

APPENDIX P

Small Business Support and Retention Strategies



MEMORANDUM

To: Ron Golem and Dennis Kearney, VTA
Geeti Silwal and Dennis Dornan, Perkins + Will

From: Strategic Economics

Date: June 25, 2019

Project: VTA's BART Phase II Transit Oriented Communities Strategy Study

Subject: Small Business Support and Retention Strategies for Small Businesses

1. INTRODUCTION

The Santa Clara Valley Transportation Authority (VTA) is leading a Transit Oriented Communities Strategy Study (the "Study") to support the implementation of transit-oriented development in the vicinity of the new BART stations that will be constructed as part of VTA's BART Phase II Corridor extension. These stations are Alum Rock/28th Street, Downtown San José, and Santa Clara. Note that Diridon Station is part of a separate study.

The overall goal of the Study is to provide a comprehensive framework of recommendations for facilitating the implementation of transit-oriented communities (TOCs) in the three station areas shown in Figure 1. TOCs are neighborhoods with walkable places to live, work, shop, play, and learn. These communities strive to provide a diversity of jobs, housing types, and economic opportunities while reducing displacement and providing affordable housing choices. Transit-oriented development (TOD) refers to compact, pedestrian-oriented, mixed-use development in proximity to high-quality, high-capacity transit; individual TOD projects contribute to the creation of great TOCs. The Study will provide VTA and its implementation partners – including City of San José, City of Santa Clara, neighborhood and civic groups, and the development community – with a set of implementation actions to facilitate great TOCs in each station area.¹

Purpose of this Memorandum

This memorandum contains recommendations for supporting and retaining existing small businesses in the three new BART station areas on an ongoing basis, as new TOD projects are constructed both before and after the start of BART service. For the purposes of this Study, a small business is defined as having fewer than 50 employees while a microbusiness is defined as having fewer than 10 employees.

¹ See the Study website for more information and other related documents referenced in this memo: <http://www.vta.org/bart/tocs>.

In general, implementation of the recommendations described in this memo will be led by the Cities of San José and Santa Clara working with local business associations, non-profits, and other local partners, with VTA playing a supporting a role. The strategies described in this memo complement other efforts that will be led by VTA to minimize potential displacement and disruption of businesses related to the construction of the BART Phase II project itself. As part of the BART Phase II project, VTA is in the process of developing a Relocation Plan for businesses that are currently located on sites that the transit agency will need to acquire in order for the transit project to be completed. VTA is also developing a Small Business Assistance Study and Marketing and Assistance Program (MAP) that will provide marketing and technical support to businesses throughout the district that are affected by construction of the transit project.

Figure 2 below summarizes the potential impacts that could occur in the pre-construction phase of VTA's BART Phase II, the construction phase of VTA's BART Phase II, and over the longer-term as additional TOD occurs in the station areas (the subject of this memorandum).

Process

The recommendations in this memorandum were developed based on findings from Strategic Economics' *Small Business Strengths, Weaknesses, Opportunities, and Threats (SWOT) Analysis* report. The *SWOT Analysis* assessed the opportunities and challenges facing small businesses in the corridor, drawing on data analysis, a review of previous documents, and interviews with business owners, merchant association representatives, City staff, and other local stakeholders.² The recommendations of this memo have also been vetted with City staff, as well as stakeholders on VTA's BART Phase II Community Working Groups.

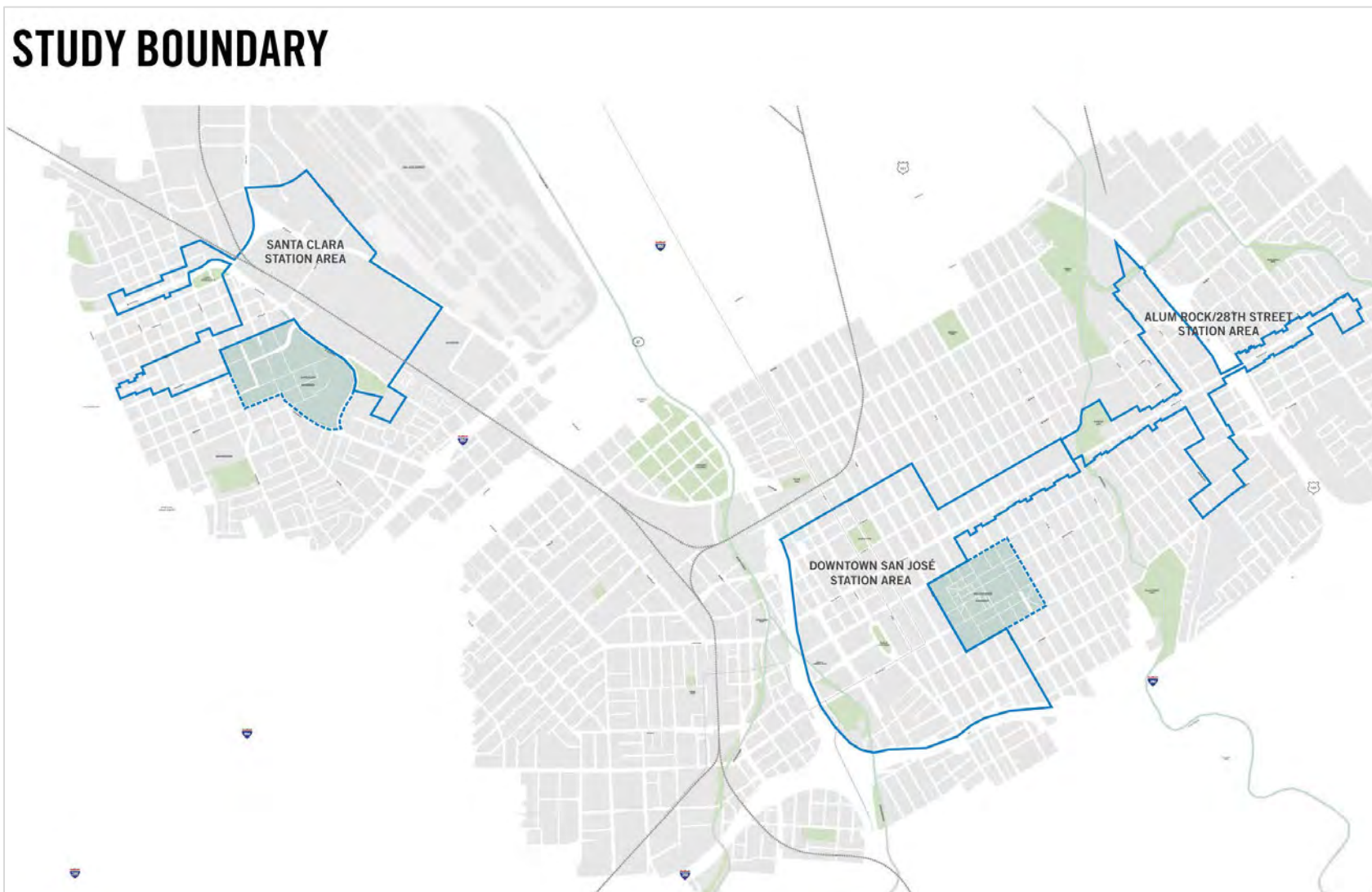
What This Memo Contains

The remainder of this memorandum contains the following sections:

- Section 2: Summary of strategies.
- Section 3: Overview of the potential benefits and challenges of TOD for small businesses.
- Section 4: Findings and recommendations for the Alum Rock/28th Street station area.
- Section 5: Findings and recommendations for the Downtown San José station area.
- Section 6: Findings and recommendations for the Santa Clara station area.

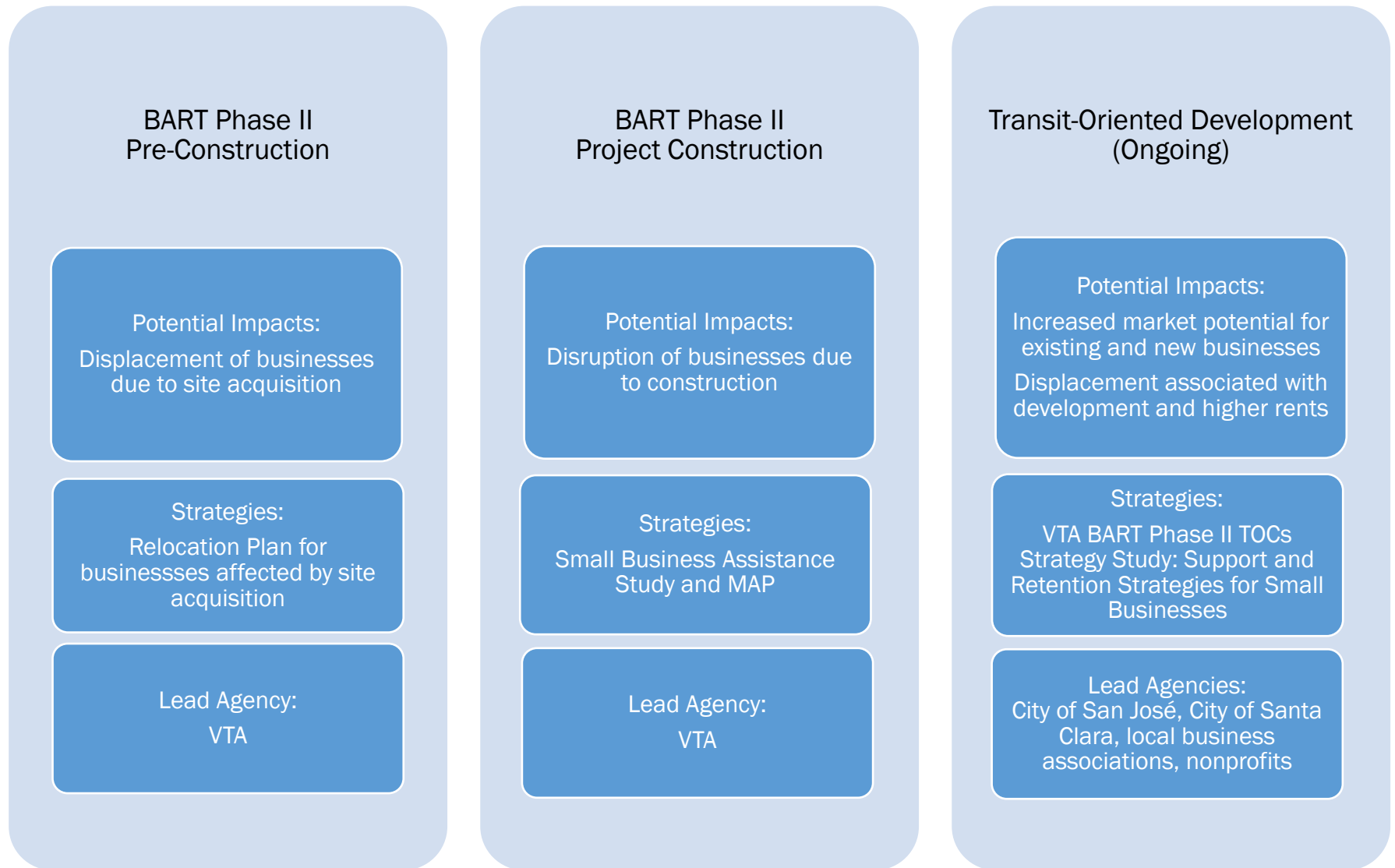
² The appendix of this memorandum lists stakeholders who were interviewed for the analysis.

FIGURE 1. VTA BART PHASE II TOCs STRATEGY STUDY STATION AREAS



Note that the East Santa Clara Street Urban Village is included in the Downtown San José Station Area.
Source: Perkins + Will, 2019.

FIGURE 2: POTENTIAL IMPACTS OF TRANSIT AND TOD FOR SMALL BUSINESSES



2. SUMMARY OF STRATEGIES

Figure 3 summarizes the recommended strategies for each of the three station areas, including the anticipated role (lead or support) of the implementation partners. Each of the strategies is described in greater detail below in subsequent sections of this memo, including more detailed recommendations for implementing each strategy. As discussed above and shown in Figure 3, most of the recommendations described in this memo will be led by the Cities of San José and Santa Clara working with local business associations, non-profits, and other local partners, with VTA playing a supporting a role.

The recommendations in this memo are intended to serve as a framework for the implementation process. As a next step, the Cities (with VTA support) should consider developing a more detailed work plan, including prioritization and timeframes for specific action items.

FIGURE 3. SUMMARY OF SMALL BUSINESS SUPPORT AND RETENTION STRATEGIES FOR VTA'S BART PHASE II STATION AREA

STRATEGY	IMPLEMENTATION PARTNERS
Alum Rock/28th Street Station Area	
1. Provide targeted assistance to small and microbusinesses that are displaced by new development	Lead: City of San José Support: Alum Rock Business Association, Other Non-Profit Partners
2. Incentivize new development to provide appropriate space for small, locally-owned businesses	Lead: City of San José Support: Private and non-profit developers
3. Expand the capacity of the Alum Rock Business Association	Lead: City of San José and Alum Rock Business Association Support: Other Non-Profit Partners
4. Continue and expand City programs to retain and support small and microbusinesses	Lead: City of San José Support: Non-Profit Partners, VTA
5. Promote the District's Latino and Portuguese Cultural Identities	Lead: City of San José and Alum Rock Business Association Support: Non-Profit Partners, VTA/BART
6. Invest in public realm improvements to support a pedestrian-friendly environment	Lead: City of San José Support: VTA (on VTA properties)
Downtown San José Station Area (a)	
<i>Downtown Core</i>	
1. Implement the Downtown San José retail Strategy (b)	Lead: City of San José Support: Non-Profit Partners
2. Continue to market Opportunity Zone investments in Downtown San José that will benefit small businesses	Lead: City of San José Support: Non-Profit Partners
<i>East Santa Clara Street Urban Village (7th to 17th Streets)</i>	
1. Provide targeted assistance to small and microbusinesses displaced by new TOD	Lead: City of San José Support: East Santa Clara Street Business Association, Other Non-Profits
2. Incentivize new development to provide appropriate space for small, locally-owned businesses	Lead: City of San José Support: Private and non-profit developers
3. Expand the capacity of the East Santa Clara Street Business Association	Lead: City of San José and East Santa Clara Street Business Association Support: Other Non-Profit Partners
4. Continue and expand City programs to retain and support small and microbusinesses	Lead: City of San José Support: Non-Profit Partners, VTA
5. Invest in public realm improvements to support a pedestrian-friendly environment	Lead: City of San José Support: VTA (on VTA properties)

FIGURE 3, CONT'D

STRATEGY	IMPLEMENTATION PARTNERS
Santa Clara Station Area	
1. Incentivize new development to provide appropriate space for small, locally-owned businesses	Lead: City of Santa Clara Support: Private and non-profit developers
2. Implement incentives for retaining long-standing businesses as part of the El Camino Real and Downtown Santa Clara Precise Plan processes	Lead: City of Santa Clara
3. Expand the capacity of the Downtown Santa Clara Merchants Association	Lead: City of Santa Clara, Downtown Santa Clara Merchants Association
4. Enhance the pedestrian and transit connections between the station, Downtown Santa Clara, and other existing commercial nodes	Lead: City of Santa Clara, City of San José

(a) Available on the City of San José's City Council meeting summary of March 12, 2019:

<https://sanjose.legistar.com/LegislationDetail.aspx?ID=3871633&GUID=CE4BB113-181A-4F8B-9D26-0AD97F5B71F0&Options=&Search=>

(b) Note that the Downtown San José station area includes two distinct business clusters, the Downtown Core and East Santa Clara Street between 7th and 17th Street, which require different strategies.

Source: Strategic Economics, 2019.

3. TOD AND SMALL BUSINESSES

As discussed in the Introduction, this memo is focused on maximizing the benefits and mitigating the challenges for small businesses as TOD is implemented in the station areas. The potential impacts of TOD on small businesses are discussed in more detail below.

TOD will create economic opportunities for small businesses. Businesses are likely to benefit from an increase in foot traffic and buying power in the station area as new TOD brings additional workers and residents to the station areas. In addition, bicycle and pedestrian improvements will make the streets more pedestrian-friendly, which helps support successful commercial districts.³ Improved transit service can also make it easier for businesses to recruit and retain workers.

At the same time, future development may result in displacement and/or disruption to existing businesses. Business districts are constantly changing as some small businesses close and others open. However, the development of TOD projects may accelerate the pace of change. For example, construction of new TOD may displace businesses located on development sites, disrupt access or visibility to businesses on neighboring parcels, and create other negative effects (e.g., noise, vibration, dust). There may also be land use conflicts between new TOD and existing uses; for example, new residential and office uses may conflict with light industrial businesses and auto repair uses that create noise, vibration, or other impacts. Finally, while new development brings new shoppers, changing demographics can also attract new retail (e.g., high-end boutiques, upscale restaurants) which may contribute to higher rents throughout the district.

Small, local businesses may find the commercial space provided in new buildings to be unaffordable or not usable. Newly developed retail space is sometimes too expensive for small businesses and may require long-term leases that independent businesses cannot commit to. In addition, ground floor spaces in new mixed-use buildings are often designed for larger, national tenants and may be challenging for small businesses to occupy. For example, new ground floor retail spaces may be too large for some small businesses or require costly tenant improvements.

This memorandum recommends a variety of recommendations for supporting and retaining small businesses in the station areas to maximize the potential benefits of TOD and mitigate potential disruption and displacement effects. These recommendations address ongoing issues such as building the capacity of the local business associations, expanding City and nonprofit business assistance programs, preserving and promoting local cultural heritage, investing in public realm improvements, and changing land use policies and zoning to incentivize developers to create space that is appropriate for small businesses.

³ “D.C. Vibrant Retail Streets Toolkit”, Streetsense for the District of Columbia Office of Planning, 2013, Available at: <http://www.downtowndevelopment.com/pdf/Vibrant%20Streets%20Toolkit%20F.pdf>; “Economic Benefits of Sustainable Streets”, City of New York Department of Transportation, 2014, Available at: <http://www.nyc.gov/html/dot/downloads/pdf/dot-economic-benefits-of-sustainable-streets.pdf>; “Ten Principles for Rebuilding Neighborhood Retail”, Urban Land Institute, 2013, Available at: http://uli.org/wp-content/uploads/ULI-Documents/TP_NeighborhoodRetail.ashx_.pdf; “The 20 Ingredients of an Outstanding Downtown”, Destination Development Association, 2013, Available at: <https://www.destinationdevelopment.org/cpages/the-20-ingredients-of-an-outstanding-downtown-tour>.

4. ALUM ROCK/28TH STREET

Summary of Existing Conditions

This section summarizes key characteristics of the existing business mix in the Alum Rock/28th Street station area, and the strengths, opportunities, weaknesses, and threats currently facing businesses.⁴

EXISTING BUSINESS MIX

Small business, specifically microbusinesses, account for the vast majority of businesses in the station area and are a critical component of the neighborhood's identity. Of the 134 total businesses in the Alum Rock/28th Street station area in 2017, 93 percent were small businesses with fewer than 50 employees, and 85 percent were microbusinesses with fewer than 10 employees. These businesses generally fall into the following categories:

- **Local-serving retail and services:** Many of the retail stores, restaurants and cafes, and service businesses (e.g., beauty salons, retail banks, and real estate and insurance brokers) located in the station area are affordable and primarily serve a local customer base.
- **Latino and Portuguese restaurants and specialty retailers:** The segment of Alum Rock Avenue located between Highway 101 and 33rd Street is known as Little Portugal, and includes a concentration of Portuguese restaurants, bakeries, and other businesses (including Adegas, a Michelin-star restaurant). The East Santa Clara/Alum Rock Avenue corridor also includes many Latino restaurants and specialty retailers (e.g. party stores, clothing stores). The concentration of Latino and Portuguese businesses, along with cultural institutions such as the Five Wounds Church and Mexican Heritage Plaza, draw visitors from across the city and region.
- **Production, distribution, and repair (PDR) businesses.** The neighborhood includes small businesses in light manufacturing and production, transportation and warehousing, and the construction industry. These businesses are concentrated in the parcels located immediately adjacent to the future transit station, and along the former railroad corridor. In addition, a number of auto supply and repair shops are located along the commercial corridors in the station areas.

The total number of small businesses in the station area has been relatively stable since 2009, but the business mix has changed over time due to business turnover. Between 2009 and 2017, the total number of small businesses in the station area barely changed. However, during this time period, the station area lost eight production and distribution businesses, five banks or other financial services establishments, and five medical and social assistance providers. At the same time, the number of restaurants and bars and small office-based businesses increased.

⁴ For the complete existing conditions analysis, see: Strategic Economics, *Small Business Strengths, Weaknesses, Opportunities, and Threats Analysis*, prepared for VTA's BART Phase II Transit Oriented Communities Strategy Study, January 14, 2019.

STRENGTHS, OPPORTUNITIES, WEAKNESSES, AND THREATS

Figure 4 summarizes the key opportunities and challenges facing businesses in the station area.

FIGURE 4. ALUM ROCK/28TH STREET STATION AREA: STRENGTHS, OPPORTUNITIES, WEAKNESSES, AND THREATS TO SMALL BUSINESSES

STRENGTHS AND OPPORTUNITIES	WEAKNESSES AND THREATS
<p><i>Retail, Dining, and Services</i></p> <ul style="list-style-type: none"> • Existing concentration of small and microbusinesses that serve local residents • Strong Latino and Portuguese cultural identities, including cultural institutions and businesses that attract visitors from outside the neighborhood • Increasing restaurant sales • Small storefronts suitable for small, independent businesses • Plans for improvements to the public realm, including pedestrian improvements • Vision for higher intensity development in existing Urban Village Plans • Requirements that new development include commercial space in existing Urban Village Plans • New merchants’ association (Alum Rock Business Association) 	<ul style="list-style-type: none"> • Displacement of small businesses by new development and rising rents is underway • Declining retail sales • Major barriers to pedestrian access (e.g., across Highway 101) • Customer parking and vehicle access challenges • Long-term vacancies that negatively affect the street environment • Negative perceptions around homelessness, safety, and cleanliness • A lack of access to capital for small businesses to make tenant and façade improvements • Businesses are still recovering from the disruption caused by the Alum Rock BRT project
<p><i>Production, Distribution, and Repair (PDR)</i></p> <ul style="list-style-type: none"> • Direct highway access • Existing zoning and urban village policy do not permit residential uses on industrial or commercial lands prior to full funding of the BART station • Potential for small scale PDR / “maker” space in new development 	<ul style="list-style-type: none"> • Risk of displacement by new residential or mixed-use projects • Risk of increased conflicts between residential and industrial uses as TOD occurs • Declining auto-related retail sales (e.g., from gasoline stations and motor vehicles and parts stores) • Displaced businesses may struggle to relocate in Santa Clara County due to lack of available industrial land supply and limited locations for auto-repair uses

Small Business Support and Retention Strategies: Alum Rock/28th Street

This section describes six strategies for supporting and retaining small and microbusinesses in the Alum Rock/28th Street station area. Each strategy includes a variety of specific recommendations for the City of San José Office of Economic Development (OED), Planning, Building & Code Enforcement, and other departments; the Alum Rock Business Association; other local partners (e.g., Five Wounds Church, Mexican Heritage Plaza, Somos Mayfair, CommUniverCity, the Hispanic Chamber of Commerce, Opportunity Fund, and the City's non-profit business service providers⁵); and VTA.

The recommendations are intended to help retain and promote existing small businesses as the Alum Rock/28th Street station area attracts new TOD over time. As part of a separate effort, VTA is developing strategies to mitigate the potential disruption and displacement of businesses that could occur due to construction of the transit project itself.

FIGURE 5. SMALL BUSINESS SUPPORT AND RETENTION RECOMMENDED STRATEGIES FOR THE ALUM ROCK/28TH STREET STATION AREA

STRATEGY	IMPLEMENTATION PARTNERS: LEAD & SUPPORT
1. Provide targeted assistance to small and microbusinesses that are displaced by new development	Lead: City of San José Support: Alum Rock Business Association, Other Non-Profit Partners
2. Incentivize new development to provide appropriate space for small, locally-owned businesses	Lead: City of San José Support: Private and non-profit developers
3. Expand the capacity of the Alum Rock Business Association	Lead: City of San José and Alum Rock Business Association Support: Other Non-Profit Partners
4. Continue and expand City programs to retain and support small and microbusinesses	Lead: City of San José Support: Non-Profit Partners, VTA
5. Promote the District's Latino and Portuguese Cultural Identities	Lead: City of San José and Alum Rock Business Association Support: Non-Profit Partners, VTA/BART
6. Invest in public realm improvements to support a pedestrian-friendly environment	Lead: City of San José Support: VTA (on VTA properties)

1. PROVIDE TARGETED ASSISTANCE TO SMALL AND MICROBUSINESSES THAT ARE DISPLACED BY NEW DEVELOPMENT

As new development occurs in the station area, the City of San José should work with the Alum Rock Business Association and other local partners to ensure that displaced businesses have access to

⁵ For a complete list of the City's strategic service partners, see <http://www.businessownerspace.com/about-bos/partners/>

available assistance programs, and, if possible, can be matched with vacant space. Specific recommendations are described below.

Note that VTA's BART Phase II program includes a Relocation Plan for businesses that are located on sites that the transit agency will need to acquire in order for the transit project to be completed. The project will seek to minimize the total number of businesses that are displaced and will provide assistance consistent with federal and state requirements to any businesses that do need to be relocated as a direct result of the project.⁶ The recommendations below are intended to address displacement that could occur as a result of new development in the Alum Rock/28th Street station area.

- 1-1. Provide information to displaced businesses about relocation benefits for which they may be eligible.** In particular, affordable housing developers are often required to provide relocation benefits to businesses that are displaced from development sites. Private, market-rate developers are not typically required to provide displaced businesses with relocation assistance.
- 1-2. Incentivize market-rate developers to provide relocation assistance to displaced small businesses under the Urban Village Implementation Framework.** Under the City of San José's Urban Village Implementation Framework, residential developers in Urban Villages are required to contribute to local amenities, either in the form of a monetary contribution or direct provision of amenities. The City and community should consider whether private developers should receive credit against their Urban Village amenities requirement⁷ for providing displaced small businesses with relocation assistance.
- 1-3. Prioritize businesses displaced by new development for technical and financial assistance.** In order to successfully relocate, businesses typically need to find a new space, negotiate a lease, and obtain financing for tenant improvements. In some cases, small businesses may lack the technical expertise or financial resources required to help them navigate this process. For example, the lack of a business plan can be a particular barrier when a business seeks new space; a business plan is essential both for helping the business owner determine how much they can afford to pay in rent and tenant improvements, and for negotiating a reasonable rate with the property owner. Other displaced businesses may benefit from assistance with succession planning (for example, if the need to relocate causes the business owner to accelerate retirement plans). OED and non-profit partners should prioritize displaced businesses for technical and financial assistance, including assistance with creating business and marketing plans, negotiating leases, succession planning, and accessing grants and loans.
- 1-4. Work with Alum Rock Business Association to match displaced tenants with vacant space and provide access to grants or loans for tenant improvements and/or façade improvements.** Relocated business may require assistance paying for tenant improvements (i.e. alterations such as flooring, shelving, painting, and light to make the space more

⁶ For more information about VTA's BART Phase II Final Relocation Plan, see: <http://www.vta.org/News-and-Media/Connect-with-VTA/VTA-Board-to-Consider-Final-Relocation-Plan-for-BART-Phase-II-Project#.XCZ5gFVKipp>

⁷ Under the City's Urban Villages amenities program, residential and mixed-use development projects are required to provide amenities worth up to two percent of project cost. The requirement may be met in the form of cash payment or through in-kind provision of amenities listed in the Urban Villages plans. Developers receive a larger credit against the requirement for providing in-kind amenities.

functional and attractive) and façade improvements (i.e. improvements to a storefront's exterior such as signage, seating, or paint to attract customers). Long-vacant space may require particularly significant improvements, or present challenges such as limited off-street parking or large floorplates. The City should work with the Alum Rock Business Association and other local partners to identify creative solutions, such as sharing parking with adjacent uses, waiving parking requirements, connecting displaced tenants with other businesses who may be interested in sharing a large space, and connecting business owners with funding opportunities and technical assistance providers.

2. INCENTIVIZE NEW DEVELOPMENT TO PROVIDE APPROPRIATE SPACE FOR SMALL, LOCALLY-OWNED BUSINESSES

The City of San José's Urban Village plans require that all development in the Alum Rock station area – including market-rate and affordable residential development – include a significant amount of commercial square footage.⁸ This policy is intended to help increase the number of jobs located in the Urban Villages, but may result in some unintended consequences, as described below.

First, because the feasibility of office and retail development in the station area is currently challenging, the commercial requirements may delay the initiation of any new development, including badly needed residential development.

Second, when development does occur, the policy may result in developers providing large amounts of vacant, unfinished (“raw shell”) commercial space. This negatively impacts small, local businesses that often find larger spaces to be unaffordable compared to smaller spaces. For example, a typical rental rate for newer retail space in East San José is about \$2.80 per square foot per month (triple net). For a business occupying a 1,000 square foot storefront, this equates to \$2,800 a month plus taxes, insurance, maintenance, and utilities. However, the rent for a 3,000 square foot storefront would equate to \$8,400 a month plus expenses – a 200% increase and a prohibitive cost for most small businesses. In addition, most leases require businesses to pay for tenant improvements, which can add an additional \$35-\$40 per square foot in upfront costs, before a business even begins generating sales.

The following recommendations are intended to incentivize developers to provide commercial space that is appropriate and affordable for small businesses, and could be combined with a reduction in the amount of commercial FAR required in the Urban Village Plans in order to help facilitate development in the station area.

- 2-1. Reduce commercial FAR requirements to make development more feasible, while also working with developers to provide space that is appropriate for small businesses in mixed-use projects.** New development should include a mix of smaller shop sizes that are affordable to small, local tenants; and larger shop sizes that can accommodate national retailers and other “anchor” tenants (i.e., larger tenants that draw foot traffic to a business district).

⁸ For example, the Five Wounds Urban Villages requires a minimum commercial floor area ratio (FAR) of 0.75 for mixed-use residential development. The Roosevelt Park and Little Portugal Urban Villages require a minimum commercial FAR of 0.45 and 0.24 for mixed-use residential development, respectively.

- 2-2. Provide developers with design guideline best practices for ground floor retail space in mixed-use buildings.** The Downtown San José Retail Strategy includes a checklist of best practice design guidelines for ground floor retail space in mixed-use projects. The checklist includes guidelines for appropriate façade design, ceiling height, shop space depth, utilities, and other elements of building design. These (or similar) guidelines should be shared with developers in the Alum Rock/28th Street station area as well as in Downtown.
- 2-3. Incentivize developers to provide tenant improvement allowances to small businesses.** A tenant improvement (TI) allowance is the amount of money that a landlord sometimes agrees to spend on the build out of a tenant’s space (typical tenant improvements include alterations such as flooring, shelving, painting, and lighting). Typically, a TI allowance is provided by the landlord as a reimbursement to the tenant after the tenant provides receipt documentation of expenditures. However, for small businesses that are undercapitalized and lack access to credit, paying for TI out of pocket and waiting for landlord reimbursement may not be possible. The City should consider incentivizing developers to provide small business tenants with TI allowances structured as upfront payments rather than retroactive reimbursements. For example, developers could receive credit against their Urban Village amenities requirement for providing TI allowances to small businesses. Alternatively, the City could require a TI allowance for small business tenants in exchange for allowing mixed-use developers to build a reduced amount of commercial space in their projects. Either approach could be applied broad brush to all small business tenants, or strategically focused on certain types of small businesses that meet identified community needs.
- 2-4. Consider the potential for production, distribution, and repair (PDR) space in mixed-use development projects.** For example, in San Francisco’s Eastern neighborhoods, the City requires that new development that involves the demolition of PDR, arts, or certain community uses (such as child care and community facilities) provide replacement space.⁹ The City of San José could consider a similar policy for projects that involve the demolition of PDR space in the station area. Replacement PDR space could be provided either on the ground floor of a commercial building, or in a separate structure from other uses. However, it is important to note that the types of PDR users currently located in the station area (e.g., trucking and warehousing, construction companies, and auto repair) may not be appropriate to incorporate into a mixed-use development. In San Francisco, PDR space has often been occupied by light or artisanal manufacturers (e.g., jewelers, apparel makers, printers, woodworkers, and bakers).

3. EXPAND THE CAPACITY OF THE ALUM ROCK BUSINESS ASSOCIATION

A new volunteer-run organization, the Alum Rock Business Association, has begun to organize and advocate for existing businesses, focusing roughly on the stretch of the East Santa Clara Street/Alum Rock Avenue corridor between 22nd Street and I-680. The organization has received support from the City of San José’s OED, but will require an ongoing source of funding and paid staff in order to provide a broader array of services. Future activities of a well-funded, high capacity business association could include street and sidewalk cleaning, public safety, beautification, streetscape

⁹ Depending on the underlying zoning designation, the replacement requirement ranges from 50 to 100 percent; projects that involve the demolition of less than 15,000 square feet of PDR, arts, or community space are exempt.

improvements and maintenance, maintenance of local parks and plazas, events, marketing, and/or advocacy.

- 3-1. Continue to build the capacity of the Alum Rock Business Association.** OED should continue to work with the Alum Rock Business Association to expand the organization's financial and staffing capacity. Other nonprofit partners may also be able to provide financial and technical assistance.¹⁰
- 3-2. Explore the potential to establish a Business Improvement District (BID) and/or Property-Based Business Improvement District (PBID) as a long-term strategy to fund small business assistance and other economic development activities.** BIDs and PBIDs are public/private partnerships in which commercial business or property owners agree (by majority vote) to pay special (additional) assessments to create an ongoing funding source for the provision of economic development activities and services. In addition to providing a long-term revenue source, BIDs and PBIDs have the advantage of being managed by non-profit organizations that are formed by representatives of the business and property owners who pay the assessment, and are in a position to receive donations and grants to fund additional activities. Establishing a BID/PBID typically requires a multi-year effort to build support among businesses and property owners, develop a service plan, budget, and district boundaries, and create a management plan, among other steps. OED is currently in the process of conducting an initial study of the potential for a BID in the Alum Rock/28th Street station area.

4. CONTINUE AND EXPAND CITY PROGRAMS TO SUPPORT AND RETAIN SMALL AND MICROBUSINESSES

The City of San José currently offers grants in the range of \$10,000-\$15,000 to assist small businesses in making tenant or façade improvements. Grants are provided on a first-come, first-served basis to businesses occupying ground floor space in Downtown San José or one of the City's neighborhood business districts (which include East Santa Clara Street and Alum Rock Avenue). In addition, OED provides referrals to nonprofit partners that can provide assistance with business planning, financial management, lease negotiations, etc. Recommendations for building on these existing programs are described below.

- 4-1. Provide information to business owners about existing programs designed to assist small businesses.** The City and its partners should ensure that all business owners in the station area who might be eligible for existing technical and financial assistance programs are informed about program availability and the application or referral process. For example, these include the City's existing Storefront Assistance Grant program, which includes both vacant storefront grants for businesses that occupy vacant storefronts, and existing storefront grants for signage, seating, and other improvements that upgrade a storefront's exterior. Business owners should also be made aware of opportunities to access new sources of capital, such as microfinancing (e.g., through organizations like Opportunity Fund or Kiva) and Opportunity Zone investments (discussed below).

¹⁰ For a complete list of the City's strategic service partners, see <http://www.businessownersspace.com/about-bos/partners/>

- 4-2. Monitor small business performance and risk during and after construction of the BART Phase II project.** The City of San José is currently in the early stages of developing a Small Business Resiliency Strategy, which will include developing criteria and a methodology for measuring small business resiliency/risk. The strategy will enable OED to better match its services to business needs. OED should continue to monitor business risk during and after construction of the BART Phase II project, with the goal of proactively identifying struggling businesses.
- 4-3. Continue efforts to market investments in small and local business to Opportunity Zone funds, and work to build a pipeline of small businesses and entrepreneurs with the technical and financial capacity to take advantage of investment opportunities.** The Opportunity Zone program was created as part of the 2017 tax bill. It allows investors to receive tax benefits in exchange for investing in businesses or real estate located in low-income Census Tracts designated as Opportunity Zones by the Governor. Eleven Census Tracts in San José have been designated as Opportunity Zones, including a cluster near the future Alum Rock/28th Street and Berryessa BART stations (see Figure 6, which also shows selected anchor institutions). OED is actively promoting investment opportunities in the station area, including opportunities to invest in existing small and medium size businesses or startups, and real estate opportunities such as developing commercial kitchens or market halls to serve the need of local entrepreneurs. In addition to continuing to market these opportunities to investors, OED should work with local nonprofit partners to ensure that local businesses and entrepreneurs have the capacity to take advantage of investment opportunities (e.g., up-to-date business plans).
- 4-4. Involve the City and its partners in the design of VTA's Small Business Marketing and Assistance Program (MAP) and identify program elements to continue on an ongoing basis, after construction of BART Phase II is complete.** VTA is in the process of developing the MAP, which will provide marketing and technical support to businesses affected by construction of the BART Phase II project. The MAP will build on interviews with local businesses and best practices from major transit projects around the country. The City, Alum Rock Business Association, and other local nonprofits should be involved throughout the design and implementation of the program. As appropriate, the City and its partners should also continue to provide marketing, technical assistance, or other elements of the MAP on an ongoing basis, even after construction is complete.

FIGURE 6. OPPORTUNITY ZONE IN THE ALUM ROCK/28TH STREET AND BERRYESSA BART STATION AREAS**Selected Anchor Institutions**

1. Five Wounds Portuguese National Parish and Cristo Rey San Jose Jesuit High
2. Future BART station site
3. Future 81-home affordable housing (First Community)
4. County Multi-Services Center
5. San Jose High
6. Roosevelt Community Center
7. Kellogg Eggo factory
8. Little Portugal neighborhood business district
9. Future 71-unit affordable housing (RCD) & Somos Mayfair HQ
12. Therma
13. Prospect SV
14. South of Berryessa BART industrial cluster
15. Berryessa BART station (opening late 2019)
16. SJ Flea Market & future development site

Resources:

- San Jose Urban Approved Village Plans: <http://sanjoseca.gov/index.aspx?NID=4032>
- Friends of Five Wounds Trail: <https://fivewoundstrail.org/>
- CommUniverCity SJSU Community Planning: <http://cucs.org/community-planning/>
- East Santa Clara Street Assessment (May 2010): <http://www.sjsu.edu/urbanplanning/docs/EastSantaClaraStreetReport.pdf>
- Five Wounds/Brookwood Terrace BART Station Area Community Concept Plan: http://cucs.org/wp-content/uploads/2015/09/FWBT_BART_CONCEPT_PLAN.pdf

Source: City of San José Office of Economic Development, February 2019; full presentation available here: <http://sjeconomy.com/wp-content/uploads/OZone-OED-Prospectus-020419-Reduced.pdf>.

5. PROMOTE THE DISTRICT'S LATINO AND PORTUGUESE CULTURAL IDENTITIES

The East Santa Clara/Alum Rock Avenue corridor is characterized by a strong Latino and Portuguese identities, including cultural institutions and businesses that attract visitors from outside the neighborhood. The City, VTA, and other partners should work closely with the community to develop strategies for preserving and promoting the district's unique history and culture. Preliminary recommendations are described below.

- 5-1. Recognize the district's distinctive cultural heritage in the BART station name.** The VTA Board is currently considering a proposal to include "Little Portugal" in the name of the future BART station. This branding will help promote the district regionwide.
- 5-2. Create and implement a branding and marketing strategy centered around the corridor's identity as a destination for Latino and Portuguese food, arts, heritage, and culture.** Local business owners, as well as representatives from the district's cultural institutions, should help craft a marketing strategy that reflects both the district's historic Portuguese identity, as well as its current, ethnically diverse range of businesses. The strategy could include marketing on BART trains (e.g., participation in the BARTable campaign, which highlights interesting destinations that can be reached by BART).
- 5-3. Identify and promote cultural events that support the corridor's cultural heritage and complement existing uses.** For example, street fairs, performances, and other cultural events could draw new visitors to the business district. The Alum Rock Business Association could

work with local businesses and cultural institutions (such as the Five Wounds Church and Mexican Heritage Plaza) to identify and promote events.

- 5-4. Involve the community in design of streetscape improvements, and incorporate elements that highlight the area's unique history and cultural heritage (public art, banners, informational plaques, etc.).** The City should work with local residents, businesses, and cultural organizations to incorporate distinctive public realm improvements such as arches, tiles, banners, and public art that reflect and highlight the area's Latino and Portuguese culture and history. VTA should also involve the community in the design of improvements related to VTA properties (e.g. BART station improvements, improvements associated with joint development occurring on VTA-owned land).
- 5-5. Consider piloting a small market or food court to provide affordable space for emerging Latino and/or Portuguese businesses, either in a new or existing building.** A small market or food court could provide affordable space for emerging small businesses, and serve as both a community gathering space and unique destination within the station area. The market could be operated as a private business, or as a non-profit project that provides business services as well as physical space. Examples include Fruitvale Public Market in Oakland (a 7,000 square foot business incubator that provides affordable space and technical assistance to eleven small businesses, developed and managed by the Unity Council) and Mercado La Paloma in Los Angeles (a public marketplace, business incubator, community gathering space, and home to social service non-profit organizations located in South Central Los Angeles and developed and managed by the Esperanza Community Housing Corporation). While a non-profit organization or private property owner or investor will need to take the lead in developing this type of space, the City could assist in identifying an appropriate location, providing funding for tenant improvement costs, identifying appropriate tenants, and connecting tenants with existing business services. Whatever the size and structure, a successful market requires identifying an appropriate space (whether in a new or existing building); and drafting a business plan that identifies the market's goals, sources of funding for start-up costs and long-term operating costs, and (if appropriate) the business services that will be offered. A successful market also requires a long-term commitment to management and operations (i.e., a master tenant or other entity to manage the tenant mix and operations, and provide technical services if appropriate).

6. INVEST IN PUBLIC REALM IMPROVEMENTS TO SUPPORT A PEDESTRIAN-FRIENDLY ENVIRONMENT

Local stakeholders have identified a number of public realm challenges that negatively affect perceptions of the East Santa Clara Street/Alum Rock Corridor, including limited parking for workers and businesses and major barriers to pedestrian access. Bicycle, pedestrian, and transit access improvements in the station area should be targeted at improving access to businesses as well as to the future BART station. In addition, transportation demand management and parking management strategies will be required to address concerns around parking and support a complete transportation network.

Access improvements, transportation demand management, and parking management strategies are discussed in more detail in other sections of VTA BART Phase II TOCs Strategy Study. Specific recommendations that relate directly to small businesses are summarized below.

- 6-1. Implement an enhanced access district to enable parking to be provided as a shared public resource and use parking spaces more efficiently.** An enhanced access district is an entity that helps to manage parking resources and facilitate non-auto forms of transportation to reduce parking demand within a district. An enhanced access district would benefit small businesses by identifying and facilitating opportunities to more efficiently use both existing parking spaces, building and managing new parking facilities as needed, and implementing wayfinding, signage, and other improvements to encourage shoppers to park once and walk to destinations within the station area. For example, there may be opportunities for shoppers, local employees, and other visitors to park in the future BART parking garage, at nights and weekends when commuter demand is limited. The enhanced access district would also provide transportation demand management (TDM) services to all members of the district within the station area, such as subsidized transit passes, incentives for commuters to take alternative modes of transit, and car and bike sharing programs. The district would also be in a position to work with VTA on tailored transit services, including off-peak service schedules that meet the needs of local businesses/employees.
- 6-2. Prioritize bicycle, pedestrian, transit access, and streetscape improvements that enhance access to businesses as well as to the future BART station.** For example, improving the connection across Highway 101 will help better connect the East Santa Clara and Alum Rock Avenue retail nodes, as well as increase access to the future BART station for East San José residents. Widening sidewalks, providing more frequent and visible pedestrian crossings, and providing connections to regional trails will also help create a safer, more inviting shopping experience. In the long term, when combined with the new BART service, these improvements can also help encourage shoppers, residents, and workers to access the corridor by foot, bicycle, or transit, helping to mitigate parking demand.

5. DOWNTOWN SAN JOSÉ STATION AREA

Summary of Existing Conditions

This section briefly summarizes key characteristics of the existing business mix in the Downtown San José station area, which is comprised of the Downtown Core and the East Santa Clara Street Urban Village (East Santa Clara Street between 7th and 17th Streets). The section also summarizes the strengths, opportunities, weaknesses, and threats currently facing businesses.¹¹

EXISTING BUSINESS MIX

Downtown San José is home to many small businesses, with particular concentrations in dining and office-based industries. In 2017, there were 1,264 total businesses in the Downtown San José station area, of which 1,153 (or 90 percent) were small businesses with fewer than 50 people. Approximately two-thirds of Downtown businesses are microbusinesses employing fewer than 10 people. Office-based businesses make up the largest category of small businesses in the station area, followed by restaurants and bars. Small office-based businesses include real estate, law, accountant offices, technology, and other professional offices. Although Downtown has historically been a challenging market for traditional retail, retail sales have grown in the last several years as Downtown has attracted more residents and workers due to recent development.

The East Santa Clara Street Urban Village a distinct business district home to a diverse mix of businesses. The area is well known for its many longtime Vietnamese and Latino restaurants. There are several beauty salons, small medical offices, pharmacies, and auto-related retail and services scattered along the corridor. Retail stores in the area include clothing and accessories, jewelry, flowers, and other specialty retail. The restaurants, cafes, salons, auto repair shops, and other businesses in this area primarily serve the daily needs of residents and students from San José State University.

The number of small businesses in the station area increased significantly since 2009. The number of small businesses increased from 955 in 2009 to 1,153 in 2017. Most of the new small businesses are office-based firms and restaurants and bars, reflecting the area's growth as an employment center and as an emerging destination for dining and entertainment. Retail and personal services, banks and other financial services, and production and distribution¹² have also experienced some growth. However, in 2017 the station area had slightly fewer medical offices and social assistance centers compared to 2009.

¹¹ For the complete existing conditions analysis, see: Strategic Economics, Small Business Strengths, Weaknesses, Opportunities, and Threats Analysis, prepared for VTA's BART Phase II Transit Oriented Communities Strategy Study, January 14, 2019.

¹² Note that in Downtown San José, this category includes headquarters or other offices for production and distribution companies.

STRENGTHS, OPPORTUNITIES, WEAKNESSES, AND THREATS

The following figure summarizes the key opportunities and challenges facing businesses in the station area.

FIGURE 7. DOWNTOWN SAN JOSÉ STATION AREA: STRENGTHS, OPPORTUNITIES, WEAKNESSES, AND THREATS TO SMALL BUSINESSES

STRENGTHS AND OPPORTUNITIES	WEAKNESSES AND THREATS
<i>RETAIL, DINING AND SERVICES IN THE DOWNTOWN CORE</i>	
<ul style="list-style-type: none"> • Emerging dining and entertainment destination • Increasing population of residents and workers due to recent development • Public and private efforts focused on supporting the Downtown shopping environment through planning, advocacy, community events, cleaning, and beautification • Growing focus on supporting small, local retail in the Downtown • Increasing restaurant and retail sales 	<ul style="list-style-type: none"> • Challenging market for traditional retail • Concerns over higher rents and potential displacement from new development • Negative perceptions around safety, cleanliness, and the public realm • New ground floor commercial space may not be affordable or appropriately designed for small businesses • Regionwide workforce recruitment and retention challenges in the food services sector • Increasing competition with online sales
<i>OFFICE-BASED BUSINESSES IN THE DOWNTOWN CORE</i>	
<ul style="list-style-type: none"> • Improved retail and dining options provide amenities for workers • Lower rents compared to other Silicon Valley employment centers • City of San José is prioritizing preserving key sites near the BART station for employment uses 	<ul style="list-style-type: none"> • Increasing office rents
<i>EAST SANTA CLARA STREET URBAN VILLAGE</i>	
<ul style="list-style-type: none"> • Existing concentration of small retailers, restaurants, other businesses that serve local residents • Small storefronts suitable for small, independent businesses • Active local merchants’ association (East Santa Clara Business Association) 	<ul style="list-style-type: none"> • Weak pedestrian environment and a lack of connections to the Downtown • Concerns about parking availability

Small Business Support and Retention Strategies: Downtown Core

This section describes strategies for supporting and retaining small businesses in the Downtown Core. Each strategy includes a variety of specific recommendations targeted at the City of San José and other local partners (e.g., Downtown San José Association, Team San José, SJ Made, and the City's non-profit business service providers).¹³ Additional recommendations for the East Santa Clara Street corridor are provided in the following section.

Note that the strategies are intended to help retain and promote existing small businesses as the station area attracts new TOD over time; as part of a separate effort, VTA is developing strategies to mitigate the potential disruption and displacement of businesses that could occur due to construction of the transit project itself.

FIGURE 8. SMALL BUSINESS SUPPORT AND RETENTION RECOMMENDED STRATEGIES FOR THE DOWNTOWN SAN JOSÉ STATION AREA

STRATEGY	IMPLEMENTATION PARTNERS: LEAD & SUPPORT
<i>Downtown Core</i>	
1. Implement the Downtown San José retail Strategy (a)	Lead: City of San José Support: Non-Profit Partners
2. Continue to market Opportunity Zone investments in Downtown San José that will benefit small businesses	Lead: City of San José Support: Non-Profit Partners
<i>East Santa Clara Street (7th to 17th Streets)</i>	
1. Provide targeted assistance to small and microbusinesses displaced by new TOD	Lead: City of San José Support: East Santa Clara Street Business Association, Other Non-Profit Partners
2. Incentivize new development to provide appropriate space for small, locally-owned businesses	Lead: City of San José Support: Private and non-profit developers
3. Expand the capacity of the East Santa Clara Street Business Association	Lead: City of San José and East Santa Clara Street Business Association Support: Other Non-Profit Partners
4. Continue and expand City programs to retain and support small and microbusinesses	Lead: City of San José Support: Non-Profit Partners, VTA
5. Invest in public realm improvements to support a pedestrian-friendly environment	Lead: City of San José Support: VTA (on VTA properties)

(a) Available on the City of San José's City Council meeting summary of March 12, 2019: <https://sanjose.legistar.com/LegislationDetail.aspx?ID=3871633&GUID=CE4BB113-181A-4F8B-9D26-0AD97F5B71F0&Options=&Search=>

¹³ For a complete list of the City's strategic service partners, see <http://www.businessownerspace.com/about-bos/partners/>

1. IMPLEMENT THE DOWNTOWN SAN JOSÉ RETAIL STRATEGY

The Downtown San José Retail Strategy, adopted by City Council in March 2019, provides a comprehensive strategy for enhancing Downtown San Jose’s unique role in the City and Silicon Valley by focusing City efforts in the next three to five years.¹⁴ The strategy focuses on three goals: 1) assist with retail recruitment efforts; 2) ensure that mixed-use projects are required in key locations and with appropriate active ground floor uses; and 3) contribute to placemaking and improving quality of life in Downtown. Many of the strategies in the strategy will benefit small businesses, either directly or indirectly. Some of the specific strategies that could benefit small businesses are summarized below:

- **Continue to Incubate Small Retailers in Downtown:** SJ Made is working to incubate small “maker” businesses with the long-term goal of moving these small businesses into permanent retail spaces. The City should continue to support this effort by helping to facilitate the administrative approvals and licenses, and by making ground-floor space in appropriately located City-controlled facilities available so the program can expand. The City could also provide ongoing services to help small businesses scale up and thrive, and/or provide referrals to nonprofit business service entities. In addition to making City-controlled spaces available, another way to capitalize on these small innovation businesses is to work with property owners and developers to provide small retail spaces, or to match up multiple businesses to share one larger retail space.
- **Create and Promote a Strong “Brand” Identity for Downtown:** San José should establish a world class brand for its Downtown, building on its relationship to Silicon Valley’s innovation ethos, its compact form and easy to manage street network for bikes and pedestrians, and its parks and open spaces including the Guadalupe River Park and St. James Park.
- **Revise the Downtown Zoning Regulations:** The Downtown Retail Strategy recommends a new overlay zoning designation for Downtown, including (1) key retail locations where ground floor retail should be required; (2) active/transparent use locations (i.e., places where ground floor uses can include a wider variety of uses that are open to the public and/or have a strong visual connection to the street); and, (3) places that allow uses that could support Downtown’s overall function but do not necessarily contribute to its visual character.
- **Prepare a Downtown Design Guidelines Best Practices Checklist:** The Downtown Retail Strategy includes a “Retail Ground Floor Space Design Guidelines Best Practices Checklist” for use by developers. These guidelines are focused on creating ground floor spaces that better serve the needs of businesses to increase their long-term viability and reduce the prevalence of buildings with vacant ground floor spaces.
- **Identify and Create Distinctive Pedestrian Routes Between Key Downtown Anchor Destinations:** The Strategy recommends key connecting corridors to target wayfinding signage, lighting, strategically located pocket parks, art installations including murals, innovative street furniture, landscaping, and event programming in order to support a better street environment.

¹⁴ Available on the City of San José’s City Council meeting summary of March 12, 2019: <https://sanjose.legistar.com/LegislationDetail.aspx?ID=3871633&GUID=CE4BB113-181A-4F8B-9D26-0AD97F5B71F0&Options=&Search=>

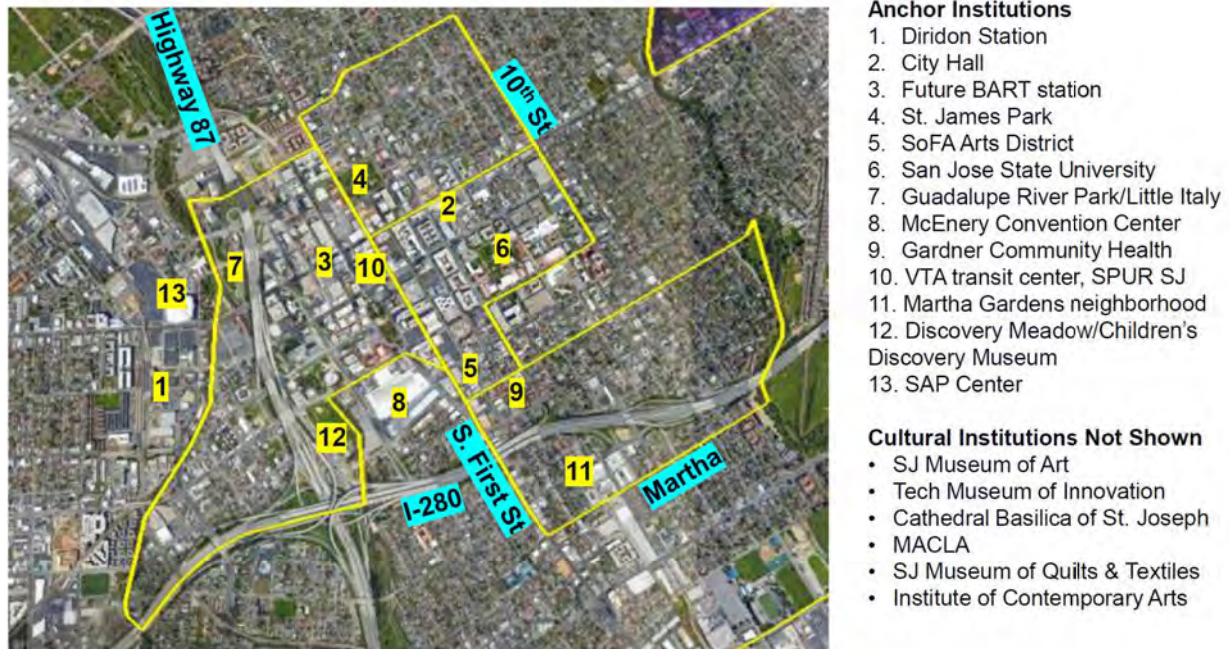
- **Address Quality of Life in Downtown:** This includes strategies for addressing concerns around homelessness, bicycle and pedestrian safety, and other ongoing issues.
- **Identify Specific Actions to Address Long-Term Retail Vacancies:** City staff should identify the highest priority spaces, reach out to the property owners (if available) and/or local real estate brokers familiar with the specific reasons why each space is vacant, and identify targeted strategies for overcoming barriers to leasing the space.
- **Consider Adopting a Policy Regarding Corporate Cafeterias:** Many tech companies offer on-site cafeterias and other personal services, such as dry cleaners, to their employees for free or at highly subsidized prices. Concern about the impact that these services have on restaurants and other businesses that could serve employees has spurred some Bay Area cities to consider restricting corporate cafeterias. San Jose should consider its policy options for addressing corporate cafeterias.

2. CONTINUE TO MARKET OPPORTUNITY ZONE INVESTMENTS IN DOWNTOWN SAN JOSÉ THAT WILL BENEFIT SMALL BUSINESSES

The Opportunity Zone program was created as part of the 2017 tax bill. It allows investors to receive tax benefits in exchange for investing in businesses or real estate located in low-income Census Tracts designated as Opportunity Zones by the governor of each state. Eleven Census Tracts in San José have been designated as Opportunity Zones, including most of the Downtown station area (see Figure 9, which also shows selected anchor institutions). OED is actively promoting investment opportunities in the station area. Potential opportunities that could benefit small businesses include investments in entrepreneurs building their businesses in Downtown San Jose, or developing or retrofitting office spaces to serve as incubator and coworking spaces.

In addition to continuing to market these opportunities to investors, OED should work with local non-profit partners to ensure that local businesses and entrepreneurs have the capacity to take advantage of investment opportunities (e.g., up-to-date business plans).

FIGURE 9. DOWNTOWN SAN JOSÉ OPPORTUNITY ZONES



Source: City of San José Office of Economic Development, February 2019; full presentation available here: <http://sjeconomy.com/wp-content/uploads/OZone-OED-Prospectus-020419-Reduced.pdf>.

Small Business Support and Retention Strategies: East Santa Clara Street

This section describes strategies for supporting and retaining small businesses in the East Santa Clara Street corridor (7th to 17th Street). Each strategy includes a variety of specific recommendations targeted at the City of San José and other local partners (e.g., East Santa Clara Street Business Association and the City's non-profit business service providers).¹⁵

1. PROVIDE TARGETED ASSISTANCE TO SMALL AND MICROBUSINESSES THAT ARE DISPLACED BY NEW DEVELOPMENT

As new development occurs in the station area, the City of San José should work with the East Santa Clara Street Business Association and other local partners to ensure that displaced businesses have access to available assistance programs, and, if possible, can be matched with vacant space. Specific recommendations are described below.

- 1-1. Provide information to displaced businesses about relocation benefits for which they may be eligible.** In particular, affordable housing developers are often required to provide relocation benefits to businesses that are displaced from development sites. Private, market-rate developers are not typically required to provide displaced businesses with relocation assistance.

¹⁵ For a complete list of the City's strategic service partners, see <http://www.businessownerspace.com/about-bos/partners/>

- 1-2. Incentivize market-rate developers to provide relocation assistance to displaced small businesses under the Urban Village Implementation Framework.** Under the City of San José's Urban Village Implementation Framework, residential developers in Urban Villages are required to contribute to local amenities, either in the form of a monetary contribution or direct provision of amenities. The City and community should consider whether private developers should receive credit against their Urban Village amenities requirement for providing displaced small businesses with relocation assistance.¹⁶
- 1-3. Prioritize businesses displaced by new development for technical and financial assistance.** In order to successfully relocate, businesses typically need to find a new space, negotiate a lease, and obtain financing for tenant improvements. In some cases, small businesses may lack the technical expertise or financial resources required to help them navigate this process. For example, the lack of a business plan can be a particular barrier when a business seeks new space; a business plan is essential both for helping the business owner determine how much they can afford to pay in rent and tenant improvements, and for negotiating a reasonable rate with the property owner. OED and non-profit partners should prioritize displaced businesses for technical and financial assistance, including assistance with creating business and marketing plans, negotiating leases, and accessing grants and loans.
- 1-5. Work with the East Santa Clara Street Business Association to match displaced tenants with vacant space and provide access to grants or loans for tenant and façade improvements.** Relocated business may require assistance paying for tenant improvements (i.e. alterations such as flooring, shelving, painting, and light to make the space more functional and attractive) and façade improvements (i.e. improvements to a storefront's exterior such as signage, seating, or paint to attract customers). Long-vacant space may require particularly significant improvements, or present challenges such as limited off-street parking or large floorplates. The City should work with the Alum Rock Business Association and other local partners to identify creative solutions, such as sharing parking with adjacent uses, waiving parking requirements, connecting displaced tenants with other businesses who may be interested in sharing a large space, and connecting business owners with funding opportunities and technical assistance providers.

2. INCENTIVIZE NEW DEVELOPMENT TO PROVIDE APPROPRIATE SPACE FOR SMALL, LOCALLY-OWNED BUSINESSES

All development in the East Santa Clara Street Urban Village – including market-rate and affordable residential development – is required to include a significant commercial component.¹⁷ This policy is intended to help increase the number of jobs located in the Urban Village, but may result in some unintended consequences, as described below.

¹⁶ Under the City's Urban Villages amenities program, residential and mixed-use development projects are required to provide amenities worth up to two percent of project cost. The requirement may be met in the form of payment, or through in-kind provision of amenities listed in the Urban Villages plans. Developers receive more credit against the requirement for providing amenities in-kind.

¹⁷ The East Santa Clara Street Urban Village Plan requires that development include a minimum FAR of 0.2 – 0.5 commercial space.

First, because the feasibility of office and retail development in the station area is currently challenging, the commercial requirements may delay the initiation of any new development, including badly needed residential development.

Second, when development does occur, the policy may result in developers providing large amounts of vacant, unfinished (“raw shell”) commercial space. This negatively impacts small, local businesses that often find larger spaces to be unaffordable compared to smaller spaces. For example, a typical rental rate for newer retail space in East San José is about \$2.80 per square foot per month (triple net). For a business occupying a 1,000 square foot storefront, this equates to \$2,800 a month plus taxes, insurance, maintenance, and utilities. However, the rent for a 3,000 square foot storefront would equate to \$8,400 a month plus expenses – a prohibitive cost for most small businesses. In addition, most leases require businesses to pay for tenant improvements, which can add an additional \$35-\$40 per square foot in upfront costs, before a business even begins generating sales.

The following recommendations are intended to incentivize developers to provide commercial space that is appropriate and affordable for small businesses, and could combined with a reduction in the amount of commercial FAR required in the Urban Village Plan in order to help facilitate development in the station area.

- 2-1. Reduce commercial FAR requirements to make development more feasible, while also working with developers to provide space that is appropriate for small businesses in mixed-use projects.** New development should include a mix of smaller shop sizes that are affordable to small, local tenants; and larger shop sizes that can accommodate national retailers and other “anchor” tenants (i.e., larger tenants that draw foot traffic to a business district).
- 2-2. Provide developers with design guideline best practices for ground-floor retail space in mixed-use buildings.** The Downtown San José Retail Strategy includes a checklist of best practice design guidelines for ground floor retail space in mixed-use projects. The checklist includes guidelines for appropriate façade design, ceiling height, shop space depth, utilities, and other elements of building design. These (or similar) guidelines should be shared with developers in the East Santa Clara Street corridor as well as in the Downtown core.
- 2-3. Incentivize developers to provide tenant improvement allowances to small businesses.** A tenant improvement (TI) allowance is the amount of money that a landlord sometimes agrees to spend on the build out of a tenant’s space (typical tenant improvements include alterations such as flooring, shelving, painting, and lighting). Typically, a TI allowance is provided by the landlord as a reimbursement to the tenant after the tenant provides receipt documentation of expenditures. However, for small businesses that are undercapitalized and lack access to credit, paying for TI out of pocket and waiting for landlord reimbursement may not be possible. The City should consider incentivizing developers to provide small business tenants with TI allowances structured as upfront payments rather than retroactive reimbursements. For example, developers could receive credit against their Urban Village amenities requirement for providing TI allowances to small businesses. Alternatively, the City could require a TI allowance for small business tenants in exchange for allowing mixed-use developers to build a reduced amount of commercial space in their projects. Either approach could be applied broad brush to all small business tenants, or strategically focused on certain types of small businesses that meet identified community needs.

3. EXPAND THE CAPACITY OF THE EAST SANTA CLARA STREET BUSINESS ASSOCIATION

The East Santa Clara Street Business Association is an established, volunteer-run organization that assists small businesses in the area through advocacy and marketing efforts, and participated in the East Santa Clara Street Urban Village planning process. The organization requires an ongoing source of funding in order to provide a broader array of services. Future activities of a well-funded, high capacity business association could include street and sidewalk cleaning, public safety, beautification, streetscape improvements and maintenance, events, marketing, and/or advocacy.

- 3-1. **Continue to build the capacity of the East Santa Clara Street Business Association.** OED should work with the business association to building the organization's financial and staffing capacity. Other nonprofit partners may also be able to provide financial and technical assistance.¹⁸
- 3-2. **Explore the potential to establish a Business Improvement District (BID) and/or Property-Based Business Improvement District (PBID) as a long-term strategy to fund small business assistance and other economic development activities.** BIDs and PBIDs are public/private partnerships in which commercial business or property owners agree (by majority vote) to pay special assessments to create an ongoing funding source for the provision of economic development activities and services. In addition to providing a long-term revenue source, BIDs and PBIDs have the advantage of being managed by non-profit organizations that are formed by representatives of the business and property owners who pay the assessment, and are in a position to receive donations and grants to fund additional activities. Establishing a BID/PBID typically requires a multi-year effort to build support among businesses and property owners, develop a service plan, budget, and district boundaries, and create a management plan, among other steps.

4. CONTINUE AND EXPAND CITY PROGRAMS TO SUPPORT AND RETAIN SMALL AND MICROBUSINESSES

The City of San José currently offers grants in the range of \$10,000-\$15,000 to assist small businesses in making tenant or façade improvements. Grants are provided on a first-come, first-served basis to businesses occupying ground floor space in Downtown San José or one of the City's neighborhood business districts (which include East Santa Clara Street and Alum Rock Avenue). In addition, OED provides referrals to nonprofit partners that can provide assistance with business planning, financial management, lease negotiations, etc. Recommendations for building on these existing programs are described below.

- 4-1. **Provide information to business owners about existing programs designed to assist small businesses.** The City and its partners should ensure that all business owners in the station area who might be eligible for existing technical and financial assistance programs are informed about program availability and the application or referral process. For example, these include the City's existing Storefront Assistance Grant program, which includes both vacant storefront grants for businesses that occupy vacant storefronts, and existing storefront grants for signage, seating, and other improvements that upgrade a storefront's exterior. Business owners should also be made aware of opportunities to access new

¹⁸ For a complete list of the City's strategic service partners, see <http://www.businessownerspace.com/about-bos/partners/>

sources of capital, such as microfinancing (e.g., through organizations like Opportunity Fund or Kiva) and Opportunity Zone investments (discussed below).

- 4-2. **Monitor small business performance and risk as development occurs on the corridor.** The City of San José is currently in the early stages of developing a Small Business Resiliency Strategy, which will include developing criteria and a methodology for measuring small business resiliency/risk. The strategy will enable OED to better match its services to business needs. OED should continue to monitor business risk over time as development occurs in the corridor, with the goal of proactively identifying struggling businesses.

5. INVEST IN PUBLIC REALM IMPROVEMENTS TO SUPPORT A PEDESTRIAN-FRIENDLY ENVIRONMENT

Local stakeholders have identified a number of public realm challenges that negatively affect perceptions of the East Santa Clara Street, including limited parking for workers and businesses, a challenging pedestrian environment, and lack of connections to the Downtown Core. Bicycle, pedestrian, and transit access improvements in the station area should be targeted at improving access to businesses as well as to the future BART station and other transit options. In addition, the City should consider whether the corridor should be included in the enhanced access district strategy for the Downtown Core.

Access improvements, transportation demand management, and parking management strategies are discussed in more detail in other sections of VTA BART Phase II TOCs Strategy Study. Specific recommendations that relate directly to small businesses are summarized below.

- 5-1. **Implement an enhanced access district to enable parking to be provided as a shared public resource and use parking spaces more efficiently.** An enhanced access district is an entity that helps to manage parking resources and facilitate non-auto forms of transportation to reduce parking demand within a district. An enhanced access district would benefit small businesses by identifying and facilitating opportunities to more efficiently use both existing parking spaces, building and managing new parking facilities as needed, and implementing wayfinding, signage, and other improvements to encourage shoppers to park once and walk to destinations within the station area. In Downtown San Jose, ParkSJ (the city's parking authority) operates the city's downtown parking facilities. An enhanced access district arrangement could be built out from the existing ParkSJ structure, including an expansion of the ParkSJ mission to providing strategic transportation demand management programs. ParkSJ could also collaborate with the City to provide mobility-focused public realm improvements.
- 5-2. **Prioritize bicycle, pedestrian, transit access, and streetscape improvements that enhance access to businesses as well as to the future BART station.** For example, improved sidewalks and streetscape infrastructure could help encourage Downtown residents and workers to visit businesses along the East Santa Clara Street corridor, as well as improving access to the future BART station for residents who live near the corridor.

6. SANTA CLARA STATION AREA

Summary of Existing Conditions

This section briefly summarizes key characteristics of the existing business districts in the station area, and the strengths, weaknesses, opportunities, and threats currently facing businesses. The SWOT analysis is more qualitative for the Santa Clara station area than for the other two station areas, since detailed business level data were not available. The findings are based on the interviews with business owners and other local stakeholders, a qualitative assessment of the existing business mix, and recent business analysis conducted for other City efforts.¹⁹

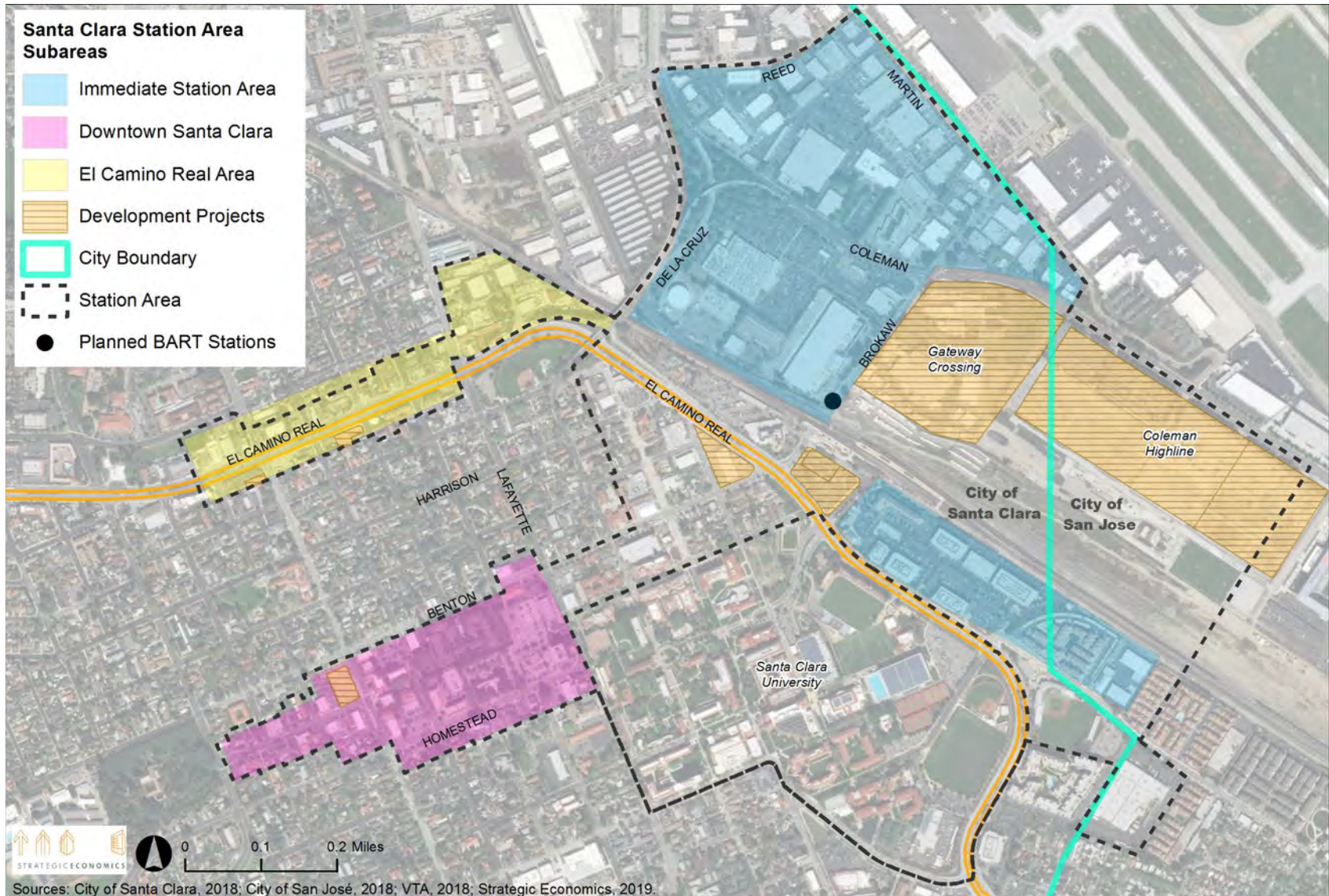
EXISTING BUSINESS DISTRICTS

The Santa Clara station area includes three distinct areas of commercial activity, shown in Figure 10. These include the following areas:

- **Immediate Station Area:** The immediate station area includes a diverse business mix, including production, distribution, and repair uses, big box retail, and office uses. The area north of Coleman Avenue is home to a mix of production, distribution, and repair businesses, auto dealers and repair shops, and manufacturers. The area also includes catering businesses, driving schools, and a few community-oriented uses (e.g. youth soccer club, religious centers). On the south side of Coleman Avenue, there is a large shopping center anchored by Costco. The area directly south of the railroad right-of-way includes technology offices, Santa Clara University office buildings and facilities, and an environmental remediation company. Some of these businesses may be too large to qualify as small businesses.
- **Downtown Santa Clara:** Downtown Santa Clara features small neighborhood-serving shopping, including Franklin Square which is the area's primary shopping center and gathering place. Tenants include a handful of restaurants, bars, and personal services (e.g. hair salon, post office, and dry cleaners).
- **El Camino Real:** The segment of El Camino Real included in the station area includes scattered convenience retail (e.g. fast food chains, salons, small grocery, and convenience stores) and a few auto-related sales and services establishments.

¹⁹ For the complete existing conditions analysis, see: Strategic Economics, *Small Business Strengths, Weaknesses, Opportunities, and Threats Analysis*, prepared for VTA's BART Phase II Transit Oriented Communities Strategy Study, January 14, 2019.

FIGURE 10. SANTA CLARA STATION AREA SUBAREAS



STRENGTHS, OPPORTUNITIES, WEAKNESSES, AND THREATS

The following figure summarizes the key opportunities and challenges facing businesses in the station area.

FIGURE 11. SANTA CLARA STATION AREA STRENGTHS, OPPORTUNITIES, WEAKNESSES, AND THREATS TO SMALL BUSINESSES

STRENGTHS AND OPPORTUNITIES	WEAKNESSES AND THREATS
<i>Immediate Station Area</i>	
<ul style="list-style-type: none"> • Inventory of flexible buildings that allow businesses to combine office and production/distribution functions on-site • Low vacancy rates reflect strong demand for industrial space • Close proximity to airport and highways 	<ul style="list-style-type: none"> • Risk of displacement by new residential or mixed-use projects • Conflicts between General Plan land use designations and existing zoning create confusion and additional potential for displacement • Risk of increased conflicts between PDR and higher intensity uses • Displaced businesses may struggle to relocate in Santa Clara County due to lack of available industrial land
<i>Downtown Santa Clara</i>	
<ul style="list-style-type: none"> • Existing walkable setting • Existing merchants' association (Santa Clara Merchants Association) and Business Improvement District • Proximity to Santa Clara County University and high-income neighborhoods • Increasing population of residents and workers from recent development • Upcoming Downtown Precise Plan process will provide guidance on new development and needed public improvements 	<ul style="list-style-type: none"> • Lack of distinctive architectural features, gathering places, or reference points (e.g., signs, landmarks) commonly found in downtowns
<i>El Camino Real</i>	
<ul style="list-style-type: none"> • Highly visible and identifiable commercial corridor • Increasing population of residents and workers due to recent development • Ongoing El Camino Real Precise Plan process, which includes a focus on retaining existing businesses 	<ul style="list-style-type: none"> • Unfriendly pedestrian environment • Small, shallow parcels may make it difficult to accommodate on-site parking for ground floor uses in new development projects

Small Business Support and Retention Strategies: Santa Clara Station Area

This section describes strategies for supporting and retaining small businesses in Santa Clara station area. Each strategy includes specific recommendations targeted at the City of Santa Clara and other local partners.

Note that the strategies are intended to help retain and promote existing small businesses as the station area attracts new TOD over time; as part of a separate effort, VTA is developing strategies to mitigate the potential disruption and displacement of businesses that could occur due to construction of the transit project itself.

FIGURE 12. SMALL BUSINESS SUPPORT AND RETENTION RECOMMENDED STRATEGIES FOR THE SANTA CLARA STATION AREA

STRATEGY	IMPLEMENTATION PARTNERS: LEAD & SUPPORT
1. Incentivize new development to provide appropriate space for small, locally-owned businesses	Lead: City of Santa Clara Support: Private and non-profit developers
2. Implement incentives for retaining long-standing businesses as part of the El Camino Real and Downtown Santa Clara Precise Plan processes	Lead: City of Santa Clara
3. Expand the capacity of the Downtown Santa Clara Merchants Association	Lead: City of Santa Clara, Downtown Santa Clara Merchants Association
4. Enhance the pedestrian and transit connections between the station, Downtown Santa Clara, and other existing commercial nodes	Lead: City of Santa Clara, City of San José

1. INCENTIVIZE NEW DEVELOPMENT TO PROVIDE APPROPRIATE SPACE FOR SMALL, LOCALLY-OWNED BUSINESSES

Ground floor retail space in mixed-use buildings should be well-designed for a variety of business uses and include a mix of shop sizes. New development projects often include larger storefronts that are appropriate for national tenants, but smaller shop sizes (in the range of 1,000-1,500 square feet) are more affordable to small, locally-owned businesses. The City should also consider the potential for including production, distribution, and repair (PDR) space in larger development projects, particularly in the area north of Coleman Avenue that is envisioned to transition to higher-intensity employment uses.

- 1-1. Work with developers to provide a mix of retail shop sizes in mixed-use projects.** New development should include a mix of smaller shop sizes that are affordable to small, local tenants; and larger shop sizes that can accommodate national retailers and other “anchor” tenants (i.e., larger tenants that draw foot traffic to a business district). Note that the overall amount and location of retail development in the station area should be calibrated to ensure

that new development complements, rather than competes, with existing retail in Downtown Santa Clara.

- 1-2. **Provide developers with design guidelines for ground floor retail space in mixed-use buildings.** For example, the City could provide guidelines for appropriate façade design, ceiling height, shop space depth, utilities, and other elements of building design to ensure that ground-floor space will be appropriately designed to meet the needs of retail, restaurants, and services businesses. This will support the long-term viability of businesses that locate in these spaces, which in turn can reduce vacancy of ground-floor retail in new TOD projects. The City of San José’s Downtown Retail Strategy includes a checklist of best practice design guidelines that could serve as a model.
- 1-3. **Consider the potential for production, distribution, and repair (PDR) space in larger development projects.** For example, in San Francisco’s Eastern neighborhoods, the City requires that new development that involves the demolition of PDR, arts, or certain community uses (such as child care and community facilities) provide replacement space.²⁰ The City of Santa Clara could consider a similar policy for projects that involve the demolition of PDR space in the immediate station area (particularly in the area north of Coleman Avenue that is envisioned to transition to higher-intensity employment uses). Replacement PDR space could be provided either on the ground floor of a mixed-use building or in a separate building.

2. IMPLEMENT INCENTIVES FOR RETAINING LONG-STANDING BUSINESSES AS PART OF THE EL CAMINO REAL AND DOWNTOWN SANTA CLARA PRECISE PLANS PROCESSES

The City of Santa Clara is in the process of developing precise plans for Downtown Santa Clara and the El Camino Real corridor (from the city border at the west to the Caltrain tracks at the east). Preliminary recommendations for the El Camino Real Precise Plan include adopting a Community Benefit Overlay District that would incentivize developers to reserve ground-floor retail space for existing tenants, in exchange for increased development densities.²¹ As part of the Downtown Precise Plan, the City should consider whether a similar policy would be appropriate to help retain long-standing businesses as the Downtown attracts new development over time.

3. EXPAND THE CAPACITY OF THE DOWNTOWN SANTA CLARA MERCHANTS ASSOCIATION

The Downtown Santa Clara Merchants Association (DSCMA) is an established, volunteer-run organization that conducts marketing activities and light maintenance, and helps program an annual street dance in Franklin Square. DSCMA administers the Santa Clara Downtown Business Improvement District (BID), which collects an annual fee that makes up the majority of the organization’s small operating budget (approximately \$10,000). With additional funding and staffing capacity, the DSCMA could add new special events and programming and expanded street and sidewalk cleaning. Other activities could include beautification and streetscape improvements and maintenance.

²⁰ Depending on the underlying zoning designation, the replacement requirement ranges from 50 to 100 percent; projects that involve the demolition of less than 15,000 square feet of PDR, arts, or community space are exempt.

²¹ Keyser Marston Associates, “Appendix B: Commercial Retention Strategy,” *El Camino Real Specific Plan: Area Profile*

The City of Santa Clara should work with the business association to building the organization's capacity, including exploring potential new funding options such as an increased assessment rate, grants, and revenues from special events. Other non-profit partners may also be able to provide financial and technical assistance as well.

4. ENHANCE THE PEDESTRIAN AND TRANSIT CONNECTIONS BETWEEN THE STATION, DOWNTOWN SANTA CLARA, AND OTHER EXISTING COMMERCIAL NODES

Local stakeholders have identified a need for improved pedestrian and transit connections between the Santa Clara transit station and Downtown Santa Clara. The City should prioritize creating an attractive, walkable connection between the station and Downtown to encourage shoppers, residents, and workers to access Downtown Santa Clara by transit.

6. APPENDIX

The findings in this report (and in Strategic Economics' previous report, *Small Business Strengths Weaknesses, Opportunities, and Threats Analysis*) are based on Strategic Economics' analysis of business and sales tax data and review of relevant previously-completed documents. In addition, Strategic Economics' conducted interviews with the following technical and community stakeholders:

- Terry Christensen, Alum Rock/28th Street Community Working Group (CWG) member
- Carlos Diaz, Alum Rock Business Association & Alum Rock/28th Street CWG member
- Jesus Flores, Alum Rock Business Association
- Chris Patterson-Simmons, East Santa Clara Street Business Association
- Derrick Seaver, Downtown San José Association
- Ken Sinclair, Downtown Santa Clara Merchants Association
- Davide Vieira, Commercial Property Owner & Alum Rock/28th Street CWG member
- Vic Farlie, Sal Alvarez, and Dhez Woodworth, City of San José Office of Economic Development
- Business owners in the Alum Rock/28th Street, Downtown San José, and Santa Clara station areas