



Memorandum

TO: CITY COUNCIL/REDEVELOPMENT AGENCY BOARD **FROM:** Mayor Chuck Reed

SUBJECT: MAYOR'S BUDGET MESSAGE **DATE:** November 25, 2008
FY 2008-2009 REDEVELOPMENT
AGENCY CAPITAL BUDGET
AND ECONOMIC STIMULUS
PLAN

Approved:

Chuck Reed

Date:

11/25/08

RECOMMENDATION

That the Redevelopment Agency Board and the City Council jointly approve the proposed Economic Stimulus Plan and proposed Redevelopment Agency 2008-2009 Capital Budget and amend the Five-Year Capital Improvement Program to a two-year spending plan incorporating the specific recommendations in this memorandum.

INTRODUCTION

I present my Fiscal Year 2008-2009 Redevelopment Agency Capital Budget Message for consideration by the Redevelopment Agency Board against the backdrop of a state and nation facing the worst economic challenges in generations and a city that has never recovered fully from the impacts of the dot-com collapse at the beginning of this decade. However, by planning carefully and investing our redevelopment resources strategically, we can help invigorate the local economy, promote job growth, and drive economic recovery.

For this reason, this year's Redevelopment Budget Message goes beyond the traditional Capital Budget, and contains an Economic Stimulus Plan designed to accelerate investment and spark job creation.

Redevelopment is a tool for eliminating blight and revitalizing communities. By using this tool wisely, we can encourage new development, create jobs, generate tax revenues, and encourage private investment. The San José Redevelopment Agency has proposed a one-year capital budget and a five-year capital improvement program. The FY 2008-09 Proposed Budget projects a 8.5% growth in property values, for a total of \$195 million in tax increment revenue, for Redevelopment Project Areas.

This fiscal year, the Agency's Proposed Capital Budget totals \$259 million. I recommend that this funding be strategically allocated to stimulate the economy. Focused investments will move the Redevelopment Project Areas forward and eliminate blight by increasing jobs in San José, enhancing economic vitality, investing in public facilities and infrastructure, strengthening neighborhoods, and providing quality affordable housing. The budget will also allow the Agency to meet obligations to other government entities, including pass-through payments and contractual obligations. Redevelopment continues to be a critical catalyst to create jobs and stimulate the economy.

ECONOMIC STIMULUS PLAN

San José and Silicon Valley have the potential to lead California and the nation out of the current recession, as we have in the past. By investing in innovation, we can fuel that process, benefiting our own local community, our region, and beyond.

Through the early part of the current downturn, San José remained somewhat insulated from the turbulence that states and cities throughout the nation endured. However as economic conditions grew increasingly worse in recent months, it is clear that our businesses and residents are feeling the impacts. Residents are cutting costs, while businesses are curbing expansion and investment. Sales tax revenues dropped 3.4% from last year.

The development community has responded to twin crises in the financial and housing markets by postponing office R&D and residential projects, even those with approved permits. Construction and conveyance tax collections through September were down 35% compared to the previous fiscal year, and development activity tracked by the Planning, Building and Fire programs are below anticipated levels.

New housing developments are having trouble selling units, even with significant enticements and cost-reductions, and three major developments have changed their business model from for-sale to rental housing. San José has seen over 6,000 foreclosures in an 18-month period, which are hitting our most fragile neighborhoods hardest, according to the City's Housing Department.

In the third quarter, the San José Metropolitan Area ranked fourth in the nation for mass layoffs with more than 3,700 job losses, while the unemployment rate has seen a month-to-month increase in the last quarter. As of October, the unemployment rate had increased 2 percent over the previous year, and is now standing at 6.9 percent.

On the travel and tourism front, San José International Airport is projecting a 12% drop in passenger activity this year while hotel tax revenues have dropped 7% from the same time last year.

Given the challenges facing our city, we must use our Redevelopment resources to aggressively fuel economic growth. Our resources are limited, but by investing in a focused and strategic manner, we can spark an economic resurgence that will lead the nation through innovation.

Despite the negative news, there are some promising indicators and signs of future progress. Entrepreneurs are leading the way in solving global problems and creating jobs in clean energy, green transportation, and new technologies. Over the past year, more than 1,500 new clean tech jobs have been created in San José, helping meet our Green Vision goals. Local colleges are retraining workers for green collar jobs in solar installation. Manufacturing has returned to San José with the growth of CleanTech companies. With the support of our legislative leaders, we averted another crisis by successfully obtaining an eight-year extension of the federal clean energy tax credit, providing stability to our local clean energy companies and incentives for residents and businesses to invest in clean energy on their homes and businesses.

We must focus our efforts on ensuring the long-term economic health of our city, and the residents, workers, and businesses that we serve. We must take action to ensure that San José remains the Capital of Silicon Valley, the innovation center of the world. To that end, we must adopt economic stimulus initiatives that develop and create jobs; encourage private investment in commercial, residential and office R&D development; build and retrofit our infrastructure; and leverage existing programs and resources.

The following recommendations comprise my Economic Stimulus Plan for San José.

- 1. Attract and Retain Business:** San José needs to consistently tell our companies that we are open for business, that we appreciate their business, and that we want them to locate here, stay here and grow here. In doing so, we must operate at the speed of business, working seamlessly as one organization with collaboration and partnership from the Redevelopment Agency, Office of Economic Development, and through the permitting and environmental review process. San José must be the easiest place in the state to open or expand a business.

In the coming year, we must develop and increase financial incentives and funding mechanisms to retain, expand, and attract driving industry technology companies, as well as clean tech and emerging technology businesses. We will evaluate the fiscal impact of these programs, focusing our investments in those that are most effective.

- A. Tomorrow's Driving Industries:** We understand that new tech companies won't happen overnight but will be the product of forethought, sound vision and planning, as well as, strategic investments by both the public and private sectors. Through the following investments, we will help bring the best scientists and researchers to San José, to attract jobs in tomorrow's driving industries and help start-up companies get off the ground faster.

- 1. San José BioCenter:** This project will address some of the expansion needs of current tenants at the BioCenter for additional space through the completion of tenant improvements. I recommend approval of \$4 million in the Agency budget for this project.

2. **Clean Tech Jobs Investment Fund:** This fund will provide funding to attract a diverse array of emerging clean technology companies. I recommend approval of \$2.5 million in the Agency Budget for this fund.
3. **Emerging Technologies Fund:** Funding for the acquisition of capital equipment and the redevelopment of R&D, office, and manufacturing facilities by established and emerging technology companies. I recommend approval of \$2.5 million in the Agency budget for this fund.
4. **Downtown Major Tenant Fund:** This fund will attract new driving industry companies and encourage existing corporate users to expand their operations downtown. I recommend approval of \$3 million over two years in the Agency Budget for this fund.

B. Additional Opportunities:

1. **Business Attraction Campaign:** Building on our current efforts, the Redevelopment Agency Executive Director and City Manager by the 1st quarter of 2009 are directed to:
 - i. Develop a proactive business attraction campaign to encourage emerging technology companies to locate in the Downtown, Rincon de Los Esteros and Edenvale Redevelopment Project Areas
 - ii. Work with the Mayor's Office to design a communication and outreach program to inform venture capital, corporate and development communities of available incentive and business development programs;
 - iii. Over the next year, inform every driving industry company in San José that we appreciate their business and we want them to stay and grow here;
 - iv. Be prepared with a team of key staff members to respond immediately to private sector interest in investing in San José, along the lines of our response to the Tesla Motors project.
2. **Vacant Land and Building Inventory:** The Executive Director by first quarter of 2009 is directed to develop an inventory of vacant lands and buildings in our industrial areas that are available for manufacturing uses, and report to the Community and Economic Development Committee on opportunities for preparing this inventory for immediate development and occupancy. This tool should build on prior Citywide information developed by the Planning, Building and Code Enforcement Department, and ensure that accurate property information is immediately available to companies seeking space to relocate and expand.
3. **Incentive Zones:** The Executive Director and City Manager are directed to work with PG&E and other utilities to develop a program to create incentive zones in the Rincon de Los Esteros and Edenvale Redevelopment Project Areas that

benefit from special economic development rates for power. All opportunities to expedite the readiness on new service connections should also be pursued.

4. **Permit Extensions:** For projects with permit approvals set to expire in 2009, the City Manager is directed to bring forward an ordinance to extend the life of the permit by one year to facilitate development and construction where the extension will not conflict with other projects that are ready to go.
 5. **Reducing Permit Regulations:** The City Manager is directed to review and report to the Community and Economic Development Committee by the first quarter of 2009 on opportunities for relaxing certain discretionary permitting regulations while insuring CEQA compliance, to accelerate development projects.
 6. **Employment Training Panel and Workforce Development Allocations:** The City Manager is directed to work with the Work2Future Board and the State to create a program to receive a larger percentage of Employment Training Panel and workforce development allocations.
 7. **Downtown Parking Incentive Program:** The City Manager is directed to extend the parking incentive program, which reduces monthly parking rates for start-up companies from July 31, 2009 to July 1, 2011. This extension will allow further retention and attract new businesses and create new jobs in Downtown.
- C. **Encourage Investment in Renewable Energy and Energy Efficiency:** Many businesses and residents want to reduce their energy consumption and make the move to clean, renewable energy both to save costs and out of concern for the impacts of traditional energy sources. Increasing the demand for energy generation conservation products will help our CleanTech companies continue to grow.

The Executive Director and City Manager are directed to identify and evaluate funding mechanisms that help ensure that businesses, residents and the City have access to capital for strategic investments which will reduce operating costs and catalyze growth through renewable energy and energy efficiency adoption, IT upgrades, renovations and equipment purchases. Such mechanisms could include, but not be limited to, the creation of assessment districts which provide loans that are repaid through property tax bills and microloans that leverage public and private funds. A preliminary report should be brought to the Community and Economic Development Committee by the first quarter of 2009.

- D. **Encourage Investment in Residential Developments:** With the housing market in chaos and foreclosures on the rise, the Executive Director and City Manager are directed to review and report on the following steps which are opportunities to invigorate investment in housing and help residents attain homeownership:
1. Pursue alternatives to allow residential projects in North San José to move forward with building permits on an “as ready” basis even if the total units zoned

exceed the limits imposed under the Phase 1 cap of the North San José Development Policy.

2. Work with the State and local lenders including Bank of America, Wells Fargo, CitiBank, and JP Morgan to address foreclosure issues as each of these institutions are in the process of reworking mortgages.
3. Explore additional uses of funds, such as: a revolving fund that provides security deposits for low-income renters; a first-time buyer's fund to make down payments available to low income households otherwise financially qualified for home ownership; and cost offsets for financing multi-family affordable housing. The Executive Director and City Manager shall report back to the Neighborhood Services and Education Committee on these options.
4. The downtown for the first time has experienced a surge in new high rise residential development. Unfortunately, this untested market has been slower than anticipated due to the economic downturn. The Executive Director is directed to work with the downtown high rise developers to determine their needs and to assure the success of these projects.

E. Accelerate Projects and Create Construction Jobs: The Executive Director and City Manager are directed to identify City and Agency capital improvement projects that could start construction in 2009 and develop a program and steps to accelerate and facilitate construction of such projects sooner than currently scheduled. These projects should have a positive or neutral operations and maintenance impact or should be necessary to leverage other agency resources.

F. Spark Development Downtown and in Commercial Districts: The downtown core is the heart of San José. I recommend the following:

1. The Executive Director and City Manager to review private sector development projects in the downtown, Neighborhood Business Districts, and business clusters to identify impediments that could be removed and incentives that could be granted, that will facilitate the development of private projects and public-private partnerships that could proceed in 2009.
2. In the five-year CIP, Convention Center upgrades were scheduled as follows:

2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
\$20,000,000	\$20,000,000	\$140,000,000	\$65,000,000	\$55,000,000

The funding of the Convention Center project was planned under the assumption that the local hotels will create an assessment district and raise \$150 million towards the proposed expansion. Due to the adoption of a two-year CIP, project funding for years 2010-11 and beyond will not be projected in this document. I recommend that consideration of this vitally important

economic development project continue as scheduled and the Executive Director plan to provide the projected level of funding for this project in the years beyond the two-year CIP.

3. The upgrade of the Civic Auditorium will include seating and stage modifications, renovation of the dressing rooms, façade treatments, and ADA upgrades. The rehabilitated entertainment venue will draw residents and visitors to downtown and generate sales tax revenue. I recommend approval of the funding allocated for this project.
4. Measure B, the one-eighth cent sales tax to extend BART to downtown San José passed on Election Day. The BART extension is the final link to ring public transit around the Bay Area. The City Manager is directed to continue pursuit of federal funding for the BART line. In addition, the Executive Director and the City Manager should continue to explore various funding options for the Downtown San José BART portal.
5. The Diridon/Arena Strategic Development Plan envisions a pedestrian and transit oriented high-density community of residential, office and commercial uses. In addition, the area holds potential as a future high speed rail or BART station. The Executive Director and City Manager are directed to proceed with strategic land use and transportation planning and acquisitions in this area of downtown.

G. Increase Sales Activity: The Executive Director and City Manager are directed to report to the Community and Economic Development Committee in the first quarter of 2009 to review and develop programs and capital improvement projects to support San José's major sales tax generators, including but not limited to special handling of development permit processes for expansion projects, on and off site signage, and marketing campaigns to promote local buying.

2. **Take Bold Action at the Federal, State, and Regional Levels:** The new administration has discussed economic stimulus packages that would invest in cities, rebuild infrastructure, expand transportation systems, and put people back to work. The Executive Director and City Manager are directed to aggressively pursue federal and state funding that will spur investment and job creation in San José in 2009. We must work to support our emerging and driving industries as federal and state legislative incentive and job training programs are developed. The City and Agency should double our current levels of effort in Washington, Sacramento, and at regional agencies.

In December, I will convene executives from clean tech and green transportation industries together with top state and federal officials for San José's second annual Clean Tech Legislative Summit. This will lead to development of our second Clean Tech Legislative Agenda, which will focus on spurring innovation and job creation in San José and the region.

We will work regionally to ensure that Silicon Valley and the Bay Area become the Electric Vehicle Capital of the U.S., and develop the infrastructure to support the move to plug-in vehicles as our companies develop these cutting-edge technologies. The Executive Director and City Manager are directed to support these efforts.

OTHER INVESTMENT STRATEGIES

The Mayor's Redevelopment Agency Capital Budget Message continues the community-based budgeting process. The purpose of this process was to set forth a vision, clear goals, and objectives for our city given our limited resources. For this process to be successful, extensive public participation was critical, so the City Council maximized opportunities for public input and neighborhood participation, including a community survey, a meeting for neighborhood leaders, neighborhood meetings in every Council district, Council Priority Setting Session, and New Initiatives and Unfunded Programs Session.

Two key goals that came out of these sessions applicable to the Redevelopment Agency are:

- Increase the numbers of jobs in San José; and
- Increase economic vitality

This Budget Message and Economic Stimulus Plan focuses on these priorities set by the Agency Board and our community. This Message builds on a commitment to take a longer view of the Agency's fiscal situation so that we can address current and future challenges while preserving the services San José residents rely on most.

Consequently, this leaves us with the difficult task of deciding how to allocate scarce resources. While it is impossible to fund every proposal in this budget, I have made an effort to ensure that funded recommendations are consistent with the priorities of the Redevelopment Agency Board and the community.

- 1. Municipal Stadium:** The issue of the San José Giants future relative to the Athletics major league franchise has yet to be addressed. The Athletics' potential Fremont ballpark site sits three miles from the Santa Clara County line, which is the territory of the San José Giants. Major League Baseball Rule 52(a)(4) declares that "No Major or Minor League Club may play its home game within the home territory or within 15 miles from the boundary of the home territory of any other Minor League Club."

Furthermore, the affiliation with the San Francisco Giants is in doubt due to the state of Municipal Stadium. The facility is in need of \$5.8 million of improvements. To address these concerns, Council enacted a new five-year lease agreement with the San José franchise in November 2007. It is hoped that this year-old agreement, which allows the club to negotiate the naming rights to Municipal Stadium for the financing of essential improvements, will be sufficient to cover the needed upgrades. In addition, the San José Giants are encouraged to start talks with the Athletics franchise to determine what effect, if any, a move to Fremont would have upon the minor league team's future in San José.

For this reason, it is recommended that the Council revisit issues related to Municipal Stadium when the San José Giants have more certainty around these issues. In addition, the City Manager is directed to aggressively work with San Jose Giants to secure naming rights for Municipal Stadium. (BD #2)

2. **Coyote Creek Trail Development:** The City of San José Green Vision sees completion of the 100 mile trail network within 15 years. Specifying funding for the Coyote Creek Trail within the North San José Trail Development reserve will ensure that the City will be in a competitive position to seek grant funds for construction. The Executive Director shall allocate \$500,000 from the Rincon de Los Esteros San Jose Infrastructure and Park Improvements to a trail development reserve. (BD#3, \$500,000)
3. **Code Enforcement in SNI areas and NBD areas:** Several full-time positions have been cut from the Code Enforcement division over the last few years, leading to a reduction in services. The increase in blight in the Strong Neighborhood Initiative (SNI) and Neighborhood Business District (NBD) areas is especially noticeable. The Executive Director shall, with one-time funding from existing SNI reserves, fund two Full Time Equivalent code enforcement inspectors through temporary positions, contractual services or overtime for the SNI and NBD areas. (BD#6, \$182,052)
4. **Safe Summer Initiative:** This year, the inaugural Safe Summer Initiative funded through the San Jose BEST program was a success. In total, 7,424 youth participated in 435 different activities funded by this initiative. From the summers of 2007 to 2008, there was a 31% decrease in overall gang crimes and a 26% decrease in violent gang crimes. The City Council should support Councilmember Campos' request for additional funding for qualified to allow for sufficient gang prevention programs. The Executive Director is directed to fund \$500,000 from existing SNI reserves for the Safe Summer Initiative. (BD#5, \$500,000)
5. **Earmark of RDA Housing Funds to Offset BMR Requirements:** The City is currently involved in a policy discussion regarding Inclusionary Zoning. Vice Mayor Cortese has proposed that a significant percentage of all funds transferred to the Housing Department from the RDA be earmarked to provide a revolving fund that provides the following:
 - a. A necessary security deposit for low-income renters;
 - b. A first time buyer's fund to make down payments available to low income households otherwise financially qualified for home ownership; and
 - c. Cost offsets for financing multi-family rental.

The City Manager and Executive Director are directed to review and report back to the Neighborhood Services and Education Committee on this concept and funding options after the Council has completed work on the Inclusionary Zoning Ordinance. (BD #7)

6. **Taylor Underpass Tree Planting Streetscape:** Taylor Street is in the Julian Stockton project area and a major East-West corridor through the City of San José. At the Stockton Avenue intersection, concrete medians divide the street as Taylor falls and rises under the

CalTrain crossing. This gateway to the successful San José Market Center would be enhanced with the planting of trees in the Taylor Street medians. The Executive Director shall fund the Taylor Street Streetscape \$50,000 from the existing Neighborhood Business District Implementation and Opportunity Sites. (BD#8, \$50,000)

- 7. Hillview Playground:** The playground at Hillview Park suffered fire damage and is no longer usable. This park serves a vital recreation purpose to the surrounding neighborhood. I recommend that \$200,000 be allocated from the Strong Neighborhoods Improvement – Playground Improvement funds to rebuild this playground. Additional funding needs should come from local capital funds.

TWO-YEAR SPENDING PLAN

The Agency proposed five-year capital improvement program was written using four key economic assumptions, which are:

1. The Agency will successfully increase the cap on the amount of bonded indebtedness that can be incurred under the redevelopment plan.
2. The Agency will successfully sell bonds in upcoming years.
3. The State will not divert tax increment funds from the Agency to balance the State Budget beyond the \$13 million diverted earlier this year; and
4. The economic analysis conducted by Spectrum Economics provides an accurate projection of the fiscal conditions affecting the Agency's future outlook, which was completed prior to the collapse of the financial services sector.

Forecasting the future accurately is always difficult, and the state and nation are experiencing unprecedented economic conditions that make it extraordinarily difficult to project impacts on Agency revenues, especially in the out years. Although the Agency typically produces a one-year Operating and Capital Budget and a five-year Capital Improvement Program, state law requires only that redevelopment agencies produce a one-year budget.

Within five months from now, the Agency will present its 2009-2010 operating budget and in 10 months, a new five year CIP will be prepared. Prior to preparing these future budget documents, several actions will take place that will allow development of a plan based on more solid assumptions, including:

- The Agency will consider the Plan Amendment to increase its limit on the collection of tax increment;
- The ballot process for the hotel tax will be completed, and we will know if an increase to fund the Convention Center expansion has passed;
- The Convention Center cost estimate will be more completely developed;

- The state will complete its emergency budget session, providing more clarity about possible revenue diversions;
- There will be more clarity to any lawsuit challenging the legality of revenue diversions by the state; and
- We should have more data on the impacts of the financial markets and real estate conditions on assessed values and Agency tax increment generation.

For these reasons, I urge the Redevelopment Agency Board to adopt a two-year spending plan, rather than a five-year CIP. To monitor projects that were included in the out years of the Five-year Capital Improvement Plan, the Executive Director should develop a Priority Funding List to be included with the two-year spending plan.

Further, to accurately reflect all city support service costs for the full term of the plan, the Executive Director is directed to include in future Five-Year Capital Improvement Plans anticipated Agency and City operating costs. The Executive Director should also continue to work with the City Manager on the recommendations from the General Fund Structural Deficit Elimination Plan.

CONCLUSION

Over the years, the Redevelopment Agency has demonstrated the ability to eliminate blight, facilitate economic development, build affordable housing, and support neighborhoods that continue to struggle with blighted conditions even with limited resources than in prior fiscal years.

We should be proud of our many accomplishments that make San José a great place to live, work, and raise a family. San José is a community that our residents are proud to call home. Despite the current economic challenges facing the region, state, and nation, I am confident we will continue to find solutions to achieve our community's goals and provide the quality services that our residents deserve.

I want to commend and thank the Redevelopment Agency staff for the work they do each year to prepare the Council and Agency Board for this budget process.

COORDINATION

This memo was coordinated with the Executive Director, City Manager, and City Attorney/General Counsel.