



Memorandum

TO: City Council

FROM: Mayor Chuck Reed

**SUBJECT: ECONOMIC STRATEGY
UPDATE 2010-2015 STUDY
SESSION**

DATE: February 4, 2010

APPROVED: *Chuck Reed*

DATE: 2/4/10

RECOMMENDATION

A. Request staff to articulate clearly the importance of driving industries to San Jose's economy by inserting an update of Part III of the 2003 Economic Development Strategy, specifically the facts and findings in sections IIIb and IIIc, into the final version of the Economic Strategy Update 2010-2015.

B. Identify the recommendations outlined below as the highest priorities for economic development programs to be pursued in 2010.

1. Highest Priority Strategic Goals for 2010

- Encourage Emerging Companies and Growth Sectors that Can Drive the San Jose/Silicon Valley Economy and Generate Revenue for City Services and Infrastructure;
- Preserve and Strengthen Manufacturing-Related Activity and Jobs;
- Nurture the Success of Local Small Businesses; and
- Improve the Speed, Consistency, and Predictability of the Development Review Process, and Reduce Costs of Operating a Business in San Jose

2. Highest Priority Action Items for 2010

- 15 Action Items identified in Attachment A

3. Highest Priority Business Attraction/Retention and Development Initiatives

- Recommendation #5 of the memorandum authored by Councilmembers Liccardo, Pyle, Herrera and myself dated January 25, 2010 included as Attachment B

BACKGROUND

It should come as no surprise that my top economic development priority is keeping and growing driving industry companies, and retaining and attracting jobs. My CEO business appreciation campaign, our Green Vision goals, the emphasis on measurably improving our permit process, all lead to the goal of capturing the jobs created by our driving industries, which as documented in the 2003 Economic Development Strategy support the creation of two or more jobs in our business support and people-serving industries for every job created in driving industries.

The 2003 Economic Development Strategy enumerated that 32% of our employment base was generated by driving industry companies, acknowledged that “driving industries are the economic engine of our economy” and further stated that the “growth and stability of our business support and people-serving industry jobs are tied to the success of our driving industries.” Therefore, keeping and growing our driving industry base must be our highest priority Strategic Goal for 2010. These companies will make major investments in facilities and equipment, generate revenues globally and create jobs locally. That’s what makes our economy grow. That’s what drives the demand for commercial real estate and housing development, the demand for goods and services, and all the jobs that those sectors provide for our residents. The four highest priority Strategic Goals for 2010 identified above will send a strong message of our commitment to supporting the companies that innovate and invest in San Jose.

My suggestions of the highest priority action items to be pursued in 2010 are listed in Attachment A. I believe focusing on the 15 Action Items will generate the most positive and productive outcomes, and enable the City Council and Agency Board to set city and redevelopment policies and priorities in a clear and certain manner to address what staff rightly articulates as San Jose’s most urgent need: to regain jobs for its growing population and revenue for City services and infrastructure investment.

States throughout America and countries around the world want our companies to move R&D and manufacturing facilities to those locales and offer substantial incentives to do so. We have to compete in a global market for our companies. Besides being the Capital of Silicon Valley, our number one asset in getting our driving industry companies to locate here, stay here, and grow here is our ability to move at the speed of business. Our ability to issue tenant improvement permits in hours and streamline our process on the installation of industrial tools and equipment has been vital to our success. I have talked with many CEO’s who are investing in San Jose and they have told me that our ability to work at the speed of business is the most important incentive that we can provide. Therefore, I have identified the highest priority business attraction/retention and development initiative to be the ability to work at the speed of business.

Recommendation #5 of the memo dated January 25, 2010 authored by Councilmembers Liccardo, Pyle and Herrera and myself calls for the allocation of additional staffing and funding for the team of professionals that manage our development permit process, so that they can mobilize quickly to meet the deadlines of companies that move to and expand in San Jose.

We need to ramp-up our staffing capacity in the appropriate development review and permitting functions as quickly as possible to take advantage of any new or expansion projects that will come our way as the economy continues to recover.

Furthermore, in my December 8, 2009 Budget Message, I called for the Redevelopment Agency Executive Director to develop and implement an incentive program to promote the occupancy of vacant industrial and office buildings in the Downtown and Industrial redevelopment project areas, in the form of reductions of construction related development taxes, without impacting City funds. We must proceed to develop that plan to offer these incentives and reduce the cost to businesses that are considering locating and growing here.

CONCLUSION

The Draft Economic Strategy 2010-2015 is an extraordinary presentation of the opportunities and forces of change that lie before us, and articulates well the choices we must make to stimulate a growing economy, prosperity and opportunity for residents, and revenue growth to fund City services. I extend my thanks to the team led by the Office of Economic Development, which included staff from the Redevelopment Agency, Departments of Planning, Building and Code Enforcement, Housing, Transportation, and the Airport, for their efforts in the development of the Strategy Update. I also acknowledge the efforts of the leading economic experts, focus group members and expert advisors that assisted staff in this endeavor. The 2010-2015 Strategy Update should serve us well as a broad, long-term framework.

The approach that I have outlined in this memorandum is a way to focus our priorities to achieve the greatest benefit this year and secure our position as the Capital of Silicon Valley and the World's Center of Innovation. Our highest priorities for action should revolve around what we can do this year that will have an impact this year. I believe this near-term strategy will help us best meet the opportunities and challenges that are before us, and guide and assure our economic success over the next ten months.

Highest Priority Action Items for 2010

Action
#1 Encourage Emerging Growth Companies and Sectors that Can Drive the San Jose/Silicon Valley Economy and Generate Revenue for City Services and Infrastructure
1.a - Retain the availability of local incentive funds to help attract driving industry companies.
1.b - Develop new financial tools to improve competitiveness at attracting driving industry manufacturing companies that generate business-to-business sales tax.
#2 Develop Retail to Full Potential, Maximizing Revenue Impact and Neighborhood Livability
2.a - Develop new tools like sales-tax sharing agreements to fund necessary predevelopment and transportation improvements to move retail projects forward.
2.b - Expeditiously advance current retail projects on existing sites through the planning stage.
#3 Preserve and Strengthen Manufacturing-Related Activity and Jobs
3.b - Protect and improve trucking and freight transportation access to the City's key employment areas.
#4 Nurture the Success of Local Small Businesses
4.d - Develop a new master permit program for small retail leases in large shopping complexes.
#6 Improve the Speed, Consistency, and Predictability of the Development Review Process, and Reduce Costs of Operating a Business in San Jose
6.a - Retain the Special Tenant Improvement Program and the Industrial Tools Installation Program to expedite permit review for expanding companies.
#8 Advance the Diridon Station Area as Key Transportation Center for Northern California
8.b - Continue working with Diridon Area Good Neighbor Committee to sensitively integrate Diridon Station area development with HP Pavilion and surrounding neighborhoods.
#9 Keep Developing a World Class Airport, and Attract New Air Service
9.a - Maintain a cost-conscious, competitive operating environment to successfully compete with the other major airports in the Bay Area and across the nation in retaining and attracting air service.
9.b - Explore issuing an RFP to develop the property on the west side of the airport to support general aviation demand by Silicon Valley companies.
9.c - Engage Silicon Valley community and corporate leadership to assist the airport and its partners to secure additional air service.
#10 Continue to Position Downtown as Silicon Valley's City Center
10.b - Expand and upgrade the Convention Center to increase its capabilities as a modern meeting venue.
10.c - Complete the San Pedro Square Urban Market project, integrating historic resources and new shopping experiences into a cohesive, unique destination.
#12 Develop a Distinctive Set of Sports, Arts, and Entertainment Offerings Aligned With San Jose's Drivers, Growing Population
12.a - Enable construction of the San Jose Earthquakes/Major League Soccer Stadium on the Airport West property.
12.b - Continue planning for Major League Baseball facility in the Diridon station area, working toward a 2010 successful public ballot.



Memorandum

TO: CITY COUNCIL

FROM: Mayor Chuck Reed
 Councilmember Sam Liccardo
 Councilmember Nancy Pyle
 Councilmember Rose Herrera

SUBJECT: SEE BELOW

DATE: January 25, 2010

Approved _____

Chuck Reed _____
Nancy Pyle _____
Sam Liccardo _____

Date

1-25-10

SUBJECT: DEVELOPMENT INCENTIVES FOR SAN JOSE'S ECONOMIC RECOVERY

RECOMMENDATION:

Direct the City Manager and Executive Director to assess the feasibility of the development incentives outlined below and to return to Council

- at the February 8, 2010 City Council Study Session with findings regarding the fiscal and economic benefits to be generated by such incentives, as well an analysis of foregone City and Redevelopment revenues; and,
- at the Redevelopment Agency and City Budget Hearings with a strategy to implement any of the proposed incentives that may be approved as part of the budget.

DEVELOPMENT INCENTIVES:

1. Waive license fees for any new small businesses—employing up to 8 employees—applying for a business license until the end of Fiscal Year 2010-11;
 - a. Provide Council with a review of procedures that ensures that every small business license applicant has information about free and low-cost resources to help them learn best practices in managing their business, including Silicon Valley SCORE, various chambers of commerce, and BusinessOwnerSpace.com.
2. At any City-owned parking lot, waive any fees on parking leases for two years for businesses that enter into or renew a lease in a downtown office or commercial retail building, under the following conditions:
 - a. No individual business may obtain free parking for more than 50 parking spaces; and
 - b. The allocation of spaces to businesses will be commensurate with the aggregate square footage leased by the business in a downtown building.

This parking incentive program will expire at the time that fees have been waived for some aggregate total of parking spaces in all City garages, e.g., 1,000 spaces. Staff is directed to pursue opportunities

as appropriate on a citywide basis similar to programs that exist in several City- or RDA-owned lots in our Neighborhood Business Districts on The Alameda, Alum Rock Avenue and Japantown.

3. Enter into development agreements that provide the equivalent of some share of any "net new" taxes or tax increment received as a result of new business activity, construction, tenant improvements, renovation, or other job-creating project ("Project"), to incentivize the attraction and/or expansion of driving industry technology companies of a specified size (by number of employees or revenues) over a specified duration, or any similar such program proposed by the Administration and the Redevelopment Agency. Such contracts might provide for the payment of the equivalent of:
 - a. 50% of the tax revenue and/or tax increment generated by the Project over a three-year period; or
 - b. 100% of the tax revenue and/or increment over a specified period, but with a "cap" set at the total fees paid by the applicant for the Project; or
 - c. Some other amount to fund the cost of other appropriate private sector investments including capital equipment reimbursements and infrastructure improvements; as determined by Staff.
4. Implement a proposed program for the deferral of impact fees for housing, commercial, and industrial developers—such as those paid for transportation, sewer, and other infrastructure improvements—over an extended duration, utilizing Community Facility Districts or other mechanisms to generate the same net present value payment.
 - a. Consider how to prioritize office and R & D development in creating this incentive, to address both the City's housing-jobs imbalance, and the difficulties that we face meeting Phase I targets for industrial and commercial development in North San José.
5. Allocate any additional staffing or funding for the development services team to work overtime on tight deadlines to support the Special Tenant Improvement Program team that mobilizes quickly to meet deadlines of time-sensitive companies wishing to move into or expand in San Jose.
 - a. Additionally, it is recommended that the City Attorney assign staff who will work with the Office of Economic Development and Redevelopment Agency for the purpose of ensuring timely delivery of permits and services.
6. Engage with the San José/ Silicon Valley Chamber of Commerce, our ethnic chambers of commerce, the Silicon Valley Leadership Group, San José Downtown Association, Joint Venture Silicon Valley, and industry leaders to determine how best to communicate these initiatives to a national business audience and the media, and to continue to inform them about existing programs, such as our Enterprise Zone tax incentives, and San José's recent eligibility for federal Recovery Zone Facility Bonds (RZFB's).

BACKGROUND

At this moment more than at any other, we must look for every opportunity to help businesses create jobs in San José. As the economy timidly emerges from its worst recession in three quarters of a century, we have a short-lived opportunity to accelerate the creation of jobs in San Jose. Silicon Valley companies that are currently evaluating short-term and long term growth and location plans must be given a strong message that San José's leadership is committed to helping their companies to grow here.

The proposals vary from the simple (the waiver of the business license fee for small businesses) to the complex (the "payback" contracts). These ideas, and others that might be generated by our colleagues during our deliberations, can work effectively if packaged together to sell San José to the rest of the world. The underlying principle of each of these ideas is simple: we need to generate business activity to shake from our economic doldrums, and to use any "net new" tax revenues as an incentive for that activity. This may require a sacrifice of short-term tax revenue or fees from any particular transaction. Defending the status quo, however, merely assures us that the City coffers will receive the same percentage share of zero.

Leaders of businesses small and large have routinely complained that our fees and taxes far exceed those of neighboring cities, creating disincentives to do business in San José. Over the next 18 months, we must make every effort to reduce these costs to make us competitive with other jurisdictions.

The waiver of license fees does not create much of a windfall for a small businessperson (typically \$150 per license), but it can have a significant impact to many residents starting a business for the first time. During times of high unemployment, we typically see a spike in applications for small business licenses, most prominently in our immigrant communities. Ensuring that these entrepreneurs can establish their businesses at minimal cost will help spur job creation in those communities that need it the most. Given our past challenges collecting taxes from many small businesses, this could also ensure that these businesses come on to the City's radar from their inception, thereby boosting General Fund revenues in the long run.

The idea of waiving of fees for leases of parking in City garages emerged from the input of commercial brokers who opined that Downtown retail and office space—with its 26% current vacancy rate—is particularly hindered by the fact that tenants must pay for parking on top of whatever lease rate they pay per square foot. The same tenants in competing markets of Santa Clara, Mountain View, or Campbell will obtain parking for free. As a result, at the same lease rates, the Downtown cannot compete with these and other markets when company margins remain thin.

The concept for reimbursement is a tried and tested method of providing incentives; this City Council has approved several such agreements with companies like Nanosolar, SoloPower, and Brocade to name a few. City and Agency staff have developed a concept whereby an incentive based on "net new" taxes generated from new development activity can be considered by which future streams of tax revenue can be leveraged to incentivize new businesses to create jobs in San José.

Finally, the need for additional support for the Special Tenant Improvement Program team results from conversations with the corporate community, developers, and property owners, who have told us that expedited permit processes are the most critical benefits that the City can provide to businesses.

We expect that these proposals will undergo modification as we engage with the community and local businesses, and deliberate among ourselves. Nonetheless, it is imperative that we put these and/or other development incentives in place as quickly as possible, to ensure that San Jose captures our share of the economic benefits of the looming economic recovery.