cover the cost of the new service demands. The commercial intensification in Scenario 3 was fiscally neutral, primarily because new employees generated smaller demand for new services than residents would, and the primary General Fund revenue sources were sales, business, and utility user's tax revenues, which were not impacted by the Redevelopment Area tax increment policy.

Tables A-2 through A-4: Sample Results of Three Development Scenarios for the North San Jose Area

North San Jose 2 Scenario 1						
Subarea Statistics:	Total Acres in Subarea		Baseline Property Tax To General Fund		Existing Employment on Scenario Parcels	
	1376		$0		0	
Scenario Definition:	Total Acres	Acres in Redevelopment	New Residential Development		New Commercial Development	
			Units	Population	Square Feet	Employment
Land Redeveloped in Scenario	173.0	173.0	3,250	7,801	1,595,684	4,559
Single-Family Detached Housing	0.0	0.0	0	0	0	0
Townhouses (12 units per acre)	0.0	0.0	0	0	0	0
Apartments (35 units per acre)	59.7	59.7	2,080	4,993	0	0
Apartments (50 units per acre)	22.2	22.2	1,170	2,809	0	0
High-Rise Condos (100 units per acre)	0.0	0.0	0	0	0	0
High-Rise Apartments (100+ units per acre)	0.0	0.0	0	0	0	0
Low-Rise Office/R&D	61.2	61.2	0	0	1,186,391	3,390
Mid-Rise Office	0.0	0.0	0	0	0	0
High Rise Office	0.0	0.0	0	0	0	0
Retail	29.9	29.9	0	0	409,293	1,169
Fiscal Impact Summary:	Costs (through 2020)		Revenues (through 2020)		Balance	
			Residential	Commercial		
Capital Costs and One-Time Revenues	$75,563,791		$47,381,385	$10,635,691	-$17,546,715	
Annual Costs and General Fund Revenues	$26,417,149		$11,670,191	$21,144,670	$6,397,713	
Revenues (TI) to RDA	n/a		$87,192,968	$47,892,760	n/a	
Costs Analysis:	Police	Fire	Parks	Library	Total	
Total New Costs Through 2020	$2,359,948	$24,543,286	$75,077,707	$0	$101,980,940	
Capital Costs	$85,226	$4,899,653	$70,578,913	$0	$75,563,791	
Annual Costs	$2,274,722	$19,643,633	$4,498,794	$0	$26,417,149	
Scenario Service Population*	12,360	12,360	7,801	7,801	n/a	
Population Trigger	5,000	10,000	167	12,500	n/a	
Remaining Population After Trigger Met	2,360	2,360	119	Trigger not met	n/a	
Population Increment Until Next Increase	2,640	7,640	48	4,699	n/a	

**For police and fire, net of existing employment on redeveloped parcels.*

Exerpt from *Building San Jose's Future*

North San Jose 2 Scenario 2						
Subarea Statistics:	Total Acres in Subarea		Baseline Property Tax To General Fund		Existing Employment on Scenario Parcels	
	1376		$0		0	
Scenario Definition:	Total Acres	Acres in Redevelopment	New Residential Development		New Commercial Development	
			Units	Population	Square Feet	Employment
Land Redeveloped in Scenario	96.9	96.9	2,826	6,285	2,554,950	8,310
Single-Family Detached Housing	0.0	0.0	0	0	0	0
Townhouses (12 units per acre)	0.0	0.0	0	0	0	0
Apartments (35 units per acre)	0.0	0.0	0	0	0	0
Apartments (50 units per acre)	22.2	22.2	1,170	2,809	0	0
High-Rise Condos (100 units per acre)	9.7	9.7	970	2,037	0	0
High-Rise Apartments (100+ units per acre)	6.2	6.2	686	1,440	0	0
Low-Rise Office/R&D	15.3	15.3	0	0	297,046	849
Mid-Rise Office	26.3	26.3	0	0	832,691	2,776
High Rise Office	7.1	7.1	0	0	1,288,257	4,294
Retail	10.0	10.0	0	0	136,955	391
Fiscal Impact Summary:	Costs (through 2020)		Revenues (through 2020)		Balance	
			Residential	Commercial		
Capital Costs and One-Time Revenues	$62,885,946		$44,934,713	$24,701,668	$6,750,436	
Annual Costs and General Fund Revenues	$24,145,069		$10,583,823	$11,927,959	-$1,633,288	
Revenues (TI) to RDA	n/a		$95,411,803	$78,971,278	n/a	
Costs Analysis:	Police	Fire	Parks	Library	Total	
Total New Costs Through 2020	$2,365,064	$22,771,003	$61,894,947	$0	$87,031,014	
Capital Costs	$85,269	$4,810,483	$57,990,194	$0	$62,885,946	
Annual Costs	$2,279,795	$17,960,520	$3,904,753	$0	$24,145,069	
Scenario Service Population*	14,595	14,595	6,285	6,285	n/a	
Population Trigger	5,000	10,000	167	12,500	n/a	
Remaining Population After Trigger Met	4,595	4,595	106	Trigger not met	n/a	

Excerpt from *Building San Jose's Future*

North San Jose 2 Scenario 3

Subarea Statistics:	Total Acres in Subarea	Baseline Property Tax To General Fund	Existing Employment on Scenario Parcels
	1376	$0	0

Scenario Definition:	Total Acres	Acres in Redevelopment	New Residential Development		New Commercial Development	
			Units	Population	Square Feet	Employment
Land Redeveloped in Scenario	95.1	95.1	588	1,411	1,800,846	5,480
Single-Family Detached Housing	0.0	0.0	0	0	0	0
Townhouses (12 units per acre)	0.0	0.0	0	0	0	0
Apartments (35 units per acre)	6.2	6.2	215	517	0	0
Apartments (50 units per acre)	7.1	7.1	373	895	0	0
High-Rise Condos (100 units per acre)	0.0	0.0	0	0	0	0
High-Rise Apartments (100+ units per acre)	0.0	0.0	0	0	0	0
Low-Rise Office/R&D	49.6	49.6	0	0	961,691	2,748
Mid-Rise Office	22.2	22.2	0	0	702,199	2,341
High Rise Office	0.0	0.0	0	0	0	0
Retail	10.0	10.0	0	0	136,955	391

Fiscal Impact Summary:	Costs (through 2020)	Revenues (through 2020)		Balance
		Residential	Commercial	
Capital Costs and One-Time Revenues	$12,607,371	$8,762,695	$13,739,145	$9,894,469
Annual Costs and General Fund Revenues	$1,735,891	$2,316,687	$10,610,679	$11,191,475
Revenues (TI) to RDA	n/a	$23,702,538	$59,104,904	n/a

Costs Analysis:	Police	Fire	Parks	Library	Total
Total New Costs Through 2020	$908,117	$0	$13,435,145	$0	$14,343,262
Capital Costs	$40,322	$0	$12,567,050	$0	$12,607,371
Annual Costs	$867,796	$0	$868,095	$0	$1,735,891
Scenario Service Population*	6,891	6,891	1,411	1,411	n/a
Population Trigger	5,000	10,000	167	12,500	n/a
Remaining Population After Trigger Met	1,891	Trigger not met	75	Trigger not met	n/a
Population Increment Until Next Increase	3,109	3,109	92	11,089	n/a

**For police and fire, net of existing employment on redeveloped parcels.*

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