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Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Debra Figone

SUBJECT: Review Draft of 2010
Economic Strategy

DATE: December 15, 2009

INFORMATION

San Jose's first comprehensive Economic Strategy was adopted by Council in November of 2003, and has brought focus to economic development efforts citywide. Over the last five years, the City and its partners have made significant strides in implementing the 15 Strategic Initiatives, and the Strategy has been recognized as a model.

Earlier this year, Office of Economic Development staff initiated an Update to the Strategy. The Community and Economic Development committee approved the workplan outlining staff's recommended approach at their April 27, 2009 meeting and received a progress report and review draft overview at their meeting yesterday.

The Strategy Update involved new research and data analysis, stakeholder outreach (14 Focus Groups), and feedback from an Expert Advisory Group.

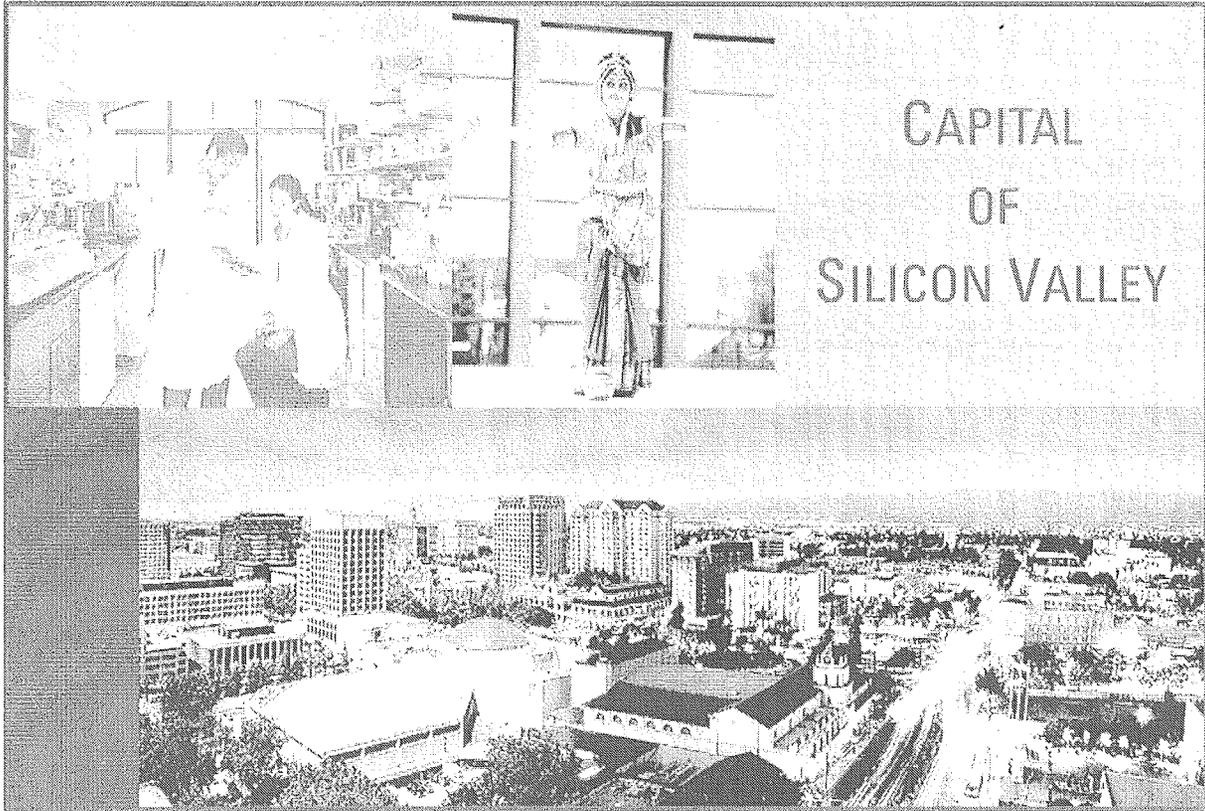
Attached please find the review draft of the Executive Summary: 2010 Economic Strategy. The review draft of the Full Report can be downloaded at www.sjeconomy.com/publications/strategy.asp. This website also provides a summary of each focus group conducted; additional supporting research and presentation materials will be posted over the next several weeks.

The 2010 Economic Strategy will be available for Council, public, and employee review through January. It is anticipated that Council will review and discuss the Economic Strategy at a Study Session in early February.

Please feel free to seek feedback from your constituents. Comments can be communicated via email (economic.development@sanjoseca.gov) or by calling Kim Welsh (408) 535-8177.


Debra Figone
City Manager

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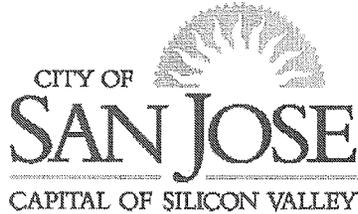
Economic Strategy 2010

Executive Summary

December 2009

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Review Draft 12/14/09



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Special thanks to the more than 130 people who provide suggestions for this strategy through focus groups and interviews

Download the full Strategy report and supporting research materials at:
www.sjeconomy.com/publications/strategy.asp

Please direct inquiries or comments to:

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Time to Update 2003 Strategy

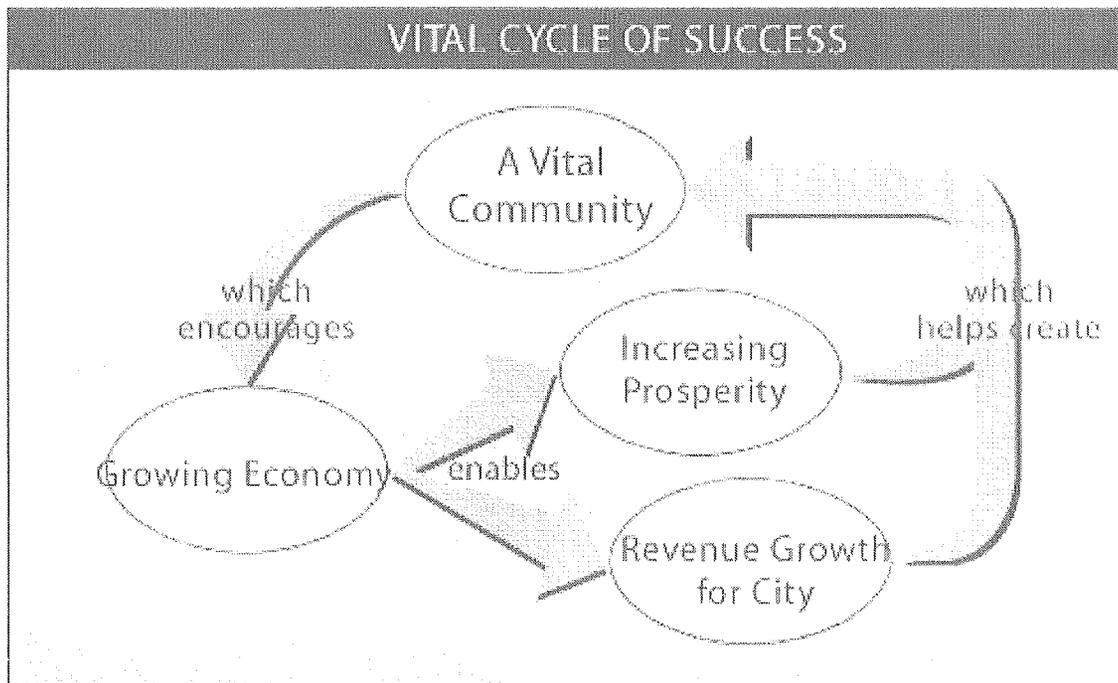
Review Draft 12/14/09

In November of 2003, the San Jose City Council adopted the city's first comprehensive Economic Development Strategy, which provided a framework to set priorities, align resources, and guide day-to-day work citywide. Since then, significant progress has been made in advancing each of that Strategy's 15 Strategic Goals.

After struggling to recover jobs from the dot-com bust of 2001-2002, San Jose is now reeling from a global economic recession that is far deeper and more pervasive. Economists anticipate that the recession effects will last well into 2011 and that job growth in the recovery period will be weak. There is concern about the ability of economy to regenerate and catch a next wave of innovation, and about the human and community cost of a sustained downturn.

City leaders know that, ultimately, a vital economy is essential for ensuring a quality community for the people and employers of San Jose. In San Jose, we want three basic outcomes from our economy: a growing economy, prosperity and opportunity for residents, and revenue growth to fund City services. The first outcome is a prerequisite to achieving the other two outcomes.

This document summarizes the 2010 Update to the original 2003 Economic Development Strategy. By setting thoughtful priorities for the next five years, San Jose can help maximize potential for sustained income and job growth after the recession and can also strengthen the community's position for sustained, long-term success.



Looking Forward: Key Findings and Forces of Change

Research and outreach for this Strategy point to several fundamental conclusions.

San Jose is a city with very strong forward momentum. In focus groups and interviews conducted for this Strategy update, residents, employers and economic experts noted the significant progress made the last five years in a variety of important areas. Continued population growth made San Jose the 10th largest U.S. city in 2008, and strong long-term growth is projected. And the San Jose/Silicon Valley region has retained its ranking as the world's #1 location for innovation and entrepreneurship (Milken Institute, 2009).

At this point in time, San Jose faces two major needs: the urgent need to regain jobs for its growing population and revenue for the City, and the fundamental need to fashion an outstanding business and living environment that can compete with the world's best cities over the longer term.

As the nation comes out of recession, the economic environment facing San Jose will be characterized by uncertainty, volatility, heightened competition, and slower growth. To succeed, San Jose must be aggressive, focused, flexible, and opportunistic. The city must differentiate itself in an increasingly noisy marketplace of competing communities. The city must also recognize that many state, national, and international factors will affect the context for economic recovery and are out of San Jose's direct control.

Economic Environment

Uncertainty
Volatility
Heightened Competition
Slower Growth

City Response

Flexible
Focused
Aggressive
Opportunistic

In addition, over the next five years San Jose will begin to confront a set of fundamental forces of long-term change—economic as well as demographic—that will begin to play themselves out. These shaping forces will alter the environment in which our city and its economy succeed or falter over the next 25 years. If San Jose can anticipate, understand, and work with these forces of change, the community can harness change to its advantage.

Forces of Change Affecting the San Jose Economy

The following 10 significant long-term shifts underway today are most relevant to cities like San Jose. Most represent a marked departure from the last 25 years. These forces of change both create opportunity and expose weakness or vulnerability.

Economic Forces

- More Moderate Job Growth, New Economic Engines
- Steady Pressure on Manufacturing and Other Middle-Income Jobs
- Transition to Low-Carbon Economy
- Shakeout in Venture Capital Industry, Transforming Financial Model for Innovation
- Asia Becomes New Center of Gravity
- Competing on "Right Brain" Creativity and Design
- Growing Disconnect Between Economic Growth, City Tax Base, and State Investment

Demographic Forces

- Substantial Population Growth in Young Adults and Seniors
- Increased Workforce Reliance on Locally Educated Children of Immigrants
- Growing Demand for College-Educated Workers; Shortages Predicted

Economic Vision for San Jose

Review Draft 12/14/09

Having a clear, compelling economic vision—a distinctive identity for our community—is important at this stage of San Jose's development.

- An attractive and visible identity is critical for attracting and retaining innovative people and companies in a highly competitive environment.
- An inspiring, shared vision is important for mobilizing people to work collaboratively and proactively to create San Jose's future.

San Jose can be an exciting, economically successful city by realizing and communicating a set of six unique attributes that define San Jose as the Capital of Silicon Valley. Each element of the vision builds on current assets and characteristics, but stretches us to develop and express them more fully—transforming emerging signs of who we are today into a powerful vision of how we will find success tomorrow.

This economic vision reflects the aspirations of residents and businesses, and is grounded in a hard-nosed assessment of where San Jose can truly differentiate itself from other cities—local to global.

Economic Vision for San Jose

As the **Capital of Silicon Valley**, and largest city in the world's leading region for innovation, San Jose is...

- **A Global Gateway**, a cosmopolitan, international city for leading businesses and talent from around the world
- **A Creative Community** that pioneers innovation within and across technology and business, art and culture, and society
- **An Entrepreneurial Environment** where people from all walks of life start and grow companies, and achieve their dreams
- **A Place of Opportunity**, where residents find a range of rewarding employment opportunities and support to participate in the economy
- **The World's Most Livable Big City**, with diverse and distinctive qualities of life
- **A Valued Contributor** to addressing the world's pressing public challenges—environmental, economic, urban

Recommended Strategic Goals: 2010-2015

Review Draft 12/14/09

Over the next five years, San Jose should approach its economic development challenge at two levels.

- At the most basic level, as the national economy recovers San Jose's most urgent need is to regain jobs for its growing population and revenue for City services and infrastructure investment.
- At the same time, the City must create the strong, distinctive community success factors required to stay competitive and attractive over the longer term.

The Economic Strategy Update identifies 12 Strategic Goals that San Jose should pursue with its economic development partners over the next five years. Advancing these Goals will help San Jose achieve its three desired outcomes—growing economy, increasing prosperity and opportunity, and revenue growth for the City—and fulfill its distinctive role as the Capital of Silicon Valley.

Strategic Goals 2010-2015

Regain Jobs and Revenue

1. Encourage Emerging Companies and Growth Sectors that Can Drive the San Jose/Silicon Valley Economy and Generate Revenue for City Services and Infrastructure
2. Develop Retail to Full Potential, Maximizing Revenue Impact and Neighborhood Livability
3. Preserve and Strengthen Manufacturing-Related Activity and Jobs
4. Nurture the Success of Local Small Businesses
5. Increase San Jose's Influence in Regional, State, and National Forums in Order to Advance City Goals and Secure Resources
6. Improve the Speed, Consistency, and Predictability of the Development Review Process, and Reduce Costs of Operating a Business in San Jose

Invest for Future Success

7. Prepare All Residents to Participate in the Region's Economic Opportunity
8. Advance the Diridon Station Area as Key Transportation Center for Northern California
9. Keep Developing a World Class Airport, and Attract New Air Service
10. Continue to Position Downtown as Silicon Valley's City Center
11. Create More Walkable, Vibrant, Mixed-Use Environments to Spur Interaction and Attract Talent
12. Develop a Distinctive Set of Sports, Arts, and Entertainment, Offerings Aligned With San Jose's Diverse, Growing Population

In the complete Strategy document, each Strategic Goal identifies specific actions that city government should pursue, both existing efforts that should be continued and new initiatives, policy changes, and investments that should be considered over the coming five years.

Implementing the Strategy

Review Draft 12/14/09

Successful implementation of this Strategy will require the active involvement of City government, including elected officials, Administration leaders, and employees from many Departments. Partners from business, education, labor, and the community have equally important roles to play.

Implementation of the Strategy should have four main tracks:

- *Set Priorities for First Two Years*—The City Council and Administration should identify the highest-priority Strategic Goals, and the highest-priority Actions within each of the 12 Strategic Goals, that should be pursued in 2010 and 2011.
- *“Connect the Dots” Across the City Organization*—The Economic Strategy should be communicated throughout the City organization, so that every Department and staff member can understand their contribution and align their work to support the Strategy.
- *Build Implementation Partnerships with the Community*—City elected leaders and staff should take this Strategy out into the business community and neighborhoods. They should engage key economic development partners and clarify how to move forward together on the Strategic Goals.
- *Track Performance and Progress*—On a regular basis (every 12-18 months) the City Council should conduct a review of the Strategy. The City should track three kinds of measures related to implementation of the Strategy: performance on desired economic outcomes, performance on community success factors, and milestones and results of implementing the Economic Strategy.

As we implement this Strategy over the next five years, we need to be aware that our environment will continue to change. The Strategy was developed at a time of significant economic flux and uncertainty. Even as we focus on implementing initial priorities, we will need to be opportunistic as new possibilities and problems emerge over time. We must continue learning from each other locally and from our increasingly interconnected world. San Jose can pioneer a kind of civic adaptability that can make change as healthy and constructive as possible for our residents, organizations, and community.

Implementation Principles

City leaders and employees should consider how their work affects the San Jose’s economic development success and identify how they can contribute to implementing this Strategy. On a day-to-day basis, the following principles are important:

- Economic development is a **citywide business**
- Economic development and quality of life are **interdependent priorities**
- **Employers are customers**, just like residents
- Each City staff member is an **Ambassador** for the entire City of San Jose
- Be **responsive, adaptable, speedy, and aggressive**
- **Be in communication** with San Jose employers for ongoing learning
- Look out for **new opportunities that emerge** aligned with San Jose’s Economic Vision