

**Council Meeting: October 16, 2012**

**SUBJECT: Approval of Budget Modification No. 13 to Appropriate a \$250,000 Contribution from The Irvine Company and \$300,000 from the General Fund Budget Stabilization Fund to Prepare the Peery Park Specific Plan and Environmental Impact Report**

**REPORT IN BRIEF**

Staff recommends that the City Council approve Budget Modification No. 13 to appropriate \$550,000 to prepare a Peery Park Specific Plan with accompanying environmental impact report, market study, and technical studies (e.g. air quality, traffic). The preliminary cost estimate for the project is \$500,000, which would primarily fund a consultant team to prepare the documents. An additional 10 percent contingency of \$50,000 is also requested. The project cost would be refined following the request for proposals (RFP) process and when a contract award is presented to the Council. The City would administer and direct the preparation of the specific plan. Staff estimates that the specific plan would take approximately 18 months to complete after a consultant team is hired. The proposed specific plan study area is shown on Attachment A.

The staff recommendation also includes accepting a contribution of \$250,000 from The Irvine Company, a major property owner in Peery Park, to offset the City's upfront cost to prepare the specific plan. They would receive a credit for this contribution that would be applied to future specific plan fees (if enacted by the City Council) when building permits for new buildings or tenant improvements are approved on their properties. Per Government Code Section 65456(a), a specific plan fee can be adopted to cover the cost of the plan, but cannot be enacted until after a specific plan is adopted.

**BACKGROUND**

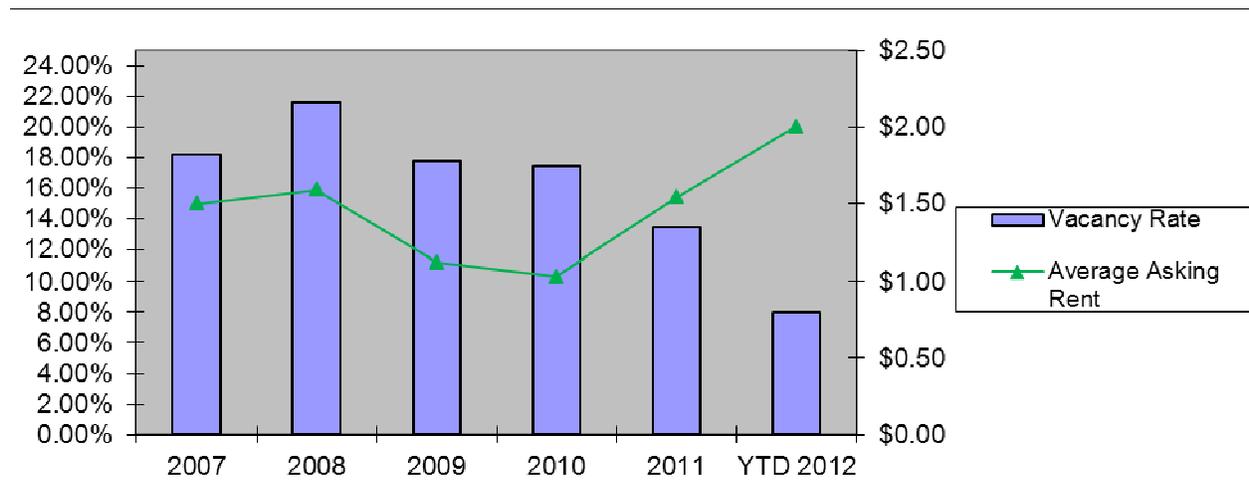
Preparation of the Peery Park Specific Plan has been a longstanding uncompleted study issue; the attached study issue paper (Attachment B) discusses the original rationale for the specific plan. The study issue was highly ranked by the City Council in 2009, but has been deferred in subsequent years when the budgeted funds were transferred to update the

Land Use and Transportation Element (LUTE) and to prepare the Climate Action Plan (CAP).

With the economic downturn in 2008 and the lack of significant development activity in Peery Park, it was not urgent to begin work on the specific plan. In the past year, however, this situation has changed considerably. Interest in higher density Class 'A' office buildings has intensified throughout the City and particularly for properties in Peery Park. Recently approved projects have included several Arrillaga projects at Mary/Maude and Pastoria/Hermosa and the DiNapoli project at Mathilda/Maude. Several additional projects are in planning review. These projects indicate a high interest in Class 'A' office space with a higher floor area ratio (FAR) than the base zoning. Additionally, Apple has leased several buildings in Peery Park for conversion to more intensive office use. At the same time, Peery Park is still an important location for research and development/industrial businesses that occupy existing Class 'B' and 'C' buildings.

Peery Park is an older industrial area that has experienced a high vacancy rate in the past. However, this trend is changing. Currently, Peery Park is experiencing a major decrease in its vacancy rate as well as an increase in the average asking rent (see chart below). The current average asking rent is \$2.00 per square foot and the vacancy rate is about eight percent (8%) as of August 13, 2012.

### Peery Park Occupancy Trend



The predominate zoning for Peery Park is 35 percent FAR which reflects a time when the typical project was a one to two-story concrete tilt-up research and development or industrial building with surface parking. Economic conditions have changed and this zoning no longer reflects current market interest or economic development potential. Given its very favorable location for high-tech and other emerging companies and excellent access via two freeways and

Central Expressway, Peery Park is poised for redevelopment. The specific plan would explore the current interest for more Class 'A' offices while also addressing the continued need for Class 'B' and 'C' space.

## **DISCUSSION**

### **Scope of Specific Plan Study**

With the recent approval of several projects in Peery Park, Councilmembers have expressed concerns about the incremental nature of development review in this industrial area. These projects highlight the deficiency of not having a specific plan or similar policy plan to define land use policies and guide development in Peery Park. A specific plan is advantageous for multiple reasons and could address the following issues:

- The specific plan would provide policies, development standards and entitlement prerequisites to guide project review. A key objective is to clarify the allowable land uses and development capacity for the overall park and individual parcels.
- A comprehensive traffic analysis would be prepared to evaluate the cumulative impacts of more intensive Class 'A' office development similar to Moffett Park. An area-wide traffic impact fee could be established to fund the transportation improvements that will be required to mitigate future development.
- Opportunities for a coordinated and systematic transportation demand management (TDM) program similar to Moffett Park would be explored, including enhanced shuttle bus service to the nearby Caltrain and VTA light rail stations. Discussions would also occur with VTA on opportunities to improve bus service for employees and nearby residents.
- An analysis of cumulative infrastructure needs (including electrical power and possibly recycled water) would be conducted to serve the build out of Peery Park. An assessment district or other financing mechanism could be explored to fund identified deficiencies.
- A sense-of-place study could be included to define pedestrian circulation and streetscape design standards, as well as to justify a sense-of-place fee. The concept of an employment-based activity node could also be explored to create a focal point and central gathering space in Peery Park.
- Architectural and site design guidelines could be developed to ensure high quality and cohesive office and industrial development. Height limits guidelines established by the Federal Aviation Administration and land use restrictions defined in the County Airport Land Use Plan would be mapped. The plan could also include guidelines to promote sustainable office/industrial development.

- A Program EIR and Mitigation Monitoring Program would be prepared to address cumulative impacts. This would facilitate public disclosure of all potential impacts and a comparative analysis of land use options. It could also serve as an economic development tool to streamline environmental review for future development proposals that are consistent with the Specific Plan.
- Residential uses would not be evaluated within the specific plan area, except for possibly a small area on the east side of San Aleso Avenue (east of Mathilda Avenue) where the Council had previously authorized a general plan study to consider changing the land use designation from Industry to Residential. (An application was never received from the property owner/applicant to initiate this study.)

### **Specific Plan Preparation Cost**

Staff estimates that the specific plan and environmental document (assumed to be an environmental impact report) will require a budget of \$550,000. Along with the specific plan and environmental impact report, it includes studying possible infrastructure financing options and preparing supporting technical studies, with the traffic analysis being a major cost item. A market study is also included to position Peery Park to strategically capture future industry and employment needs, while also addressing the needs of existing businesses. A 10 percent contingency fund of \$50,000 is included to cover additional costs that might be incurred during the preparation and adoption of the plan.

Most of the project funds would be allocated for a consultant team to prepare the documents with staff oversight. Once a consultant team is under contract, it would take approximately 18 months to complete the specific plan and environmental impact report. The start date would be dependent on completing or shifting other committed work program items, but could possibly start in early 2013 after adoption of the LUTE/CAP and completion of current 2012 study issues. The process would actively engage Peery Park property owners and businesses as well as surrounding residents. A more firm cost estimate, scope of work and schedule would be developed when a request for proposals is developed and a contract is awarded.

Staff has contacted the major property owners in Peery Park (e.g. The Irvine Company and RREEF) to determine their interest in a specific plan. (See Attachment C for property ownership map.) The Irvine Company owns approximately 15 percent of the property in Peery Park with prominent sites along Mary Avenue. As a company that embraces a master plan approach to land development, they support preparing a specific plan and are willing to contribute \$250,000 toward this effort (see Attachment D). RREEF has indicated they cannot contribute funds for this effort at this time. Although RREEF owns a large amount of property in Peery Park, its parcels are generally

located at less prominent interior locations with less potential for immediate redevelopment.

Since Council adoption of the study issue, staff has pursued grant opportunities to fund the preparation of a specific plan. Most recently, an application for a planning grant was submitted to the Metropolitan Transportation Commission. The competition for grant funds was intense and our application did not score high enough to be recommended for funding. While staff can continue to explore grant opportunities, we are not optimistic that a grant can be secured in the near future. Meanwhile, development interest in Peery Park will continue and the benefits of preparing a specific plan are becoming more evident. Staff recommends authorizing General Funds for the specific plan at this time. While the plan would receive substantial funding from the The Irvine Company, it would be fully prepared under the City's direction.

### **Cost Recovery**

Following adoption of a specific plan, Government Code Section 65456(a) allows the City to recover the cost of preparing, adopting and maintaining a specific plan by enacting a specific plan fee. At the time the City Council adopts the specific plan, staff intends to recommend that the City Council assess a specific plan fee on future development within Peery Plan. The fee would apply to new buildings, building renovations and tenant improvements. It would be calculated and collected at the time of building permit issuance based on construction valuation. This would be similar to how the current City-wide general plan maintenance fee is levied. Attachment E provides a preliminary analysis for establishing a specific plan fee.

As previously mentioned, the initial cost would be defrayed with the agreement of The Irvine Company to contribute \$250,000 toward the preparation of the specific plan. If the Council later chooses to enact a specific plan fee at the time of plan adoption, staff recommends allowing the property owner/developer to receive a credit that would be applied to its future specific plan fees. However, if the Council does not adopt a specific plan or specific plan fee, the property owner would not be eligible to receive any development fee credits.

### **FISCAL IMPACT**

The total estimated cost of the project is \$550,000, which includes a 10% contingency. With the contribution from The Irvine Company, the net fiscal impact on the City would be \$300,000. Staff recommends the funds to cover the cost for preparing the Peery Park Specific Plan be appropriated from the General Fund Budget Stabilization Fund. This additional appropriation can be made without negatively impacting the position of the Budget Stabilization Fund, as savings in the General Fund's operations in FY 2011/12 were greater than anticipated.

Further, and as discussed above, staff proposes that the City Council adopt a specific plan fee when the specific plan is adopted to recoup the cost of the specific plan in the future. Cost recovery would be incremental and gradual and would be dependent on the pace that sites are redeveloped and improved. However, more immediate fiscal benefits would be realized from increased property taxes as assessed market values in Peery Park rise from redevelopment and other property investments. New or expanded companies could also bring in increased business-to-business sales taxes. Over time, this revenue would more than offset the City's initial cost to prepare the specific plan.

Budget Modification No. 13 has been prepared to appropriate a \$250,000 contribution from The Irvine Company and \$300,000 from the General Fund Budget Stabilization Fund to a new project, Peery Park Specific Plan.

**BUDGET MODIFICATION NO. 13  
FISCAL YEAR 2012/2013**

	<u>Current</u>	<u>Increase (Decrease)</u>	<u>Revised</u>
<b>General Fund</b>			
<u>Revenues:</u>			
Contribution from The Irvine Company	\$0	\$250,000	\$250,000
<u>Expenditures:</u>			
New Project – Peery Park Specific Plan	\$0	\$550,000	\$550,000
<u>Reserves:</u>			
Budget Stabilization Fund	\$49,068,397*	(\$300,000)	\$48,768,397

\*This was the expected ending balance for the Budget Stabilization Fund for FY 2011/12 as presented in the FY 2012/13 Adopted Budget. Once FY 2011/12 revenues and expenditures are finalized, this value will be higher to reflect the aforementioned expenditure savings in the General Fund's operations.

**PUBLIC CONTACT**

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's Web site. Major property owners and

applicants with pending or approved projects within Peery Park were also informed of this Council item.

**ALTERNATIVES**

1. Approve Budget Modification No. 13 to appropriate a \$250,000 contribution from The Irvine Company and \$300,000 from the General Fund Budget Stabilization Fund to a new project, Peery Park Specific Plan;
2. Accept \$250,000 from The Irvine Company to offset the City's upfront cost to prepare the Peery Park Specific Plan. Allow the property owner to receive a credit towards future specific plan fees if such a fee is enacted by the City Council.
3. Approve the above alternatives with modifications.
4. Do not initiate preparation of the Peery Park Specific Plan.

**RECOMMENDATION**

Staff recommends approval of alternatives 1 and 2. Approval would allow for completion of a long delayed Council study issue to establish a policy plan to guide development in Peery Park. The cost would be partially covered by an upfront contribution from a major property owner in Peery Park, and the remaining cost could be recovered in the future by assessing specific plan fees on future building construction.

Reviewed by:

Hanson Hom  
Director of Community Development

Reviewed by:

Grace K. Leung, Director of Finance

Approved by:

Gary M. Luebbers  
City Manager

**Attachments**

- A. Peery Park Specific Plan Study Area
- B. Peery Park Specific Plan Study Issue Paper
- C. Property Ownership Map
- D. Letter from The Irvine Company
- E. Specific Plan Fee Analysis

# Attachment A



# Attachment B

## Proposed New Council Study Issue

<b>Number</b>	CDD-11
<b>Status</b>	Pending
<b>Calendar Year</b>	2008
<b>New or Previous</b>	Previous
<b>Title</b>	Preparation of Peery Park Specific Plan
<b>Lead Department</b>	Community Development
<b>Element or SubElement</b>	Land Use and Transportation

### 1. What are the key elements of the issue? What precipitated it?

Peery Park is one of Sunnyvale's older industrial neighborhoods and is located in a prime location that is served by two major freeways as well as Central Expressway. In addition, it is located near the proposed new NASA Ames Research Center (which hopes to focus on the convergence of bio-technology, information technology and nano-technology) and the cluster of research and development facilities in the adjacent area of Mountain View. As a result of the advantages mentioned above, it could be beneficial to the City to focus reinvestment in the area which could result in increased revenues through increased property tax as well as sales and use taxes.

For the City of Sunnyvale to be competitive in the Silicon Valley economy, we must continue to develop new Class A office buildings. The reinvestment to Class A type office buildings is dependent on allowing a higher FAR. Class A office buildings are most likely to be built when allowable Floor Area Ratios (FAR) are at least 50%

The Peery Park study would be in two phases. The first step would be to evaluate the infrastructure (transportation, water, sewer, etc.) and determine what types of improvements may be needed for various levels of development. This information would be presented to the Planning Commission and City Council. The Council could determine that further study is not needed, or direct staff to proceed with the second phase of preparation of appropriate environmental review and documentation and a Specific Plan. This study would look at the type of industrial development in Peery Park (primarily Class B and C) and examine the opportunity to recycle and upgrade the older buildings to Class A structures. Techniques such as higher FARs (such as in the Futures Industrial Sites) and a Development Reserve (as in the Moffett Park Specific Plan) would be evaluated. Other techniques that may encourage reinvestment in the Peery Park area will also be explored. Brokers and property owners who work in the Peery Park area have indicated that in-place zoning and streamlined project reviews are key items for facilitating reinvestment.

This item fell below the line and ranked 18 for 2007.

### 2. How does this relate to the General Plan or existing City Policy?

#### LAND USE AND TRANSPORTATION ELEMENT

**GOAL N1:** Preserve and enhance the quality character of Sunnyvale's industrial, commercial and residential neighborhoods by promoting land use patterns and related transportation opportunities that are supportive of neighborhood concept.

*Policy N1.2.1:* Integrate new development and redevelopment into existing neighborhoods.

*Policy N1.2.3:* Develop specific area plans to guide change in neighborhoods that need special attention.

*Policy N1.8:* Cluster high intensity industrial uses in areas with easy access to transportation corridors.

Action Statement N1.8.1: Require high quality site, landscaping, and building design for higher intensity industrial development.

**3. Origin of issue**

**Council Member(s)** Spitaleri, Swegles  
**General Plan**  
**City Staff**  
**Public**  
**Board or Commission** none

**4. Multiple Year Project? Yes Planned Completion Year**

**5. Expected participation involved in the study issue process?**

**Does Council need to approve a work plan?** No  
**Does this issue require review by a Board/Commission?** Yes  
**If so, which?**  
Planning Commission  
**Is a Council Study Session anticipated?** Yes  
**What is the public participation process?**  
Outreach to property owners, businesses and developers as well as notification of public meetings and public hearings.

**6. Cost of Study**

**Operating Budget Program covering costs**  
242 Land Use Planning; 247 Economic Prosperity  
**Project Budget covering costs**  
**Budget modification \$ amount needed for study**  
\$300,000  
**Explain below what the additional funding will be used for**  
Staff estimates approximately \$80,000 for a traffic consultant to run several land use scenarios and assist in capacity analysis, and approximately \$220,000 for other infrastructure analysis and preparation of an EIR.

**7. Potential fiscal impact to implement recommendations in the Study approved by Council**

**Capital expenditure range** None  
**Operating expenditure range** None  
**New revenues/savings range** \$51K - \$100K

**Explain impact briefly**  
The City has not imposed a fee for recovery of costs for EIR and Specific Plan preparation in

prior Specific Plan efforts, however, these costs can be passed along to the property owners through project review fees during implementation of a Specific Plan.

**8. Staff Recommendation**

**Staff Recommendation** None

If 'For Study' or 'Against Study', explain

**9. Estimated consultant hours for completion of the study issue**

**Managers**

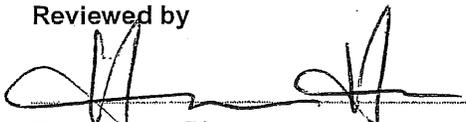
Role	Manager	Hours			
Lead	Ryan, Trudi	Mgr CY1:	25	Mgr CY2:	0
		Staff CY1:	260	Staff CY2:	0
Support	Mc Queen, Brice	Mgr CY1:	30	Mgr CY2:	0
		Staff CY1:	0	Staff CY2:	0
Interdep	Berry, Kathryn	Mgr CY1:	20	Mgr CY2:	0
		Staff CY1:	0	Staff CY2:	0
Interdep	Rogge, Mark	Mgr CY1:	20	Mgr CY2:	0
		Staff CY1:	0	Staff CY2:	0
Interdep	Withhaus, Jack	Mgr CY1:	20	Mgr CY2:	0
		Staff CY1:	0	Staff CY2:	0

**Total Hours CY1: 375**

**Total Hours CY2: 0**

**Note:** If staff's recommendation is 'For Study' or 'Against Study', the Director should note the relative importance of this Study to other major projects that the Department is currently working on or that are soon to begin, and the impact on existing services/priorities.

Reviewed by

  
 Department Director

11/7/07  
 Date

Approved by

  
 City Manager

11-14-07  
 Date

### Addendum

**A. Board / Commission Recommendation**

Issue Created Too Late for B/C Ranking

Board or Commission	Rank	Rank 1 year ago	Rank 2 years ago
Arts Commission			
Bicycle and Pedestrian Advisory Committee			
Board of Building Code Appeals			
Board of Library Trustees			
Child Care Advisory Board			
Heritage Preservation Commission			
Housing and Human Services Commission			
Parks and Recreation Commission			
Personnel Board			
Planning Commission		1 of 7	

**Board or Commission ranking comments**

This study was identified after the Planning Commission considered potential study issues for ranking.

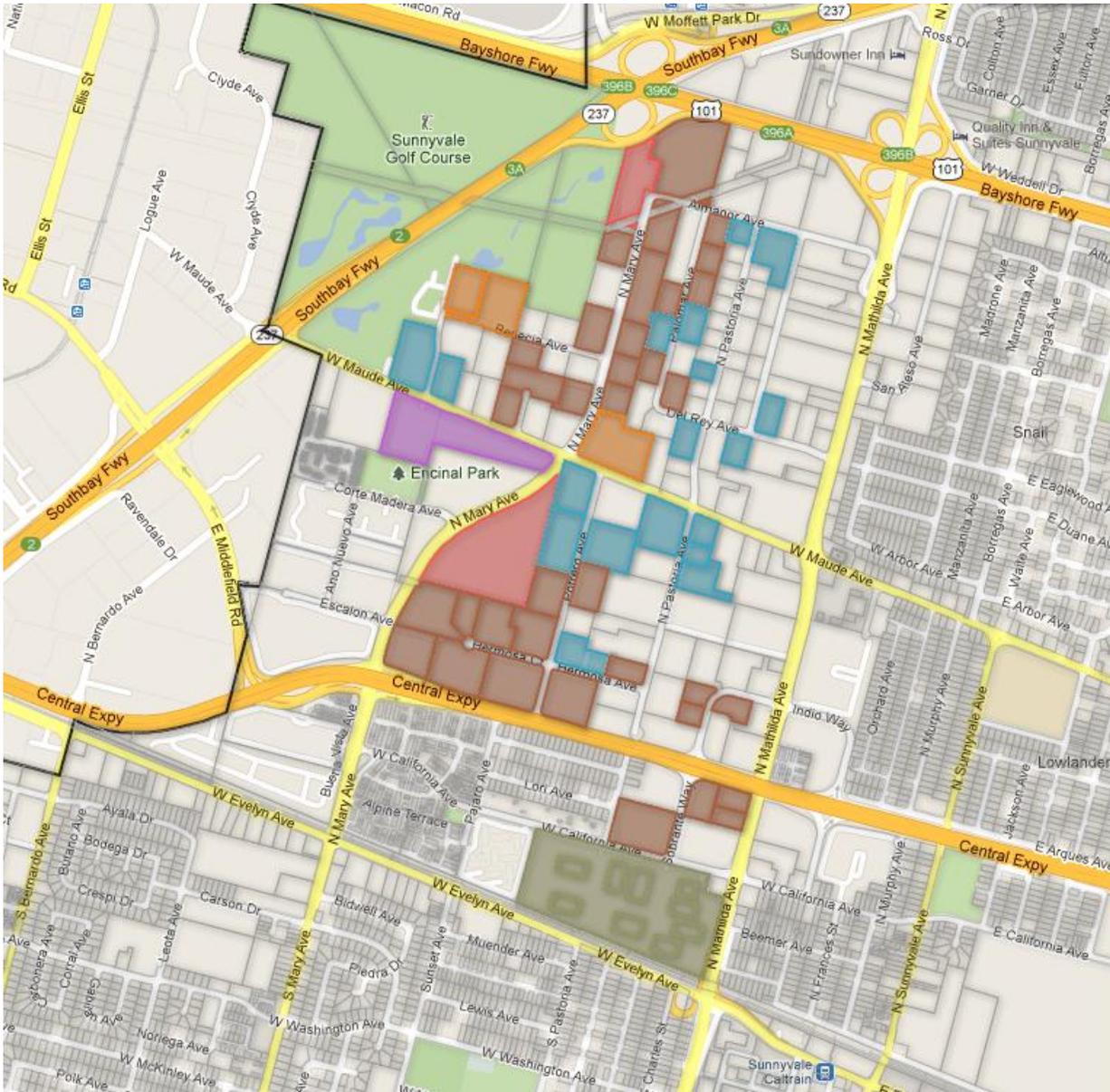
**B. Council**

**Council Rank** (no rank yet)  
**Work Plan Review Date** (blank)  
**Study Session Date** (blank)  
**RTC Date** (blank)  
**Actual Complete Date** (blank)  
**Staff Contact**

# Attachment C

## Top 6 Industrial & Service Property Owners in Peery Park

Irvine Company	3,426,942
Silicon Valley Ca	1,539,488
Sunnyvale Business Park	1,283,228
North Mary	824,355
A & P Children	465,221
Db Real Est Crossroads	446,054



# Attachment D

 **IRVINE COMPANY**  
Since 1864

September 27, 2012

Mayor Anthony Spitaliri and City Council  
City of Sunnyvale  
456 West Olive Avenue  
P.O. Box 3707  
Sunnyvale, CA 94088-3707

RE: Peery Park Specific Plan

Honorable Mayor Spitaliri,

As a major property owner in the Peery Park business area, the Irvine Company endorses the City of Sunnyvale's proposal to prepare a Specific Plan and Program EIR for Peery Park, and has agreed to contribute \$250,000 towards this effort. Our company has a well-recognized reputation for building high quality master planned communities. Additionally, we rarely sell our properties as the Company's business philosophy is to retain and manage our investments long-term. Thus, we are committed to quality developments and maintaining a close working relationship with every jurisdiction where our projects are located.

We strongly support the City's efforts to prepare a Peery Park Specific Plan to provide clear policy direction for future development within the business park. We understand the benefits of a planning effort to comprehensively evaluate transportation, transit and infrastructure options for the area. The study area is currently under-utilized and has significant economic development potential. We visualize the potential of the area evolving into a quality employment center with supporting retail uses to serve employees. Peery Park has excellent access to three major transit corridors (Caltrain, VTA light rail, and El Camino Real), which makes the area ideal for developments with higher floor area ratios (FAR). We are also interested in working with the City and VTA to enhance bus transit along Mathilda Avenue to connect to these corridors.

We understand that upon adoption of the specific plan, a specific plan fee may be enacted to cover the cost of preparing and maintaining the plan. If such a fee is adopted, we request that our upfront contribution for preparing the plan will be credited to future specific plan fees that will be assessed on our properties. The Irvine Company looks forward to working collaboratively with the City of Sunnyvale to transform Peery Park into a vibrant employment center.

Sincerely,



Daniel T. Miller  
Senior Vice President, Entitlement and Public Affairs

Cc: Gary Luebbers, City Manager  
✓Hanson Hom, Director of Community Development

# Attachment E

**Attachment E**

**Preliminary Specific Plan Fee Analysis**

Following adoption of a specific plan, Government Code Section 65456(a) allows the City to recover the cost of the specific plan by adopting a specific plan fee. State law indicates that this fee “shall be established so that, in the aggregate, they defray but as estimated do not exceed the cost of preparation, adoption, and administration of the specific plan.” The fee is required to be prorated in accordance to the “applicant’s relative benefit derived from the specific plan.” The rationale for the fee is that property owners can benefit from a specific plan that can streamline the review of individual projects and reduce the cost of processing project approvals which conform to the specific plan. Time and cost savings could also be realized by tiering off of the adopted environmental impact report for the specific plan.

Staff suggests that the basis for the fee would include the cost to prepare the plan as well as projected staff costs over a 20-year time horizon to maintain and update the plan. The total estimated cost for the specific plan program is as follows:

**Peery Park Specific Plan  
Estimated Program Cost**

<b>Item</b>	<b>Staff Hours</b>	<b>Cost/Hour</b>	<b>Total Cost</b>
Specific Plan w/ Contingency			\$550,000
Staff Costs:			
• Initial Plan Preparation	500	\$100	\$50,000
• Annual Maintenance (20 years @ 100 hours/year)	2,000	\$100	\$200,000
• Update (at 10 years)	1,000	\$100	\$100,000
<b>TOTAL</b>			<b>\$900,000</b>

Assessment of a pro rata specific plan fee on new development could be determined by calculating the amount of new and renovated building space that would be allowed in the Peery Park Specific Plan. For the purpose of calculating a possible specific plan fee, the below estimate of development potential is based in part on the Draft LUTE and projects that are pending or approved but not yet constructed. (This does not assume that the specific plan will authorize this amount of new construction and is used for illustration only.) The amount of potential building space is then translated to construction valuation by applying an estimated construction cost per square foot (based on current building fee tables.) The table below illustrates the methodology for arriving at a pro rata fee for recovering the estimated cost of the specific plan program.

### **Peery Park Development Potential**

<b>Construction Type</b>	<b>Total Square Feet*</b>	<b>Construction Cost/Sq. Ft.</b>	<b>Building Construction Valuation</b>
New Buildings and Additions (w/ Tenant Improvements)	7,500,000	\$130	\$975,000,000
Existing Buildings: Renovations and Tenant Improvements	1,100,000	\$40	\$44,000,000
<b>TOTAL</b>			<b>\$1,019,000,000</b>
Total Specific Plan Program Cost/Construction Valuation			0.00088 or 0.088%

\*Existing building space in Peery Park totals approximately 6.2 million square feet (msf). The Draft LUTE assumes a development potential of approximately 9.6 msf. This represents an increase from average 32% FAR to average 50% FAR. Staff is assuming that approximately 65% or 7.5 msf of the total built-out square footage will be new buildings (includes demolishing existing buildings) for a net increase of 3.4 msf. Of the remaining 35% existing buildings, it is assumed that 50% of this square footage will be upgraded with tenant improvements (2.2 msf x 0.5 = 1.1 msf).

Example: 200,000 square feet new office building with tenant improvements

$$200,000 \text{ sf} \times \$130 \text{ per sf} \times 0.088\% = \$22,880 \text{ Specific Plan Fee}$$

Once the cost of preparing and maintaining the specific plan has been fully recaptured, the fee would need to be reevaluated. While it may take some time to recover the full cost, the City would realize immediate fiscal benefits through an increase in property and sales taxes as sites are redeveloped. The fee would apply to all complete building permit applications received after the effective date of the specific plan fee, including projects that have already received planning approvals but have not yet been submitted for building permits.