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Staff Report for a City of San Leandro City Council Resolution to Nominate The San Leandro Industrial Hub Area to the Association of Bay Area Governments & Metropolitan Transportation Commission for Adoption as a Priority Production Area

SUMMARY AND RECOMMENDATIONS

Staff recommends approval of a City Council Resolution to nominate The San Leandro Industrial Hub Area (SLIHA) to the Metropolitan Transportation Commission (MTC) and the Association of Bay Area Governments (ABAG) as a Priority Production Area (PPA) under the *Plan Bay Area 2050*, a long-range plan for the nine-county San Francisco Bay Area outlining strategies for growth and investment through the year 2050. MTC/ABAG are currently conducting the outreach and public planning process for *Plan Bay Area 2050*, which is expected to be adopted in summer 2021.

BACKGROUND

San Leandro’s industrial area is among the strongest in the Bay Area, with a strategic location along I-880, excellent transportation access, relatively affordable real estate, and a strong identity within the region as a manufacturing center. Despite consistently low vacancy rates, the City remains competitive and generally has lower lease rates than comparable space in Berkeley, Emeryville, Oakland, and Fremont. The City continues to facilitate the adaptive reuse of its industrial land and building supply to meet the needs of the regional economy. Over the past several years, San Leandro has seen replacement of outdated industrial building stock, with over 1.5 million square feet of new Class A industrial buildings constructed or renovated, representing over \$200 million in investment. Development interest in the industrial area continues, with new properties coming to the market and generating significant interest from local and national development teams and institutional investors.

San Leandro’s industrial area has long served as the primary business and jobs base for the

community. Approximately 19% of San Leandro's land area, over 1,300 acres, is zoned industrial. Between 2014 and 2017, an estimated \$52 million was contributed to the San Leandro economy from the industrial and manufacturing sector. While some businesses are closing, new ones continue to arrive, with 30 new manufacturing businesses and 213 new manufacturing jobs between 2014 and 2017. Approximately 32% of San Leandro's jobs, over 14,400, are in the Production, Distribution, and Repair (PDR) sectors. PDR jobs have historically been the cornerstone of the local economy, providing good living wages to persons with a diversity of skill and education levels. The average wage in the PDR sectors is over \$68,000, which is above the per capita income for the community.

San Leandro is home to three predominant industrial clusters:

- Food Processing (Ghirardelli Chocolate Company, 21st Amendment Brewery, Coca-Cola, and Torani)
- Metals & Machining (PCC Structurals Inc., Scandic, Applied Fusion, Inc., Production Robotics, and Halus Power Systems)
- Instruments and Process Controls (Energy Recovery, Pasteurization Technology Group, American Underwater Products, and the Kaiser Permanente Health Care Innovation Center)

San Leandro's catch-phrase "We Make Things" builds on San Leandro's deep manufacturing history, with innovative companies working on solutions for business, environmental, and social problems. San Leandrans are proud that this is a city that makes things and take pride in the City's transformation into an innovation and advanced-manufacturing hub.

San Leandro has taken a number of steps to support and encourage production in the industrial area. Recent Zoning Code updates in conjunction with the Next Generation Workplace District study from 2013 included measures to deter large-facility/low-employee-count businesses, by requiring Conditional Use Permits for warehouse and distribution uses. With the same goal in mind, the City also updated its Business License structure via a ballot measure, determining the license fee for warehouses based upon square footage rather than employee count. In this way, the tax is more closely correlated with the physical size of the business and the impact it will have on roads and services due to truck traffic.

Analysis

The City's goal is to promote and support the growth of new and emerging industries, especially industries requiring work space that is consistent with San Leandro's building stock and industries with the potential to provide quality jobs at all skill levels and wage levels for San Leandro residents. Furthermore, the character of PDR activities will change as land values rise and amenities like high-speed internet attract value-added businesses. Advanced manufacturing in sectors such as food processing, metals and machining, and instrument and process controls may lead the transition to a more technology-focused economy.

The total number of jobs in San Leandro's manufacturing sector has declined since 1998. However, the number of manufacturing businesses has declined at a much slower rate. The average manufacturing business size in the city dropped from 39 employees in 1998 to 28 employees in 2012. Manufacturing output per employee increased during the same period. This suggests that the City's businesses are becoming leaner and more nimble, with a larger number of start-ups and entrepreneurs.

The Next Generation Workplace District Study calls for maintaining the City's historic manufacturing base and transforming the industrial area into a vibrant, innovative, and attractive workplace. Redevelopment of this area offers a unique opportunity for companies to participate in San Leandro's growing tech and innovation ecosystem, and utilizing the Lit San Leandro fiber optic loop. The City's priority is to continue and encourage job-creating manufacturing uses, particularly food manufacturing, brewing, advanced manufacturing, and small-scale innovative manufacturing.

ABAG and MTC opened a call this year for Letters of Interest (LOI) for a new pilot program for Priority Production Areas (PPA).

PPAs are intended to support strong clusters of the region's economy by enhancing and protecting selected industrial areas through supportive resources and implementation actions. PPAs will also encourage middle-wage job growth close to affordable housing and support networks of production, distribution and repair services, including advanced manufacturing.

Together, Priority Development Areas (PDAs), Priority Conservation Areas (PCAs) and the new PPAs will comprise The Plan's Regional Growth Framework, the Bay Area's strategy for coordinating housing and job growth. This Framework will shape the investments and growth patterns to be detailed in Plan Bay Area 2050.

MTC to date has invested more than \$800 Million in PDAs because these are the high density, transit-oriented areas where the region is projected to grow. MTC and ABAG in May 2019 established a pilot program for PPAs, and adopted revised definitions and eligibility criteria for PDAs and PCAs. As part of the update, MTC and ABAG directed staff to open an application window for new priority areas, and to work with City and County governments as well as county transportation agencies (CTAs) to ensure all PDAs meet program criteria. San Leandro has 3 PDAs: Downtown, East 14th Street, and Bay Fair.

Local governments and park districts must submit resolutions by January 2020 to be considered for new PPA designations. PPAs need to be zoned for industrial use or have a high concentration of industrial activities, such as production, advanced manufacturing, distribution, or related activities. PPAs cannot be located within one half mile of a regional rail station or overlap with a PDA. Each jurisdiction nominating a PPA must have a certified housing element. The San Leandro Industrial Hub Area encompasses the vast majority of industrial land in San Leandro (see attached maps to the Resolution).

Staff believes that establishing a PPA in San Leandro's industrial sector will enable the City to meet several economic development goals and actions from the 2035 General Plan in addition to contributing toward the greater platform of the Plan. Similarly to PDAs, the future opportunities for cities and counties with PPA designations may be greater access to resources and public funding for public benefits like capital improvements, better transportation access, economic development, and job creation. San Leandro Industrial Hub Area

Current Agency Policies

Establishment of the San Leandro Industrial Hub Area as a Priority Production Area works towards the following City Council Goals:

- Place San Leandro on a firm foundation for long-term fiscal sustainability.
- Advance projects and programs promoting sustainable economic development, including transforming San Leandro into a center for innovation.
- Maintain and enhance San Leandro's infrastructure

Applicable General Plan Policies

- **Policy ED-1.2 Maintaining San Leandro's Competitive Advantage.** Maintain and protect San Leandro's inventory of larger-scale industrial sites and buildings with easy access to freeways, rail, airports, and seaports. Discourage the conversion of industrial uses to commercial and residential uses except where part of a carefully targeted citywide strategy.
- **Policy ED-1.3 Industrial Land Use Efficiency.** Encourage more efficient use of the City's industrial land supply, creating higher employment densities and high quality jobs, while discouraging the use of large sites and buildings for storage and other low intensity uses. Ensure that zoning and other development regulations support higher utilization of sites zoned for commercial and industrial activities.
- **Policy ED-1.4 Emerging Industries.** Promote and support the growth of new and emerging industries, especially industries requiring work space that is consistent with San Leandro's building stock and industries with the potential to provide quality jobs at all skill levels and wage levels for San Leandro residents.
- **Policy ED-1.5 Core Industries.** Make San Leandro the Bay Area's location of choice for advanced manufacturing, food and beverage production, and entrepreneurs in the "maker" economy.
- **Action ED-1.9A Made in San Leandro.** Continue marketing, branding, and public relations efforts which promote San Leandro's unique business assets and amenities, legacy as a manufacturing center, and commitment to ingenuity and innovation.
- **Action ED-1.6C Promoting Food and Beverage Operations.** Capitalize on the concentration of food producers and craft breweries to create jobs, entertainment venues, and destinations that help brand the city.
- **Policy ED-3.3 Leading Edge Economic Sectors.** Continue efforts to attract businesses on the leading edge of the Bay Area economy, including advanced fabrication, clean tech, information services, advanced transportation, and maker businesses.

Legal Analysis

The nomination of the San Leandro Industrial Hub Area as a Priority Production Area was reviewed by the City Attorney.

Fiscal Impacts

Establishment of the San Leandro Industrial Hub Area as a Priority Production Area does not have any fiscal impacts or obligations for the City. Similar to PDAs, jurisdictions with PPAs are anticipated to have access to regional funding to support planning and investment in the area. Staff will seek future PPA funding opportunities that align with the City Council's vision and goals for the San Leandro Principal Industrial Area.

Attachment to Resolution

- Map of San Leandro Principal Industrial Area

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