



Memorandum

TO: Mayor and City Council

FROM: Councilmember Rose Herrera

SUBJECT: CATALYST PROGRAM

DATE: January 12, 2010

Approved

Date

01/12/10

RECOMMENDATION

Regarding the Catalyst Program as run through the Economic Development Enhancement Fund, Fund 439, direct the City Manager to:

- 1) Suspend new investments of the Catalyst Program and bring the program back as part of Mid-Year Budget Review process.
- 2) Before the Mid-Year Budget discussion at the February 9, 2010 City Council meeting, provide to the Mayor and City Council in writing answers to the following questions:
 - a. What is the contract language that allows for the City to cancel the contract with Pacific Community Management (PCM) and exit the contracts with both companies?
 - b. How many jobs and correlating salaries have been created per un-leveraged dollar invested in each company?
 - c. What is the pure financial return and over what period of time generated by the Program?
 - d. What are the fees to date and over the life of the contract does the City pay to Pacific Community Management?
 - e. Provide three alternative economic development uses for these funds as permitted under Fund 439.

BACKGROUND

The San Jose region continues to lead the nation in its economic activity it creates through technological innovation. We have the strongest concentration of successful innovation not seen anywhere else in the world. As a community, we balance the unique demands of housing so many high-tech innovators with the needs of more than one million residents. Therefore, when the City identifies and pursues economic development priorities using taxpayer dollars, we must be steadfast in the pursuit of opportunities that reap tangible citywide benefits with low-risk investments.

I believe the Catalyst Program exposes the City to too much risk. We should not be investing taxpayer dollars into an equity investment fund. It is a high-risk investment, regardless of the dollars leveraged. Venture capitalists are willing to lose money on the chance that one of their companies will have a huge pay off. With taxpayer dollars on the line, we do not have room for error. We are the custodians of taxpayer dollars. The City of San Jose should not be entering into high-risk venture capital investments as it is not an appropriate use of city dollars. Pacific Community Management is an excellent company. However, the City does not have the capacity to retain the needed expertise on staff to track this program. Therefore, I believe we should identify and pursue a different use for the funds, end the program, and exit our contract with PCM.

Throughout the City's economic development pursuits, corporate attraction and retention are at the core of their intent. We endeavor to develop policy that keeps San Jose competitive with neighboring communities and comparable cities nationwide. Although the Catalyst Program is a compelling and unique program that puts San Jose on the forefront of local government economic development innovation, the inherent risk in venture capital does not make this the right program for San Jose's taxpayer dollars. We should pursue opportunities that better align with the current needs of businesses in San Jose with a lower risk of public dollars.