



Memorandum

TO: COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE

FROM: Chris Burton

**SUBJECT: STRENGTHENING
MANUFACTURING IN SAN JOSE**

DATE: March 10, 2015

Approved

Ken Waters

Date

March 15, 2015

RECOMMENDATION

Accept Staff's report on manufacturing in San Jose and priority actions to retain and grow manufacturing-related activity and jobs.

BACKGROUND

In April of 2010, City Council adopted San Jose's second five-year Economic Strategy to align City and partner resources in a common direction to aggressively regain jobs and revenue (Strategic Goals #1-6), and to create a world-class business and living environment (Strategic Goals #7-12). The Strategy included Strategic Goal #3: "Preserve and strengthen manufacturing-related activities and jobs."

In June of 2012, staff provided the committee with an in-depth report on opportunities to preserve and strengthen manufacturing in San Jose. The report identified a number of findings regarding the nature of manufacturing in San Jose and presented a range of targeted activities that could help support the sector.

In September of 2013, staff returned to the Community and Economic Development Committee to provide an update on the implementation of these activities. At this time staff provided information about the creation of the Silicon Valley Manufacturing Roundtable, a collaborative between economic development staff at the City of San Jose, City of Fremont, City of Morgan Hill and the City of Santa Clara. The Roundtable continues to meet on a roughly quarterly basis to convene manufacturers, stakeholders, educators and local/regional government to discuss and provide solutions to the challenges facing manufacturers.

This report updates the Council Committee on staff's continuing efforts to support the local manufacturing sector and work with its employers to grow San Jose's industrial base.

ANALYSIS

Since adopting manufacturing as one of the Office of Economic Development's targeted work areas in 2011, staff has continued to work diligently on employer engagement and support programs that help to preserve and strengthen manufacturing in San Jose. Through this work, staff has developed the following understanding of the nature of manufacturing in San Jose:

1. The San Jose metropolitan area ranks #2 of the top 100 metro areas nationally for specialization in manufacturing, and ranks #1 in advanced technology manufacturing.
2. During the last decade, San Jose lost manufacturing jobs, but at a lesser rate than California and the nation; local output and productivity increases were much stronger than the state and nation.
3. Manufacturing provides local residents with well-paying job opportunities at a range of educational levels in occupations spanning engineering, production, logistics and sales. Just under half (47%) of Santa Clara manufacturing jobs do not require a college degree.
4. The local manufacturing ecosystem includes wide range of companies that fall into three general categories of companies: Original Equipment Manufacturers, contract manufacturers and the supply network/industrial base.
5. San Jose is a high cost/high value manufacturing location and has become specialized in supporting a new product introduction niche in the global manufacturing process, which provides significant value to the San Jose/Silicon Valley innovation economy.
6. Local manufacturing service providers are an important resource for the next generation of emerging growth companies in connected devices, clean tech, medical devices, and information/communication technology.
7. Manufacturers cite the experienced, skilled workforce as a location advantage for San Jose, but also report difficulty hiring appropriately skilled workers.
8. Manufacturers are located in older, one- to two-story industrial R&D buildings, and have limited ability to operate in taller structures; there is concern about market pressure to redevelop manufacturing buildings for office uses.
9. Although the City offers programs that can reduce operating costs, minimize downtime, and speed hiring of quality workers, manufacturers' awareness of these programs is low.

Over the same period, staff has worked on a number of activities and initiatives to address the challenges faced by local manufacturers. More recently staff has placed a larger emphasis on direct outreach and interaction with manufacturers as part of the broader business outreach program. Of the more than 350 business outreach interactions completed by the Office of Economic Developments Business Development team in FY 13/14, approximately 1/3rd were with manufacturers or related industries. This continued engagement provides an invaluable resource when working on broader policy initiatives as it helps ground or verify many of the assumptions held by other stakeholders contributing to the discussion.

The manufacturing landscape in San Jose continues to evolve as added cost pressures, increased domestic and foreign competition, and an increasingly competitive talent market contribute to the ongoing erosion of San Jose's manufacturing base. While 31% of regional jobs are in manufacturing related fields, the region as a whole continues to lose manufacturing jobs. In San Jose alone, the local economy lost 7% of its manufacturing jobs between 2010 and 2013. However, manufacturing still accounts for more than 50,000 jobs in San Jose, and continues to be an important source of middle skilled and middle income jobs.

These factors have placed an increasing urgency on staff's work to maintain and strengthen our position as one of the nation's leading manufacturing centers. Manufacturers continue to cite increased costs for labor and utilities as primary factors in location decisions and as recently as the past six months staff has continued to experience an increase in the amount of retention work being performed with these companies. Up to this point, trends in local advanced industries innovation had been moving away from hardware and manufacturing, but with the emergence of connected devices, smart environments and the internet of things, we are starting to see increased activity within our manufacturing base despite the increased pressure to relocate operations.

The role of manufacturing and its value to the local economy continues to be highlighted in the full range of employment opportunities it offers for San Jose residents. High-value, tech manufacturing firms employ a wide range of employees from entry level positions with only a high school diploma, to highly trained engineers and PhD's. This has led to increased awareness about the importance of manufacturing amongst other local and regional agencies, and has led to new programs from the State and Federal government. As such, staff's work has included interactions at the local, regional, state and federal level.

Local Engagement

Within San Jose, staff's focus has remained on reducing costs, streamlining interactions with regulatory agencies, and facilitating connections between suppliers and companies through a variety of different conduits. Through staff's outreach activities, we have been able to increase awareness of the different City assistance programs that can reduce cost (including the Business Cooperation Program, Foreign Trade Zone, and expedited permitting programs), available State of California programs (including the California Competes Credit Program that allows businesses to compete for available tax credits based on number of jobs created and retained, and the State of California Sales Tax Exemption Program that applies to the state portion of sales tax (4.19%) for the first \$200 million of manufacturing/R&D equipment), as well as programs provided through other public sector partners (PG&E, Manex), and services offered by private sector partners (including lending institutions).

Regional Engagement

The City's leadership in addressing the needs of manufacturers has been supported across the region through a number of forums. Firstly, the Silicon Valley Manufacturing Roundtable (SVMR) continues to bring together private sector companies and stakeholders to seek out opportunities for manufacturers and related industries, and work to identify and address common issues. This has led to strong partnerships with not only other local cities, but also other regional organizations that have a focus on, or projects relating to manufacturing. These include the San

Jose/Silicon Valley Chamber of Commerce, the Society of Manufacturing Engineers, SEMI, Community Colleges, Workforce Investment Boards, and the Council of Supply Chain Management Professionals.

Federal Engagement

Staff actively participates with the Federal Government on their initiatives related to manufacturing. On multiple occasions City staff has engaged in national forums on manufacturing, including Advanced Manufacturing Partnership, and with federally backed regional programs such as the Manufacturing Extension Partnership through its local designee, Manex. Our goal in these forums is build recognition of the importance of San Jose's manufacturing ecosystem to the national economy and hopefully look for opportunities to direct resources to support our ecosystem.

Some of the Federal programs that the Office of Economic Development is supporting or applying for include the Department of Commerce's Investing in Manufacturing Communities Partnership, the Economic Development Authority's i6 grant application, and the White House's Manufacturing Innovation Institute program.

Workforce Development

Through SVMR staff has been working to bring together manufacturers and community colleges to address some of the concerns that have been raised by industry about the lack of available workers. One of the primary challenges in aligning these two elements is the disparity between the timing of their needs. More formalized training courses through community colleges often last multiple years, while manufacturers hiring needs may only be projected six months in advance. In order to meet this need, a pipeline of available talent would need to be constantly under development without clear knowledge as to job availability. To help address this issue, staff is exploring programs that provide opportunities for a broader base of employees with entry points into the sector so that longer horizon training programs can supplement a career pathway once someone has entered the industry rather than being a prerequisite.

As such, the Office of Economic Development is working in partnership with the Urban Manufacturing Alliance (UMA), under leadership of the Pratt Center for Community Development and PolicyLink, and three other cities, to launch the Equitable Innovation Economies Initiative in June 2014. The goal of the initiative is to enable cities to collaboratively develop and implement programs to expand their innovation economy strategies, while also advancing more equitable economic development, including the creation of good quality, manufacturing jobs, and in addition to San Jose, is being piloted by New York City, Portland, and Indianapolis. Through this initiative, staff will be working with a broad range of partners on the coordination of the various types of workforce development and training programs that are relevant to manufacturers, and aligning the resources from workforce agencies, community colleges, makerspaces and manufacturers to provide manufacturing and entrepreneurial career pathways for low-income San Jose residents.

In the near term, this will focus on aligning with work2future's occupational training programs to promote San Jose youth and adults toward careers in the manufacturing sector by focusing on

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career exploration, basic knowledge of tools, equipment and machinery, computer aided design programs, 3-D printing, as well as certification in workplace safety. In addition, staff will be exploring the potential of securing State of California Employer Training Panel funding to support incumbent worker skill upgrading programs for manufactures.

FOLLOW UP

Staff will continue to engage with manufacturing firms through one-on-one business outreach meetings and by convening broader groups of companies and industry partners. Clearly, successful support for manufacturing in San Jose cannot be undertaken without the partnership and support of local companies and industries, and staff's work will align and engage with other regional partnership opportunities such as the San Jose/Silicon Valley Chamber's Regional Economic Development Initiative.

Staff will continue to keep the Committee and full City Council apprised of its ongoing work with this important sector through regular reports on business outreach.

/s/

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Office of Economic Development

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