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>> Councilmember Herrera: I was trying to roust some of the members, but we can go ahead and start the meeting. And we will -- I'm going to call the meeting to order on November 28th, the Community and Economic Development committee, and I'll take a --

>> Councilmember Liccardo: Here.

>> Councilmember Herrera: Councilmember Liccardo, I'm present, councilmember Pierluigi Oliverio is running ten minutes late. Councilmember Kalra and so hopefully they will catch up with us. So we are going to start with a verbal report on economic development with Kim Walesh. We have a lot to get through so I'll try to get these presentations between ten to 15 minutes. And get adjourned at about three or 3:30. We have Councilmember Kalra. So we will go to a review of the work plan. And we don't have any changes, except that we are having -- I am having a suggestion here to move our December 19th meeting to January 23rd. Because it's right next to a break, and as you can see, I have so many folks showing up already, I think I would be hearing crickets. I want to say what's getting moved. You guys might be concerned about that. Real Estate streamlining and business outreach will be the items to be moved to&M January 23rd, and it's actually a good thing, because we didn't have too much on the January 23rd meeting anyway, so we may have had to cancel it, so we're going to move them, so if I could get a motion to approve that. All those in favor, aye. Okay, consent calendar, we have nothing, now we will go on to Kim Walesh and her verbal report.

>> Kim Walesh: Great, thank you Madam Chair, members of the committee. I'm Kim Walesh, director of economic development and chief strategist, and I'm very pleased to present our monthly report for the members of our viewing and audience in this room. This is a report that's intended to give a snapshot of the kinds of economic development related activities that have happened in the prior months, and it's illustrative, not comprehensive. And we always start with a fun fact. So my fun fact for this month is that the metro areas with the strongest jobs picture in the United States today are San José, California at number 1! Followed by Washington, D.C, and New York! So that the fact is, we have two job postings per potential applicant. Which is the most -- highest ratio anywhere in the U.S. So on the positive side, this is a reflection that our jobs are growing here. Though of course underlying this is continued concern about skills mismatch between the people that are

looking for jobs and the jobs that are available. So our key point is that we operate across these six different fronts, and continue to have success in all of these areas, in terms of tangible outcomes. Our number 1 priority is business outreach. So being in touch with the companies that are expanding and growing and starting up in our community. And I'm really pleased to report that our business outreach team comprised of OED and agency staff has met with 140 companies since July 1st. So we are tracking ahead of our annual goal of 250 companies. So within the last month, I'm just going to name some of the names to give you a feel. Pinger, Elemental Aid, Realization, Melt Water, C 8 Meta Sensors, Canon, Applied Microstructures, DeRobo Robotics, Anke Technology, A10 Networks, Whole Foods Market, O'Connor Hospital, Jones Lang La Salle, Redwood Systems, Serious Energy and Lighted Watts on Quest, a variety of companies across a lot of sectors, expressing appreciation and looking for opportunities where we can help them especially for companies that are growing. In addition, the San José enterprise zone has benefited 185 companies this fiscal year already, including an additional 38 businesses that submitted applications this month. We have a couple of interesting ribbon cuttings and milestones coming up. You may recall C 8 Meta Sensors, that company with the diabetes sensing technology that moved into Edenvale. We have been working on their tenant improvements on the second floor of their current location. They will be having a job fair and a ribbon cutting planned for January 12. Just really terrific taking that from a startup in another city looking for space and helping them every step of the way. Another example of a scaling company is data robotics which is growing in the area of cloud storage. They have initial 70 people, they're now hiring 30. They plan to hire an additional 50 by 2012. So again, moving their headquarters to San José when they get to a point where they're going to expand. And then just one last example I wanted to share is A-10 networks growing from 20,000 square feet to 80,000 square feet, permits issued in one day for this company through STI, their general contractor sending us a totally unsolicited note. The STI program went great, your team was exceptional, thank you again for all of your support. So we continue to be able to move at the speed of business whenever we can on expansion projects. We also are getting referrals from our network of companies we should meet with. We had a terrific meeting, Joe Horwedel and I, with the head of O'Connor Hospital this month and were able to work on a number of partnership and trouble shooting issues with them. O'Connor Hospital, one of our largest employers in the area, very, very important. So of course we also have projects in process through the STI and ITI programs. Our expedited permitting programs processed over 60 projects in the month of November. So for big names like eBay and SunPower and Nanosolar and Polycom and Hitachi, Solexin, Adobe,

we continue to work with Polycom on permitting for their new headquarters facility moving to America center. And a lot of that has to do with filling existing office space. I'm very pleased to report, just in the last several months, more activity, conversations with developers, starting to look for new development for office and R&D buildings at a number of locations throughout the city. And I'll detail those with some examples in the written report that follows. But definite uptick in developers and property owners thinking about the next several years, and what they might want to do with their property. So in the area of supporting retail and small business growth, chairman Herrera was great on Saturday to wake up to your voice on NPR talking about small business Saturday, so that of course was a partnership with shop San José to bring attention after the big Friday shopping at the mall that people when shop locally and shop in San José. I also want to point out, Wednesday late, inspectors were on site working with a company called harbor freight tool to make sure they received their temporary certificate of occupancy so that they could open in time for the black Friday sale, so there was a lot of hustling to make sure that stores were ready to go. Oh and very positive conversations with whole foods. I know there's been a lot of questions about whole foods on the Alameda and coming to downtown and there seems to be some positive progress on that front which obviously would be terrific for downtown in San José.

>> Councilmember Liccardo: Kim, could you articulate more?

>> Kim Walesh: I think we can in our report afterwards.

>> Councilmember Liccardo: Okay.

>> Kim Walesh: We'll say what we can say publicly.

>> Councilmember Liccardo: Brevity interested.

>> Kim Walesh: Potential movements towards that actually happening which would be terrific. Also in the downtown I know you know about the PWCI lead program was really terrific. I want to recognize Lee Wilcox and Kip Harkness for the role they played in engaging the hundreds of professionals in PWC in getting to know the

downtown. Our main goal in the downtown over the next 18 months is to fill vacant office space. That is what is going to drive all of the other businesses and nonprofits downtown to be able to be successful. So we have been meeting with downtown property owners, and building managers, sharing with them the same kind of materials we shared with you last meeting about all the positive traction downtown, and all the ways that we can help. Including the revised downtown parking incentive program. We also gave that same presentation to the Team San José and hotel sales staff looking for opportunities to collaborate when we have conventions here to activate our restaurants, our art organizations and connect them to live music organizations downtown. Our key part of Work2Future is having our residents find jobs. I just want to point out that we were involved for the fifth year in a really incredible job fair aimed at hiring veterans which was very successful on November 3rd. In -- on the real estate front, I really want to give credit where credit is due, to the fact that our Real Estate staff, since joining the Office of Economic Development, has consolidated over \$1.9 million worth of surplus city properties which helps our City's bottom line. We anticipate selling an additional \$1 million properties by the end of this fiscal year. And as you'll see council tomorrow, we have achieved over \$1 million in cost savings through renegotiating leases and moving into consolidated and better quality places. Let me go back. You'll see tomorrow the consolidation of five Public Safety entities on one space in the Alameda saving over \$1 million in one year and some really creative projects to work with the private sector and to use our city outlets to accomplish policy goals and revenue goals. For cultural and sports amenities, this is clearly we view this as very important for economic development, and other reasons. The big activities of the last week have been the turkey trot, and the downtown for the holidays including the successful opening of Christmas in the park under a new nonprofit civic led model and thanks to Councilmember Liccardo, and the many people who have helped with that successful transition, it was an incredible opening on Friday. We have begun repairs to the veterans memorial, we are working with 1stAct to relaunch the Artsopolis Website will be relaunched with the arts council and 1stAct as LiveSV in December, by the end of the year. So it's a very exciting opportunity to draw more people into the arts and entertainment scene. And last, we found out we have won for the seventh year in a row, the participation in the 2012 Amgen tour of California. Again, we've transitioned that model so it's private sector funded, it's private sector led through the leadership group and the sports authority. We will be hosting a staged start in San José on May 15th. And just to close, in addition, I want to recognize, these are all results and activities that have an impact often the community and the economy. I think as you'll see with the agenda today, the same team that does this work is

also the team that does the analysis and the policy work to support the good decision making of the committee and the council. And so I really want to recognize that work, also. It doesn't always show up in terms of quantitative indicators, but we have got a very talented team that I think both deliver the services and also do the analysis and the policy work to support your decision making. So that's the end of my report. Thank you very much.

>> Councilmember Herrera: Thank you very much Kim. I just want to say as chair of this committee that we have an incredible staff. I'm so impressed with the work, continue to be impressed with the work every day our small but very able staff does in moving our economic goals forward. Do we have any questions from my colleagues? Councilmember Liccardo.

>> Councilmember Liccardo: Small but overworked I'm sure and I'm sure we're all very grateful for everything that OED is doing includes OCA and real estate and everybody else. Thanks. Probably most of the team is in this room right now there aren't many of them so thank you. I just had to follow up on whole foods. The report is coming, subsequent when we were talking about development fees is that when we expect more information or --

>> Kim Walesh: No, let me ask Nancy to say what she can say about whole foods at this point.

>> There have been good discussions going on with the property owner and whole foods. City staff was very aware that other markets are being built in other areas so we began pushing on both sides to make sure that something was happening on that site. So we believe that there will be an announcement soon. Richard also has information on that particular project. But it's one you know certain projects that are relatively small but can make a huge difference and that one certainly could so we're eager to see that move forward. I don't know if Richard --

>> To follow up that OED staff talked to the one side the whole food side and I spent quite a bit of time last week speaking with the property owner. And there's just a contractual difference, they originally on the size of the store but he assured me they too were working it out.

>> Councilmember Liccardo: That's encouraging and maybe if we can tell them both we'll build them both statutes at City Hall if they can get a shovel in the dirt. I think my colleague Councilmember Herrera feels similarly.

>> Councilmember Herrera: If they maintain the statutes. And do you have anything to add?

>> Kim Walesh: I want to accept your praise of the ESD staff on behalf of them but I really want to point out that economic development is beyond OED. It really is a citywide team and our whole CSA working together. So these reports are intentionally also reflecting the work certainly of the agency staff that we work closely with and development services. And D.O.T. and housing and Public Works and fire and the police department gets involved in downtown. I mean it's really, it's a whole team so thank you.

>> Councilmember Herrera: Thank you Kim for saying that so I'll edit my comments to include all those departments too. Thank you for all the great work you do. We're going to move on to our second item on the agenda, cultural facilities asset management and recommendations. I want to acknowledge our private nonprofits that are here today from all of these organizations, Dan Warnerhoven from the tech, Mary Lee from the discovery museum, Susan Crane from the Art Museum, and Art Nevins, Bobby Yont from the art commission, and Alita Bray from History San José. Welcome all of you, and I'm certain we will be having opportunity to hear some feedback from you too on this item. So director of cultural affairs, Kerrie Adams Hafner, is going to be speaking on this.

>> Kim Walesh: We have Kerrie Adams Hafner, the director of cultural affairs, here with Matt Morley, deputy director of public works. This is an issue of cultural facilities, support for the facilities and the organizations in the facilities almost by definition, that staff had identified nearly a year ago. Given the age of the facilities, given the shift we could see in availability of Redevelopment Agency funding. So this is something that Kerrie and Matt had initiated as an issue that was really time for us to take a look at. This became even more critical as the City's budget continued to deteriorate, as the state made its moves on redevelopment, and then as we got specific directive from mayor and council, to look at this issue. So it's really been a collaboration between Public Works

and cultural affairs with the cultural community and these major institutions that are really anchors of our downtown and drivers of our economic activity. And I also want to recognize that Deloitte also stepped up early in the summer with an offer to assist with some of their incredible analytic skills that they bring and I think the passion that they bring for San José and our downtown. So I wanted to recognize this really as a public-private partnership. So with that, Kerrie and Matt are going to hit on some of the key points from the memo. And then we'd welcome the opportunity for the representatives of the institutions to make some comments also.

>> Councilmember Liccardo: And we have a stack ready.

>> Thank you Kim and in that same spirit I want to just recognize and acknowledge and thank our cultural facility operators for the spirit of partnership that they've held in working with us and navigating these very difficult budget times. So I just want to thank you for your partnership. So thank you Kim for that background and overview. I'm just going to start to paint some broad point relative to our cultural facilities as an asset pool. As regional destinations, cultural facilities generate sufficient economic impact and downtown vibrancy through their multidisciplinary programming and educational programming. And they serve over 1 million visitors each year. And our city-owned cultural attractions are a major attraction to visitors downtown. In addition to the HP pavilion, special events and our convention center. The city provides operating subsidies to six nonprofits operating city owned cultural facilities. These include the tech museum of innovation, History San José, which actually manages 32 historic sites, the San José repertory theater, the children's discovery museum, the Mexican Heritage Plaza, now operated by 1stAct Silicon Valley, and the San José Museum of Art. The operations and maintenance agreements were developed with the operators at different times and each organization had a unique set of circumstances around their cultural facility operations. And in many cases they actually raised the exam funds needed to help build those facilities. So the scope of the programming as well as the building size as well as the maintenance responsibilities for each of the different agreements vary. So do the subsidy levels for each agreement. The total O&M amounts the city supports for these six cultural activities is approximately \$3.2 million this fiscal year. And interestingly the total value for these cultural facilities as assets is about \$250 million. And that doesn't include those 32 historic sites that are managed by History San José. So as Kim mentioned in March we received direction from the mayor as part of his budget message, and the direction said

that the City Manager should work with the arts commission, where appropriate, and engage the operators of our city facilities to examine ways to reduce operating subsidies and support facilities sustainability in order to reduce reliance on the General Fund. And just for context in the past the Redevelopment Agency was a major source of funding when these facilities needed capital improvements. And with the agency's resources contracting, that's no longer a viable funding source. Also in June the Mayor's Budget Message said, prepare for zero. Organizations that receive grants and subsidies should be prepared to not receive funding in fiscal year '12-13. So as a result of the March budget message, staff engaged the executive staff and board teams of our cultural facility operators, most of whom are with us here today. And we discussed how to approach the mayor's budget directive in March and we looked at it kind of in two different ways. Short term and long term. Short term how can we meet these budget reduction targets for this current fiscal year? I just want to thank and acknowledge the hard work and the partnership, because these cultural facility operators took a 10% reduction which equaled about \$365,000. And we looked at it also from long term. So how can we help support facility sustainability over time? So as a result of this, the cultural facilities, they engaged Deloitte, and they conducted this study. But also concurrent with that, city staff embarked upon a national scan and we researched best practices across the United States. As a result of these meetings and through our research we developed a set of considerations that have really kind of guided this work. First and foremost we know that O&M reductions should not undermine the viability of these facilities. They still need to function and operate and attract people to the downtown. Additionally, we know that the city does not have any funding for repairs, maintenance, or capital improvements. And then, on the cultural organization side, we know that their funding picture has also been challenged over the past several years. They have received a reduced city support, reduced agency support, as well as reduced grants from foundations as well as donors. They have already cut their programming, and their staffing levels, and they now have very skeleton crews. And another key consideration that we have identified is that they've told us that they need time to adapt to any further reductions in city subsidies, and this is in large part because any immediate reductions are difficult to absorb because their costs are fixed in the short term and they are very often planning two to three years out with their exhibitions as well as their productions. And also that shortfalls and deficits can negatively impact their ability to compete for funding from foundations or organizations like the national endowment for the arts. And we have also heard from our partners that reductions in city support can erode donor confidence and fundraising efforts. One thing that we've learned over the last couple of years when tackling the cultural facility

issue is that reducing hours for their operations has really a nominal savings. You still have fixed costs when it comes to things like security, full time staffing, utilities. And so there's not a lot of savings there. But what it would impact is our ability to generate revenues. So there's a negative impact there. And then the other consideration is that these O&M agreements are long term agreements. We've had them anywhere from 15 to 50 years and so we do want to honor those long standing financial commitments. So as I mentioned Deloitte conducted this pro bono study. First of all, I should say that they conducted it with four of our cultural facility operators: Children's discovery museum, the repertory theater, the San José museum of art and the Tech Museum, so only four of the six were included. And they looked at three main things: What is the economic impact of each organization, what is the deferred maintenance for their facility, and what are a range of options for each organization relative to their facility. So they did share this report with us in November, and it is attached to the staff's memo. So the range of options that Deloitte looked at. It did -- they were customized for each organization but they included one, should the organization continue to stay in the facility without a subsidy? Two, should they stay in the facility with a transfer of ownership, either with a purchase from the city, or some other type of arrangement? And three they asked themselves, do they relocate to another facility or outside our city? So the responses do vary from organization to organization and those are included in that packet and you can see how they've prioritized different things and there's kind of a matrix they've developed. But I will tell you just kind of the general conclusions that Deloitte came to. First, that the economic impact of these four organizations alone is \$54 million. And just to give you a comparison, the economic impact of the San José Sharks is \$65 million. So we think they're faring pretty well as far as generating economic activity for San José. The estimate of maintenance on these four facilities is greater than \$5.5 million and Deloitte said that the organizations need to replace every dollar recently lost from the O&M agreements. And that is difficult to fund-raise for facilities. Donors want to fund programs. And so that the withdrawal of city support will force the reorganization of the missions of these organizations because it is not feasible to raise the replacement dollars from private donors and many facility operators actually respond to reduced O&M amounts by cutting programs. But this can have what you might call a downward spiral because you cut programs then you cut community support and you cut donors and so on and so on. And we've seen that trend happen with other cultural facilities operators in different cities. So that's one we need to be cognizant of. So concurrent with Deloitte's study we conducted a national scan of best practices in terms of supporting cultural facilities. So Matt Morley is going to talk us through those. Thank you.

>> Thanks, Kerrie. As we are looking at the needs for these facilities and we've talked to them about reducing our subsidies there, we've also found that the cost of these facilities are increasing. Kerrie mentioned the \$5.5 million deferred maintenance need at the facilities and as you -- at the four facilities that Deloitte looked at. As you add facilities on to that and you look at the group as a whole, it grows quickly to the six to \$12 million number on this line, and then even more if you add in the Team San José operated facilities, and that gets up into a larger number, in the \$37 million range. So very quickly you can see that these numbers are increasing and the needs in these facilities is great. And as we continue to defer, continue -- the need continues to grow. With that we've started to take an in depth look at these facilities to really hone in on what the deferred maintenance is and to help us prioritize what those needs are. We started that effort with the children's discovery museum and we'll go through and do an assessment there and line out our process and move on to the other facilities from that. We do do a review of these facilities on a regular basis to ensure that the obligations that maintenance obligations are being met. They all work very well with us in that respect. And I think it's a good partnership and we look forward to continuing to be able to quantify and to work together on these things. So as we're looking at potential models on the solution side of things, there's a few things that -- a few areas that have -- has popped up for us. I'll go through them quickly. One is -- and I'll start with saying that each of these has some potential challenges, I'll need to review these with the attorney's office with the budget office and we'll need to prioritize these with our other city priorities on how we're looking to spend our funding. So some of the examples that have been used elsewhere, there's T.O.T. taxes and we have a T.O.T. tax that there's a potential to look at ways to reallocate that or to increase that. There's a popular 1% of the cultural facilities are admission surcharges so adding a ticket charge of course you could see where that would have a of an effect on the number of people that come through door for the facilities. So we would have to carefully weigh how that would be implemented. Some cities do cultural tax districts and these are popular in Denver and Dayton, other cities, where property tax can support the facilities. And similarly, there's taxes, local taxes or fee options that other cities use across the board. In the same vein there's property assessments where new property sales C and C type structures could be allocated to these facilities. And then finally, the idea of taking some of the O&M subsidy that we already provide and setting that aside towards operations and maintenance cost specifically. Again, all of these have tradeoffs, and it's important for us to be careful on what we're trading one way or the other as we're looking for alternative solutions here. So

our next steps will be identifying funding and business models. We'll continue to work collaboratively with the groups and identify solutions and continue to look for other mediums of providing the service. With that, we're here for questions, and I think there's a few folks who have a couple of comments to make.

>> Councilmember Herrera: Yes, I think I know Councilmember Liccardo has some questions and I'm sure my other colleagues may have too. I just had a question, just wanted to ask one question first. On the chart in the memo, staff memo page 2 of 5, I'm wondering if, on each of these facilities that we looked at, Kim, is there some information? I know that most of these groups have a plan on raising money for outside donors as part of the plan. I remember that from when it came to council before we talked about it. I think I remember Mexican heritage plaza more than others talking about exactly certain goals that they were going to be targeting to raise money with their programming in fact to go out to donors. Do we have any -- has that broken down now actually how much they have raised to contribute to this?

>> Well each organization has its own separate fundraising plan. What they have their contributed income goals so I would have to defer to those nonprofit operators to ask how they are in terms of tracking. But what we heard from the Deloitte study that four of the six organizations participated in, is that they're having difficulty raising funds to bridge the gap for the reduction in the O&M.

>> Councilmember Herrera: So I think it would be helpful as we -- because we're certainly not making decisions today, we're hearing this information and as this goes forward at some point, either in the budget season or whenever this comes back, I would like to see a follow-up on how much -- how are the fundraising goals met, so we could really look at all of those pieces and that would include Mexican heritage plaza as well. I know they had great interesting new goals, new programming, talking about bringing in outside donors, I'd like to hear how that's progressed. How many people are served, that would be an indicator, and breaking down that economic impact so we can understand better, is that coming from T.O.T, is that coming from sales tax? I'd like to get more of a breakdown on that just to get some more details and those are my questions for now. Councilmember Liccardo.

>> Councilmember Liccardo: Thank you. I've been wracking my brain over the weekend, as I'm sure you've been for many months trying to figure out how we get through this challenge that you've outlined. I think you've done a good job in describing what's in front of us and the obstacles. As I look at the tax opportunities or revenue generation resources that we call them here in City Hall, you know, we're really pretty confined. I mean we've already got a business improvement district and a property investment base downtown the property owners and business owners are contributing to and putting another overlay is going to be a pretty tough sell. We recognize these usually require votes and consent. Going to the hotels and asking them to chip in more on the T.O.T, when they're already funding our expansion of our convention center, another very heavy lift. And so from the revenue generation standpoint our options are pretty confined, although I'm certainly open to hearing brilliant ideas anyone might have. What I keep going back to is, in the Deloitte study where they seem to at least, I think on two of the four facilities they suggest a transfer of ownership. I'm thinking about how that would happen in a world where the organizations don't have the money lying around to pay us. And I guess this ultimately becomes a question for Ed and the city attorney's office to tell us, do we have any obstacle on the rules around gifts of public funds? If we were to simply give the title of one of these buildings to an organization, with restrictions that they would only take title if they're able to fund-raise to be able to satisfy a sinking fund that would take care of O&M and replacement and all of that. That is, the use would be restricted obviously, they would have to continue to operate a museum and at the same time they could only take title if their donors are able to meet that, whatever minimum we think is necessary to ensure the sustainable operation in the building. Do we still have a big obstacle, gift of public funds?

>> Whenever we're talking about a gift of public funds we're always looking to see what is the public benefit and you also don't want to convey a large asset of the city without having the city protected from any possible downside. In most cases, we would probably end up looking at a situation like a bank would do. We would transfer -- we could transfer the property and have a deed on the land until such time as they were able to pay us off, whatever conditions they were, and if they didn't pay us off then we would take back the property. We could have some kind of reverter on the land to make sure no things occur. We want to make certain that whatever the value of the property is, the city is getting a benefit. And again benefit isn't always a tangible item. It's sometimes intangible. So in each case we'd have to look to see what the city would be getting in exchange for the value of that particular asset.

>> Councilmember Liccardo: Thanks, Ed, I appreciate that. So I guess where I'm going with all in is, I know that a big question at Deloitte was sort of looking at but very difficult question to answer, which is if suddenly the fundraising efforts are converted to a capital campaign, does that start to shake people loose, I hate to be blunt, the opportunity to have a name on a building, and does that become more viable and suddenly the O&M and sinking fund can be created, how realistic do we think that is for most of these organizations?

>> I think the Deloitte study does dig at that a little bit, also looks at what are the deferred maintenance costs for each of the facilities as well, that is another thing you would have to fund raise for. I think just generally what we have heard from the cultural facilities operators, the fact that the city owns the property and they don't, makes it challenging for them to raise point. To your point I think it would make it a better advantage for them.

>> Councilmember Herrera: And Sam, we're going to be able to hear from them and maybe get a reaction on your proposal in just a few minutes.

>> Councilmember Liccardo: Yeah, that would be helpful, just to ground test this idea. I know it's something people have been thinking around, certainly far before I mentioned it but I think given the situation we're in and we recognize these are not revenue generating assets maybe this is the time for us to think along those lines. The other question, I just like to raise, around ticket fees, I know that's something that's been discussed for many years, can we charge them tickets to events and obviously, there's a bit of a challenge because you are cutting thing blanket at one end and sewing it back on at the other. Are people going to show up if it costs a dollar more how does that affect demand and are we really going to get more revenue or are we just going to be running in place? I know that I talked to Mike Nevins and Dan Warnerhoven and I think there was some suggestion they had been doing some studies in that regard and at least for one of the institutions they didn't think they would get a whole lot more revenue of the fee because of the dampening impact on demand. But to the extent Deloitte is still looking at that, it would be helpful to know if we had a concrete sense of what that demand curve looks like.

>> Councilmember Herrera: Pierluigi.

>> Councilmember Oliverio: I'm interested in the same regard about the naming of these institutions. At the end of the day, it really didn't take away any fact if the discovery museum is named after an individual or company, it's still in San José. I think that's one of the main things I'd like to take a look at and I'd like to hear from the folks today on the viability of those options but I think to have any idea that we're going to be able to maintain it the way we have based on the last budget direction we have is not going to happen so certainly I think those alternatives are best.

>> Councilmember Herrera: Okay, and I think we're going to hear from some of our cultural operators now. And I just want to say that I think everything that you provide in the way of these cultural activities is critical for San José and critical for economic development. So one way or the other, we have to figure out how to keep these facilities going. So with that I'd like to call Mike Nevins, cultural facilities asset management with San José museum of art. Okay, Dan Warnerhoven.

>> I'll lead and Mike can follow. I want to first of all thank Kerrie and Matt for preparing that memo, which I think does an excellent job of framing the situation. If anything, it doesn't quite go far enough in setting the context for the entire environment. She referenced in her remarks the contraction in other forms of income. We have basically four sources. One earned and three contributed sources of income. All are down over the last two years. If you look across the four organizations that participated in the Deloitte study, the foundation giving is down between 17 and 70%. Individual giving is down by as much as 38%. Corporate giving is down between 16 and 45%. And in general, also the earned revenue component is down by a substantial amount. The budgets have been cut by roughly somewhere between eight and 32%, the tech museum is just about a 30% reduction in the last two years and this year, fiscal year 12, our forecast as we will probably roughly \$11.5 million budget loss \$500,000. One would argue that 40% of that loss is directly attributable to the withdrawal of the committed subsidy of the city so that's part of the hole we're looking at. The issues are both short and long term. My goal was to argue that we need you to kind of back off on the cuts on the short term or there's liable to be no long term. I think all of us are facing some rather imminent challenges. And if we can get through those, hopefully we've got more time to consider longer term solutions. I will answer some of the questions that come up but

please feel free to redirect the questions. The tech is about to launch a capital campaign independent of the issues of the building. The size of the capital campaign is still being debated internally at the board level. It's going to be somewhere between 35 and \$50 million primarily aimed at issues such as the refurbishment of the IMAX which has to go to the HD format and refurbishment of the exhibits which have to do with the production of the tech. Could you add another chunk to build a building or to take over the naming rights my guess is probably not in the near term. Let's see, you had one other question. Elasticity of demand. So we have looked at it. The one item that came back on the Deloitte study which I think we've tabled because of complexity of the issue is potentially parking. And if you could somehow provide free parking, most of our paid attendance looks at the total cost of the outing right? So moving the ticket price is an issue but if you could offset by a break of parking costs you could get a revenue of the institution. We have in fact changed our pricing to try to maximize revenue in bundling of tickets on the IMAX and the museum and the blockbuster events. So we have had the opportunity to run some experiments. What we have found is that as we reduce ticket prices, the attendance goes up but the actual revenue number stays reasonably flat through a normal operating range is Dwight substantial. The elasticity is about zero in terms of total revenue generated. Unless we could offset that with basically some other reduction in other expenses associated with a day at the tech we think the prospects of that one probably are not so good. With that, I'll yield the floor to Mr. Nevins. Do you have any questions before I depart, specifically for the taxes, for me?

>> Councilmember Herrera: Dan, you were kind of going and answering some of my questions for me. Did you have an answer on what revenues we are -- is this sales tax, T.O.T.? I'm guessing T.O.T. primarily --

>> The 54 million?

>> Councilmember Herrera: Yeah.

>> The 54 million is a composite of basically all the economic revenues generated inside the city. It's not actually a city revenue. In fact the city revenue I think is probably about 1% of that that. That does include -- I'm sure Kim's got the facts at her fingertips.

>> Councilmember Herrera: I didn't mean to put you on the spot.

>> Kim Walesh: It comes from the -- that's important. The economic impact is the economic impact on the community, including the business community downtown. We're in the process of looking at the Deloitte analysis and teasing out literally the fiscal impact on the city in terms of tax revenue into the city. We'll have that shortly.

>> Councilmember Herrera: It would be interesting by organization.

>> I think we have that data underlining in the study, we can pull it apart for you. I should also point out, though, that a large percentage of that economic impact, including the donated revenues, donated contributions come from outside of San José. Roughly about 80% of the money that the tech basically churns over, either through contributions or from attendance, is from outside of San José. So it's a large influx of funds into the city as well. Thank you.

>> Councilmember Herrera: Thank you. And just for the record, Dan Warnerhoven was representing the tech museum. And Mike.

>> Thank you. As Dan did, I'd like to Kerrie and Matt and Kim and the city staff for working with us, not just over the past few months, but frankly, over the past several years, to help make this partnership work. I'd answer your questions if you'll indulge me for a moment. So I'd like to give you a little bit of a personal perspective on the situation, the way that I've seen it and experienced it. I first set my foot in San José in the fall of 1980 and at that time to my eyes Downtown San José looked like the rust belt cities that I grew up in. There was a hollowed-out industrial core, there wasn't much going on. It certainly didn't look or feel like the capital of Silicon Valley. None of the four institutions that are involved in the Deloitte study were really vibrant. The San José museum was there but barely there. What I didn't know at the time was that the then current civic leadership was planning a very different future for downtown and they had a vision that the city that didn't yet exist could be built and that it could become a very vibrant downtown area. Now, they held to that vision and executed against it during the

1980s which was a very tough time. Interest rates went to 20%, the semiconductor industry all but collapsed, there was a high level of unemployment. There was a great deal of difficulty, businesses were leaving the area and they held to that vision. They partnered with volunteers with those cultural institutions to build them. One of those groups in 1985 wrote a long term plan, that said that they believed strongly that San José would emerge as a major city that would be cultural self sufficient. They believed that in part because the City's elected leadership believed that and was committed to that outcome. So they raised money, they signed contracts with the city to build and great not just those facilities but importantly, the programs and staffs and collections and other accouterments that make those facilities what they are. It's not just the building. This fiscal year the city will pay roughly \$2.8 million in operating subsidies to the four main groups, the art museum where I'm the board chair, the tech, the rep, and the Children's Discovery Museum. In turn there's 54 million in economic impact and about 12 million in contributions raised from outside the city. It's about a 19 to one return. I wish that all your programs had a 19 to one return. We probably wouldn't be here today if that were the case. But those funds are very fragile and they're very, very easily lost. I'd like to respond to Councilmember Liccardo's question I believe it was, no I'm sorry, Madam Chair, it was your question about the fundraising goals. I'll speak to the museum's fundraising goals. Goal number 1 is to balance our operating budget. We've strived to do that and to pay down the external debt that we did have, did have past tense. As a board we have taken the posture that it would be fiscally imprudent to run an operating budget. On a cash basis we balanced our books for this fiscal year where we just received our audit on an accounting basis we show a loss, I won't bore you with the accounting details, we can provide that information to staff and they can decode it for you if that's your interest. That's our number one goal. Like the Tech we are exploring raising a capital campaign but it is not for facilities. We are very constrained on terms of facilities. We had, several years ago, engineering studies done. We can't expand or enhance our facilities in place very much at all. And it's impractical we believe and the fundraising consultants close to us have told us this, to raise money to repair things in a city building. We'd probably don't want ownership of it, because of the constraints. We are sitting on top of a parking garage which creates major structural limitations to what we can do. The historic part of the building has a lot of limitations both because of the 19th and early 20th century construction techniques involved and because of its designation as a historical landmark. So for us to raise capital to buy that building is probably not something that we would willingly undertake. But if we were going to raise capital funds it would be to build a new facility in a location that would allow us to operate more effectively as

a contemporary art museum. So our main concern here today is that we avoid that downward spiral that Dan referred to that some of the presentations referred to. It's very easy to lose a donor. All of our major donors are involved in other institutions in Los Angeles, San Francisco, New York and elsewhere. They allocate their time and dollars across those. If we become a less viable opportunity for them they'll reallocate their time. It takes years to create a major donor. You have to first meet them. You have to get them to come the first time, you have to get them to come back. You need to schmooze them if I can use that term, over time, the donations come, maybe they step up and join the board. It takes no time at all for a donor to lose faith and go away. And importantly, as an art museum, we're asking collectors to give works of art which they have assembled over a lifetime, in many cases, to us because they're not going to be here forever, and they believe that we might be. If that belief is questioned, donation of art go away and as an art museum that's our life blood. So we're very concerned. We've cut back staff as have the others. You've heard the numbers that Dan put forward. We've cut over 30% in our operating budget since the recession hit. We've laid off staff. We're now at the point where it's bare bones. As a board we decided to defer further cuts to the budget to be made, we can't current on the current strategy and mission. We have to step back and reconceptualize ourself as something other than the art museum that we've been. So over the 30 years that I've been around San José since first coming here in 1980, I've seen downtown change dramatically. Become an interesting place. I'd like to believe that that can continue. I think that is at risk. And I know there are very difficult decisions to be made as the city goes through this budget problem and I think we understand the problem and the nature of it and the magnitude of it. But those budget decisions will impact downtown and it's quite easy to imagine decisions being made particularly if the prepare for zero directive was implemented as written I think it would set the downtown, our institutions down back by at least a decade. And I firmly believe that some of us would simply not recover from that. So we don't want that to happen. We don't want this generation of elected leadership to be the generations whose legacy is they turned out the lights downtown and so we're here to work with you to avoid that outcome. Thank you.

>> Councilmember Herrera: Thank you, Mike. Next we have Raquel Gonzales from Bank of America. I'm just going in the order the cards are here.

>> Good afternoon. My name is Raquel Gonzales and I am the market president here for Silicon Valley for Bank of America. Although the city will have to make its own decisions in terms of how to allocate its resources I'd like to share the perspective of a business in the area that has made a significant investment in the arts and culture here in Silicon Valley. And for about the last four years, since 2008, Bank of America has made grants totaling roughly \$475,000, to the downtown cultural facilities that are the subject of the Deloitte report, in the study. We support the arts and culture in Silicon Valley and in communities throughout the country for two reasons: One is the contributions that they make to the quality of life. And then secondly, the contributions that they make to the total local economy. And from the economic side we've already heard about the City's -- the contribution from the museums to the city of that \$54 million. Which of course we already also heard about the \$12 million that come from other areas outside of San José. In terms of the quality of life, we employ roughly 2,000 employees in Silicon Valley, Bank of America has about 120 branches, where those employees work, and of course many live in the community. And we believe that museums, the performing arts and other cultural programming is vital to the vibrancy of the community and again the community that a lot of our employees work and live in. Particularly in a community like San José that rightfully prides itself in innovation as well as having the most educated workforce in the country. We believe that the city support is critical, because the city funding is used to provide that kind of cultural programming that supports education and helps ensure that our young people get the great exposure they need to ideas and accomplishments that inspire them to broaden their perspective. And in a city like San José, those, we believe, are not expandable luxuries. They are vital to who we are as a community, and the diminishment of the cultural organizations would really risk catalyzing a downward spiral in both our economy and quality of life. And we all know that the city faces severe pressures on resources. But I would just absolutely encourage you to consider art and culture as not a nice to have but really, a need to have. Thank you.

>> Councilmember Herrera: Thank you. Sharon Kirsh from the San José rep.

>> Good afternoon. I'm here for you as the president of the San José repertory theater and as a resident of the rose garden and an employer of more than 50 employees in the Knight Ritter building over here at the law firm of McMannis Falkner. And I have to tell from me personally having the arts and culture in Downtown San José is very important to McMannis Faulkner when we are recruiting people to come and work for us. We can show them

out the window of our offices what a beautiful downtown area we have with some brightly colored museums and the blue box of the rep and all that. And so it's very important. I'd also like to let you know that in the last three months, 17,000, well if you add a couple of weeks forward, 17,000 schoolchildren will have taken advantage of live theater because of San José rep. We are going to have 8,000 third graders come through the theater to see a Christmas carol in the next couple of weeks and we did of mice and men in the middle schools and the high schools for 7500 school students. So that's an important thing for San José as well as all the other things that my colleagues have talked about here, with respect to the other museums. You mentioned the elasticity of funding. If our demand, our belief is that if we had to have to raise our ticket prices we are going to lose out on competition in Mountain View and other areas and as far as the naming opportunity the hammer center is what it is, and that's gone. Do you have any questions?

>> Councilmember Herrera: Thank you. Bobby Yont from the arts commission.

>> Good afternoon. I'm Bobby Yont, I chair the arts commission for the city. I want to first of all thank you all for taking the consideration here. This is the most people that I've seen speak at one of these meetings that I've ever attended. I think you see that there's a breadth of concern, there's a depth of passion here that exists in our arts community that is greater than we usually see in a group that doesn't have an official organizing group representing them. These are the arts groups. The three things that I'd just like to mention is, first of all, cutting the funding for our facilities takes us for our O&M facilities and letting this layer of accumulated maintenance deferral, is a slippery slope. It certainly -- there is a tipping point for that, and if we start down that slope, as sharply as we're proposing to do, I'm afraid that tipping point will occurring quite suddenly, and I think some of the other folks have mentioned that. The second thing that I would suggest is, in response to Councilmember Liccardo and Oliverio's comments, is that we rethink this idea of the transfer of ownership of arts facilities, in a way of saying that the benefit to the community is the loss of the continuity of that organization, and what they -- and what they bring to the city. There's not going to be a -- there's not going to be a situation where you're going to say, well, that building could be used for something else, we are losing the opportunity costless for that. In most cases these are use specific opportunities and I think we need to look at the potential transfer in a way that is different from the normal multiuse facility. And I think that maybe the creation of an ad hoc group to more closely look at

that would be worthwhile. And the final thing is, is that our arts groups, we are concerned here. And we understand the swimming upstream, that additional taxation possibilities will provide. We understand that.

>> Councilmember Herrera: Bobby, thank you, your time is up. Thank you very much. I just want to thank everybody here for coming and sharing your perspectives.

>> I turned in my card. This is Kirsten Rhodes and I actually am from Deloitte. So you might want to hear from me.

>> Councilmember Herrera: Kirsten Rhodes and a director.

>> I'm also a director at Deloitte and feel very passionate also as a board member for the Children's Discovery Museum. I was thrilled that the firm was willing to invest and really take great stride in preparing and using some of our skill sets to help out these various organizations and nonprofits for the city owned facilities. I'll speak both from a professional side and from a business perspective as well as from a board member, as well as a mom in the community. Because I think it's pretty important to really address some of the questions that you've all had. So from a Deloitte perspective, having these cultural facilities is incredibly important for us to attract and retain the kinds of staffs that we need to bring to bear to this area. Having these facilities allows these people to work in a very unique environment in a vibrant community. It has them allowed access to certainly arts and cultures and bring up their children with ways of which they can learn and grow which is pretty important to -- as a business to be able to provide that to your employee base. From a perspective of a board member, you know, these organizations create and offer exhibitions and performances and of course educational programs, and it's largely done based on the ability of the board and the facilities themselves and the organizations themselves to raise that money from individual, corporate allocations, certainly, and foundations. Again I want to stress that the majority of this is done outside of the actual City of San José. So speaking as a board member for CDM, we have increased in the last four years our ability to fund-raise by 60%. So to ask us to go additionally, raise more on top of that is, you know, we're definitely tapping our limits. And I would suggest to you that we have gone as far north on the peninsula up into the San Mateo and Hillsborough area in attracting board members in order to again bring them

back down to the Silicon Valley. As a mom, I want to share that obviously, we're asked to do a number of different things in the community. Whether it's volunteering, whether it's giving money, et cetera. And I would say given the State's economy and where we are, both in the public sector of education as well as the private sector of education and somebody who's written a number of checks recently, on both sides of the fence, it gets pretty tapped. So again, I would suggest that we really take a look at that amount of spend can be only so much so that elasticity on the other side is pretty -- is pretty difficult. You know because we're going to the same well over and over and over again. And finally I would just say that certainly we do want to acknowledge the pressure that the city is under. We appreciate that and we do want to work with you to find a good resolution for the long term. Thank you.

>> Councilmember Herrera: Thank you, Kristin. Questions from my colleagues, Councilmember Oliverio.

>> Councilmember Oliverio: I appreciate the testimony from the arts group leaders. I think one way to think about the City of San José is we're a donor. And donors come and go and you obviously have those cultivating relationships, but you can't take that donor for granted because eventually I might not be around for whatever reason, I might be tapped or other funding happens. You clearly have the most at stake. As much as I may appreciate the arts or appreciate -- or any of my colleagues, councilmembers appreciate the outside funding that comes from someone who lives in Hillsborough that decides to help fund one of these, at the end you have the most at stake. I guess a question to anyone who wants to answer it. Do any of the rules that I have as a donor of a facility, do any of the rules that I have constrict your ability to operate on either on an operating basis or any work on any projects, et cetera, or am I completely neutral, I don't offer you any hindrance in my facility rules?

>> Councilmember Herrera: Committee of one person to answer this question. Okay.

>> I think short answer to that is I don't believe there are any rules that impede us from doing any programming. I don't think any of us have any issue with that. We all have, as I think Kerrie said at the outset, we all have contracts with the city which makes you different than any other donor. Those contracts were entered into a

decade apart. They all have different terms but they give us freedom to run nonprofits in the way we thought were appropriate.

>> Councilmember Oliverio: Do any of our rules hinder you on maintenance of the facility?

>> No, but the fact is that most -- that no foundation that I'm aware of will provide money to a nonprofit to maintain a municipally owned facility. That's not a rule that's just the fact. Likewise most private donors are reluctant to put money into a building which makes many of these contracts if not unique at least uncommon that we entered into contracts with the city to raise money to help build the building to which we would have no title. And so that's different but in response to your question, I don't believe it does.

>> Councilmember Oliverio: Sure. Now I clearly think that there's more than one city that is probably in our same situation somewhere and to any of the -- again any of the arts leaders in the audience has any city to Councilmember Liccardo's notion earlier given a city facility to an arts group somewhere in the United States and that art group was able to sort of maintain itself and flourish? Does anyone in the audience know that answer?

>> I'm Marilee from the Children's Discovery Museum. While I don't have a shining example it is he clearly underway and the Oakland museum is an example of how the city and the organization, over many, many years and this was not a simple thing to accomplish have begun to move in that direction and in the next couple of years the Oakland museum will be a phone museum. I will say, although there aren't rules that are getting in the way, I have spent 21 years raising money for Children's Discovery Museum throughout San José and this entire region and it is really tough for people if they think they're giving you money that you're going to pump into a city facility. Because they just can't rap their hands around why the landlord doesn't pay for the building. And so it is -- it's this huge hindrance for us when we're out on the fundraising trail to raise money. It's very easy for us to say yeah, the city can't do the whole thing, but they're in for their \$300,000 every year, can you match it? I think where I am now, where our board's head is, is please give us a long enough runway. Maybe there is somebody who wants to be the Sobrato children's museum but I want to be three years minimum to get there so that's really where we are.

>> Councilmember Oliverio: To your point, if a city anywhere went to an arts group, says, here's a facility I'm building for you to have you take it it's yours I'm guessing somewhere an arts group would say, wow what an incredible opportunity. I now have free land and a building that allows me to operate something for the arts, and even if it didn't have a subsidy, that would be deemed as a very great gift.

>> Yes, I agree with that. And I will say we are very grateful to the City of San José for giving us our start. While we raised half the money the city was also the donor for the other half and I do say there's potentially an opportunity there. We just haven't had enough time to really peel the onion back that far. We've made it through the Deloitte study, we've wrapped our hands around what we know our deferred maintenance is. Now is a time for us to go a little further. We just need more time. Pell okay. And then one question for Bobby Yont since you're in the audience. I'm not familiar with the arts commission's workload but is this deemed the number one priority, managing the plan, managing these institutions among --

>> As you know our mission is to advise council all matters pertaining to the public art, this one would certainly be a subset of what we're concerned with.

>> Councilmember Herrera: Ash.

>> Councilmember Kalra: I think that first of all thanks to the professional staff of Deloitte the pro bono study, to work from and strategize from moving forward and I think it's certainly a daunting time, particularly due to the fact these facilities are still open, much credit certainly should go to the boards and the leadership of these two organizations to survive this very, very tough economy and the recession that's occurred. As indicated earlier, with the Office of Economic Development also doing the same with a lot of the companies here, but now we see some improvement in the economy where the companies are willing to invest and so on, I think we'll eventually start to see a parallel rise in contributions. The question is who are they going to give to? Are they going to give to facilities in San José or up the peninsula or San Francisco? There's so much competition for those scarce dollars even as they grow, even as that planning grows. I do think that the city is more than simply a donor when it

comes to arts, I think arts are a necessity, and as much as arts are a necessity in education, and we've seen that be scaled back so much, we're seeing a parallel scaling back in the public sectors and the arts amenities here and throughout the nation, I think, as far as public subsidy goes. And I think we are all going to be devalued for it. And so I think that we all understand the value of the arts. Question is what do we do when the city doesn't have the same level of opportunity to be involved. I think at a that some of the strategies mentioned as Councilmember Liccardo probably indicate are probably going to be difficult to mail forward from. The admissions price is already raised. Other entertainment options and cultural and otherwise sports, where we have so much competition, movie theaters whatever that may be, when you raise that up we can really greatly damage our ability to grow revenue some of these facilities. So something like a cultural tax district again, another problem that we already have these districts that we are kind of layering on top, how far can you go? I think the 54 million that is pumped into the city and restaurants and hotels that will be established downtown, they are benefiting from the arts groups that are subsidizing for those businesses to improve on their bottom line, for them to get through the recession and keep their doors open, there is a benefit for the city and the private sector. And so I'll be most intrigued to look at a way and a strategy that reflects that, and it reflects that everybody comes to the table and we're not just putting just the burden on these facilities that are providing a service to all residents and a service to the city providing an economic boost to our city, bringing in money from outside the city. So it would be the strategy that's simply going to put more of the burden, I think that burden has already been shouldered a lot and is going to be continued increase in shouldering that burden, but we have to have a greater strategy than simply just telling the arts groups that you're just going to have to find a way to do without. Because we're just going to end up losing one or more of them and would I ask not just an economic drain to the city but again, it's a negative effect going forward and what we can offer to our communities, our customers, our residents, in terms of having a vibrant downtown and a vibrant city as a whole.

>> Councilmember Herrera: Sam wanted to say a couple? Keep it brief though.

>> Councilmember Liccardo: I think we can all agree that arts are incredibly important, and I think the importance of the arts is really amplified that, even in these very difficult times, last year we lost 200 police officers, 67 of them by layoff. And still continued to fund arts programs, 3.5 million, facilities in addition to the

grants and so forth. We close libraries couple days a week, in addition to what they were already closed down to three days and we're going to go through this all over again. We continue to be committed to the arts perhaps not to the level that everyone would prefer or like. None of us would like, we would all like to see money for the arts. The truth of the matter is we continue to pay those dollars at a time when we are shrinking severely as an organization to the point where public safety is severely impacted and our basic needs, libraries, community centers, homework centers are long since passed by. I think what I heard, I think all these things can be equally true. The fact the arts are critical and the fact that the City's in a critical fiscal condition. What I heard that was challenging for me to digest was three of the four organizations, expressed at the mic that it's very difficult to raise funding to support an institution when the city owns the building. When the suggestion is made that the city no longer own the building the notion is no, we can't fund-raise for that either. That is, either for an O&M sinking fund or to buy the building or anything else. Well, there's got to be another path. It seems to me that if there's an opportunity to raise money for a capital campaign, as the, that will open these organizations up to donors that were previously not interested in contributing to a city building, it seems to me that is a path and that is something that ought to at least fully explore, rather than saying we're already fundraising and we're not getting enough money to satisfy our operating budget. We believe there are other donors out there. I think we ought to at least ask those questions at a more extensive level. I recognize Deloitte did address this at you know a level that they could, but from what I can tell at least from the summary, I'm guessing that individual phone calls to individual major donors were not necessarily made. I get that. I think we've got to look at a model like that because the notion of the city continuing to own these buildings is looking like something increasingly of the past. We don't have the money to do it as much as we would love to be able to do.

>> Councilmember Herrera: Again I would like to thank everyone for coming today and ensuring your perspectives. These arts organizations are vital to San José. I personally am a huge supporter of the arts and there's a reason why arts is part of the Community and Economic Development, you are part of the fabric of this community and add to its vie contaminant and we can't do it without you. Nobody has all of these answers today. It was frustrating looking at the memo, I was looking for the silver bullet and I didn't find one. We are all in this together and I respect the innovators in this room and we will find a way through this. It is challenging times and we will find a way through it without seeing these organizations close down. So obviously, in looking at our

budget, Councilmember Liccardo just outlined some of the very tough choices in front of us but I do think that we have to -- it's a bad description but chew gum and walk at the same time. We have to find a way to keep some of these -- to keep these organizations going and do I think we will. Thank you very much for coming and we need to move on, and so I do need a motion to accept the report here.

>> Motion.

>> Second.

>> Councilmember Herrera: All those in favor?

>> Kim Walesh: I just want to affirm I believe one of the big pieces of feedback we heard was to look more closely with opportunities for asset transfer with those institutions interested in exploring that. I think we will put together a team, we'll involve the attorney's office and the existing parties and perhaps a few outside advisors that we can bring in who might have experience. We will take that as an important piece of feedback from this discussion.

>> Councilmember Herrera: Great.

>> Thank you very much.

>> Councilmember Herrera: We don't need to do anything with this so all those in favor? Opposed, motion carries. Okay. And we are on to development taxes, fees and cost with our director here, Joe Horwedel.

>> Kim Walesh: As you may have gleaned from the memo, this was a very complicated issue to explore. And analyze. But we're going to do our best to keep the presentation short. And I think --

>> Councilmember Herrera: Kim if I might add we need to keep this short and we need to keep our comments succinct. We're going to be here for a very long time.

>> Kim Walesh: This represents an enormous body of work by our empire Community and Economic Development CSA. The bottom line, we believe recommendations especially A. and C will allow us to be more competitive for leasing space at a really critical time and be more competitive as stimulating more development in North San José. With that I want to recognize our entire CSA but especially Chris Burton for his day-to-day leadership of this effort along with John Lang and Joe Horwedel and Nancy Kline.

>> Thanks Kim. Madam Chair and members of the committee, Chris Burton, office of economic development. I will happily walk you through this. There is a lot of information here so feel free to save up your questions and we'll try to answer them as best. Back in March staff received direction from the Mayor's Budget Message in two parts, one to review costs assigned to precise development such as impact fees and adjustments to really look at the city and ensure we're more competitive than surrounding communities as part of our economic development strategy and then secondly to explore the implementation of an 18 month incentive program around some of the driving uses that we're looking to see in development such as R&D, office retail and light industrial uses. In working with the mayor's office and understanding this issue in much more detail we realized that these are much more closely linked and so rather than rushing ahead in July with an incentive program, we're bringing back together a much more comprehensive program that would fit the issue. And as staff has investigated this further, we really come to understand that the focus has been around our new development, some of the development fees that are assigned to industrial uses and then on new development and existing buildings really construction taxes which can comprise of up to two-thirds of a building permit cost on any given project. So to give you a little bit of background on construction taxes, the city has four construction taxes in the context of this discussion we're really only looking at the building and structures tax and the construction excise tax. And these taxes apply to old permits, whether residential, commercial or industrial, whether new buildings or existing buildings and tenant improvements. And they're based on the intended use, whether they're in three very broad categories of residential, commercial and industrial. And the way these taxes are assessed based on the valuation of the project, they're the building department uses either the valuation submitted by the developer, or the international

code council always building valuation dates table whichever the highest these taxes are applied against it. So if you're a commercial use, you're charged one and a half% of that valuation. The building and structures tax and then 3% of that valuation on the construction excise tax. If you're industrial it's 1% of building and structures and there's no construction excise tax. So just to give you some idea of what these taxes represent, the building and structures tax revenues are dedicated to the city's traffic capital improvement program and have been tied to projects like the 101, capitol Yerba Buena interchange improvements, and also the 280-880 Stevens Creek improvements as well. The construction excise tax is a general purpose tax which has also traditionally been directed towards the city's capital improvement program but in recent years has also been used to support the General Fund. The challenge to businesses as we look at these taxes is that we have three very broad definitions and the changes in the nature of industrial and commercial uses have created confusion and have really removed that predictability and consistency from the private sector perspective. If we really sort of zone in on how we define industrial uses, the way it generally works as permits come through planning, building is that a project is deemed commercial unless it can show it's one of the uses listed in title 4 of the industrial code. These 12 uses we consider industrial based on the 1987 zoning ordinance and are somewhat limited and because of the nature of taxes and the way that the process we have to go to, will either increase or decrease taxes have remained fairly static since then. We did go ahead and add to these uses in 2004 however we put a sunset on those additions, they did reflect driving industry at that time but they sunset in 2009, this was an attempt to address that situation and bring back that consistency. As far as the nature of industrial this is the challenge. These are the companies that a lot of our economic development and you're physical development policies are aimed at attracting. And while they don't necessarily represent traditional manufacturing or light industrial uses, they are what we would consider industry. And the real sort of difficult part of this is that the changing nature of industry has gone from a production floor to people working in cubicles, working on computers in development, and R&D facilities have a very different look and feel of what they would have traditionally. As we mentioned a lot of our development policies, including the recently adopted general plan 2040, and the economic development strategy are aimed particularly at these types of industries to help us meet the job goals that we've set for ourselves. So what is this all mean in real practical terms? We took an example. We all know that Netflix moved a portion of their operation to North San José recently. They took 50,000 square feet, brought it through the STI program were permitted in an hour and a half. The total project valuation was about 1.1 million and they paid approximately

\$80,000 in permitting cost. Approximately 81% of that nonrefundable permitting cost was attributed to development taxes. So we deem them because of the nature of the use it was all sort of sales and cubicle use. Commercial use, they paid the 4.5% total combined tax, and therefore they paid \$49,500 in total taxes. If we deem them an industrial use based on the research and development activities that go on there that they have a network operations center and it's really more akin to the driving industries they would have been charged \$11,000. So there's a significant fluctuation when somebody's assessing a development pro forma going into a project. When they are analyzing San José against another community, they have to consider these costs and some of the ambiguity in some of these use definitions, people automatically revert to the higher cost. And that puts us at somewhat of a competitive disadvantage. So to address this imbalance, staff has a three part recommendation that we'll be bringing forward. The first is to look at a short term interim program by which we would expand the uses that have been classified as industrial to include three uses. Specifically, one, is solar photovoltaic systems. The nature of a PV project is it looks the same regardless of the use in the building so we should be applying a consistent tax based on that use. Data centers which are fairly low intensity but have the potential for higher revenues to the city and then lastly office research and development which is really trying to get to this gray area in between which R&D uses being done to computers in cubicles. We followed up with a use definition in the zoning ordinance. So the intent is to use that use definition here and give us greater flexibility in applying those taxes to those uses. Because of the potential uses to the CIP, staff's proposing back filling the potential reduction in revenues from the addition of these uses up to \$450,000 from the economic development enhancement fund. So understanding that this is a longer term structural issue -- excuse me, I'm going the wrong way -- we also want to address the problem a little bit further on by completely modify the construction taxes to address the issues with funding the traffic CIP, but then also, give us a level playing field when looking at development between industrial and commercial uses and through that, really update what we consider as industry and job-generating. And then lastly and more specifically to new development is to look at how we can trigger more interest in North San José understanding that we implemented a great policy that provides the framework for influence development but that because we applied a fee to that development unilaterally across ought phases so we're effectively paying for the mitigation that's going to be loaded up in phase 1 right the way through that we're actually at a competitive disadvantage as it relates to fees. I actually have the slide to show that right now new development is charged an additional \$12.69 per square foot in North San José. So how would

we look at potentially reduce that fee to incent development over the next two years understanding that we would have to explore ways to make sure those mitigation fees could be funded into the future. And so that makes up the third part of the recommendation. That's a very brief overview of what we're bringing forward and we're happy to answer questions as necessary.

>> Councilmember Herrera: Thank you very much for the report. This is a complex subject. It's got lots of moving pardons here. And I really appreciate the fact that you've got short term as well as long term solutions all put together in this recommendation. So from my point of view of just trying to decipher this and explain it in simple terms it seems like in North San José we have some benefits because we have some lower costs there, lower rent, potential for tenants moving in but then we have these higher development costs. Because of the way that we handle some of those construction taxes as well as also looking at our impact fee. Which makes us then not competitive, is that -- and we're trying to -- so we end up having space we'd like to fill that space and we're trying to create incentives for companies to be able to come and have some incentives to do that. Did I boil it back?

>> Traffic impact fee but also citywide on construction taxes as well.

>> Councilmember Herrera: That was my question. So is this not just North San José, A we're talking about the entire city?

>> Yes.

>> Councilmember Herrera: So that's great. And then B how do we look at this approaching over if next -- that is a two-year. This is a longer term prospect, where we're actually going to try to get a more sustainable funding source for our roads and transportation improvements, right, instead of just sort of relying on these construction taxes, somebody want to -- and that would require going to the voters but probably a good idea to start working on this now because this keeps coming up in difference conversations on the dais and when we talk about unfunded liability, in terms of infrastructure, this is a huge issue. And so I think that's great that you've uncovered

that and we've got a source of tax that's paying for that we need to look at a long term better solution to that. And we've been hearing about this impact fee that that's making us noncompetitive to so I think these are really solid proposals that you broad forward and I just had one more question before I turn to my colleagues. On page 9 of 12, it talks about IBM, finding out about some decision making that we don't always know about, it comes to us and I just wanted to give economic development a chance to talk about, because I didn't get the chance to ask this last time but then I get to ask it because it's related to the subject matter. How do we go out and meet with brokers? Because here we're finding out about things not always proactively, but I think there's a place where we are meeting with brokers and getting that information ahead of time.

>> Kim Walesh: Yes, absolutely. OED and the agency staff have long been engaged with brokers and we continue to do that to go out on a monthly basis, to their monthly meetings and present to them, as well as just the one on one relationships that all of us have with individual brokers. As a matter of fact, one of my insides I was working with a major broker this month and asked them to send me the information they use to show the lease prices and leases available in the whole Silicon Valley Region, and as a result of that I discovered they didn't even have Downtown San José on their map as a market. So we were able to pretty instant correct that. But it's because we're in relationship and there's two-way information sharing we can provide that with updated information about our city and our incentives and that they can then share with potential prospects.

>> Councilmember Herrera: Yeah, I think it's really critical. As it says in this paragraph, the relocation analysis is performed by third party site locate selection of real estate professionals who could be reluctant to engage with staff from different cities.

>> I think that's the important part. In our outreach to the brokerage communities, understanding the shift they've gone through as this tenant service model, they look at us as a line item on the spreadsheet and having the cost, to have them understand the real cost of development in San José is incredibly important and we'll have to go through once we've implemented costs being high for the cost of development comes through that community specifically.

>> Councilmember Herrera: I any that's going to be really important. And then we also have building owners out there in some of these properties that maybe could use updating and I know there's some success stories like Bona Ventura, Orchard Properties, that's a success story. Did anybody want to mention that one? No? Okay. From what I understand, 70 to 80,000 square feet, multiple tenants in there, all kinds of companies involved in there now so you're taking a dated building and updating it so I think it's not only important to meet with the brokers but important to meet with the owners of these buildings and property owners, and really get out there. Because if they can develop these older buildings then all of a sudden we've got a revitalized building that's going to be attractive to companies.

>> Kim Walesh: A lot of our space is in older buildings, which makes them less attractive, even though they may be cheaper they need significant TIs. It's going to lower the cost of taking some of the older vacant space off the market.

>> What we need to do is make them more attractive. It's not just low rent, it's the whole package. Thank you very much. Sam.

>> Councilmember Liccardo: Thank you, in the interest of time I don't expect the answers to all of these. I would like to raise awareness. If you can answer them great. I certainly appreciate the consideration and reconsideration differences of industrial and commercial, it seems very antiquated. Around the traffic generation that we make that necessarily commercial must have greater wear and tear on our streets based on what we hear repeatedly from D.O.T. about the impacts of heavy trucks on our streets and large vehicles relative to small automobiles, I think it should start to -- certainly balances out the number. And I think the weight is significant, and I think we should be reconsidering whether we want to make any distinction at all between commercial and industrial, particularly as the memo on page 6 distinguishes between investment potential is increasingly difficult with the office uses in San José and elsewhere. So along those same lines in terms of not distinguishing you know I have some concerns about distinguishing among industries. I know photovoltaics is an area where we have been very strong, and we want to continue to support those industries. But I'd hate to think that a fuel cell company or a great battery company or biofuels company came along and really wanted to get in there and now they can't get in that

exception and all of a sudden you guys are trying to work around it again and I think to the extent that we're playing any favorites on these subsidies by industry I think we ought to take a step back and say let's just find a way to reduce it.

>> Kim Walesh: Councilmember I think we should reduce that so we don't have a misperception, why that one was called out.

>> To clarify it was really the installation of equipment rather than the industry. That definition of industrial R&D gets all industries.

>> Councilmember Liccardo: Got it.

>> It's the systems that are getting taxed at different rates. The same system could get taxed at a different rate because of the nature of use within the building which creates a whole lot of inconsistency around this project.

>> Councilmember Liccardo: Thank you, Chris. I got tripped up by the word uses in A, and that had me thinking somehow or another that had to do with manufacture or something but thank you, that's helpful. And then the final concern I had was, oh, yeah, I mean as we think about other -- you know the long term, in terms of how we fund transportation, and so forth, I know D.O.T. and others are looking at how do we get to a partial tax of some kind. Seems to me we have got enough people who might have incentives who might help us push in that regard to help us fund a campaign where we could have a more sustainable transportation infrastructure, and it seems to me all these folks who are complaining about our fees for getting employment visas in here ought to be the ones who step up to the plate and we ought to be reminding them that we're working on something and so you know if they're willing to be helpful I think we can all benefit in terms of getting more jobs here and getting a more sustainable system in place. I think the last thing I just point out is I think an easy or lower hanging 42nd on this North San José fee is the 3% escalator, given we what we know about construction costs today, BART came in \$75 million under estimate for what we're about to vote on C TA next week. We're seeing numbers come way way

down, maybe it's time for us to come to council and get rid of that escalator and maybe put a brake on some of the fees we're imposing up there.

>> Councilmember Herrera: Further question?

>> Councilmember Kalra: The replenishment of the traffic capital improvement program up to 450,000 what's the estimate of what that loss will be? What the number will be?

>> It ranges somewhere around \$350,000 is what we anticipate for the year. So that's why we're looking at that amount of dollars or over the 18 months. Hopefully that's high because a lot of these would come up under industrial anyway.

>> Councilmember Kalra: Thank you. The just et cetera under do of that does 92nd include I'm honing it does not include the uses that were listed from the 2004 fund, retail or commercial over 100,000.

>> Right, we're not focusing on retail on this.

>> Councilmember Kalra: Thanks.

>> Councilmember Herrera: Anything else? Great. I just had one other question. On the economic development enhancement fund for 450,000, which -- can you talk about that fund just a little bit and where it came from and what else has been used for that -- what that fund has been used for?

>> Thank you, councilmember for saying that. The legacy generated out of this commission with yourself with the conversion of what was a set of catalyst funds that were more specifically targeted this to the broader economic redevelopment fund and it's funded fret economic development side many agency credit cards like C-8 meta sensors, dollars that have gone to maxim and several others that are well over a thousand jobs already.

>> Councilmember Herrera: 2200. Who's counting?

>> So it's an important use, and this is one more very important use, but we will track very closely the projects that come through, so we will -- as we have done with STI projects, that Joe and our teams have done so we'll know jobs, we will know square footages, we'll know some semblance of revenues.

>> Councilmember Herrera: Thank you for making really good suggestions, recommendations on the use of that funding so I think we're really getting some mileage out of it. Okay. So if there are no more comments and I don't think we have any cards, we need a motion to accept this and forward it to council for full consideration and that would be in the January meeting.

>> Kim Walesh: It will be December 13th.

>> Councilmember Herrera: Sorry, I'm getting confused. Thinking about the economic development committee. Next is incubator and entrepreneur center transition plan. Richard Keet.

>> Thank you, Richard Keet, managing director of the Redevelopment Agency. The direction of the mayor and agency board is clear, to eliminate or greatly reduce the agency's financial commitment to continue funding the master leases on the two buildings that have the three incubators and the E-center. I'd like to state before I get into the plan that if you truly believe we're the capital of Silicon Valley as we said with the arts, that we also need to understand the industrial sector diversification these companies provide. You as councilmembers and OED staff agency staff and many other city departments, have worked so hard to attract and retain companies, and the mayor's office as well. Here we have companies in hand that we view as an economic development team are critical to keep. The agency may be gone, we're wondering what's going to happen with the Supreme Court. The foundations have many other functions to do. But these companies, these 85 companies and all their employees are residents of San José. And so we, would very much be interested in working with you to retain them and get your ideas after we get into the plan. The original transition plan started as a ten-page master plan. And after talking and having -- being reviewed and going through the strategies with OED staff and other reviewers we

realize that not only did we want to not have you have to read 10 pages worth of documents, you have plenty to read, but that it really boiled down to just several ideas that we wanted your input on. And the two strategies are slightly different to the two centers based on the very fact that the termination dates of the master leases are quite different. Again, not to belabor the issue but, we are out of the biocenter August 2012. Our master lease ends. So the only decision the board has to make at that point is whether we fund it past the June time, those extra two months. And I think we'll know whether we make that recommendation as staff, as we proceed with the strategies, and how we're doing at that time, in the next six months or seven months that we have. The San José biocenter strategy is simply twofold. The San José state research foundation has indicated that they're interested in maintaining, managing and operating that center. Again, the agency only leases the building. We have the master lease. We're not the manager or operator of the center. Now, to achieve that, they have the foundation has talked to the president's office of the university, and being a forward-thinking person, he is interested in helping to that -- for that outcome to take place. Now, realizing that outcome would have to take place as stated on the document not on the slide that there would have to be some lease concessions and grants and sponsorships. The second part of that is simply adding that second layer on of seeking an investing partner which I know some of you have worked on and probably would be a critical element given the short runway, to use a phrase earlier, six, eight months is not very long to transfer this amount of funding necessary to, even with lease concessions, to achieve these companies staying and remaining in San José, and the foundation running that -- and managing that facility. The -- I'll go on to the innovation center now. The transition plan for this strategy is a little bit more complicated, because we do have the master lease as you've been informed on several occasions, all the way through September 2014. So it's several years out. My direction, from the mayor and board, was to see if we could certainly assign that lease or greatly reduce it as early as July 2012. But it doesn't take away the actual requirement or the legal stipulation that September 2014 is the master lease termination date. To achieve this we came one a two-part strategy one is to see in the short run and we would issue this as soon as the -- your committee recommended to the agency board, to issue and RFI, request for interest, with both foundations. They've agreed to work with us on, to see if we can get A, lease concessions as well, because we do feel that the downtown office building, the per square footage rent is above market rate right now. And also, see if they can participate at a greater funding level and see if there's any outside interests. Absent that happening, we would as an agency because we are responsible ultimately for the building issue an RFI request for interest, to

any private organization that could step forward and help funding or taking over, getting the assigned lease for the building. Again, we would anticipate both of those trying to get lease concessions and we've already discussed this with the property owner. I think certainly a critical couple of things to remember, and then I'll ask for your input or have any questions you have. Is that the foundations have been a true partner with us, and they do get an administrative fee, but they certainly don't make any money on this proposition. In fact over the years they've lost revenue because they've been an important not only from a cash flow perspective but they've backfilled over the years when there's been -- when the individual incubators have not achieved maybe the results that we anticipated early on. So with these limited options in mind, the mayor asked that this be taken actually to the council at the next council meeting, or the agency board meeting -- well, the council meeting was the direction. But in my meetings with the mayor, he did say that if this committee needs extra time to review the document or greater -- have greater input rather than just this discussion right now, that we could delay that, certainly to a later December date or even into January. Thank you.

>> Councilmember Herrera: Well, I think that -- I appreciate the -- putting this together in an abbreviated format so we can look at clearly what the recommendations are. And I don't -- I know we have Mary Sydney is here, I don't know if she wants to speak to this or not. I don't have a card in from her but maybe she might in a couple of minutes, I'm not sure. This seems like pretty -- pretty clear strategies and it seems like we're moving in that direction that I've been involved in working with Mary and others in terms of looking at outside investors. So I certainly am very hopeful that one of those two strategies can work for the biocenter. And so I would be supporting staff's recommendations in this. Sam.

>> Councilmember Herrera: I had a question for Ed. Ed, when a partnership dissolves, how do you, how are the partners supposed to resolve the allocation of the assets that remain?

>> Most of the time the partnership agreement itself determines how it goes. Certainly the creditors have an opportunity to make a claim on them but normally would you look at partnership agreement to determine how the assets would be split. If not, then the California codes have a way of dealing with assets from a dissolved corporation or a partnership if it's not set forth in the partnership agreement.

>> Councilmember Liccardo: I've looked at the sublease and operating agreements at least the two we have in place. Have you seen anything in there that addresses how assets are allocated?

>> I'd have to ask one of the other attorneys in the office who helped in -- I haven't looked at the partnership agreement so I wouldn't be able to tell you what it says.

>> Councilmember Liccardo: Okay. I think it would be helpful for us to start there. It seems to me there is another option that hasn't been discussed and that is, that is, do we get together with San José State and the foundation and say look do we just want to have a different management team take this offer? It's not just a question that we withdraw because the money is no longer there in the city or redevelopment side. This was a partnership. We invested more than \$30 million in that partnership. We have companies in San José that we have an interest in retaining and it seems to me that as a partner in this we ought to have some say in deciding whether or not the San José State university foundation is the best organization to be managing this. And I know that last time Mary Sydney was before rules committee she insisted that it is not the responsibility of the foundation to manage day-to-day but my review of those partnership agreements is very clear in paragraph 3, all the operating responsibilities of the foundation are laid out very clearly. That they had responsibility over fundraising, financial management, hiring contractors and staff, maintaining books, performance evaluations. I've expressed publicly my concerns with the adequacy of their performance in all those regards and it seems to me is SJ surf the best manager or operator here? Recognizing they contract with other entities obviously to handle many of the day-to-day operations. The fact that we are not asking that question is problematic for me. I would not be inclined to support this unless I was first satisfied that we sat down with San José State and the foundation and asked the hard questions which we haven't been that willing to ask publicly certainly through an audit.

>> Councilmember Herrera: Okay. Pierluigi.

>> Councilmember Oliverio: Oh, no.

>> Councilmember Kalra: Looking at the transition strategy in summary at least, it seems like the research foundation is in a process of doing their analysis, I don't see how they would have sustainable at least for the biocenter in terms of revenues and how they would be able to enter into a long term lease, I know that the Mitchell S. Callberg, I think that it took some time, but now it looks like now that they have greater interest than ever before in not just supporting the biocenter and what the model is for the biocenter, but also some of the vacant properties that surround the biocenter that Berg Industries has an interest in, in trying to have a landing space, which has always been a concern, I think, of all of us, kind of what happens when these companies go out of the biocenter. And I think that now, especially with tandem and looking at some of the success of the companies that are coming out of the biocenter many of which have not ended up in San José but now with tandem, in the berg building in the first floor of the biocenter, there's tangible proof at least for Mission West that this can be done, that really, the pretty significant investment that's necessary pays off. And so I certainly am not opposed to further analysis of how the research foundation proposes to manage the properties going forward. I think what the biocenter I think the City's I guess relationship, about six or seven months, and so I think that I know that the research foundation's in very close discussions with the mission West in order to continue to have the biocenter in operation from the City's interest and the City's relationship will continue to be important in become at the biocenter in ensuring that when they're looking to grow and be in the biocenter that the city is in the position working with berg and other property owners both in Edenvale and North San José and everywhere else downtown to capture those companies and so that's always I think been kind of the missing piece of it is that although the incubators were incubating, the city wasn't always able to capture them when they grew out. The same is also the case I think in terms of the entrepreneur center. There's more time there, I'd be more interested or certainly be interested in seeing the city terminate its relationship sooner rather than later in terms of the 2014 if we can find a plan that works to allow someone else to come in whether it be a research foundation looks like with Humboldt state as well as San José State, my guess is there would have to be some kind of investor partnership involved as well going forward. So I think that these strategies were somewhat the ones that were contemplated in the initial discussions when we started talking about this a few weeks couple months back or during the course of this year has been the way of transitioning the city out and having the research foundation take a greater role and I think hopefully now with the viability that's been shown with the model that there can be more interest from the private sector in terms of being investor partners in there, to help continue these assets I think are valuable at

the end of the day they're valuable in terms of helping grow these businesses. I know with the life science industry that's now starting to sprout in South San José in the biocenter that's played a huge role in allowing that to happen. If we didn't have the biocenter I doubt we would have seen that growth. Not just the companies that grew out of the biocenter, but those that have come in cumulative thousands of employees certain over the next two three years that may not have occurred without the biocenter. I think that the interest of the city will and should always be to see how we continue job growth and I think by having this industry created, in this city, and I think by looking at what's happened with the entrepreneur center I think that further honing in on what the best way the City's relationship can be to cultivate these industries will ultimately be where the city can benefit out of these incubators even when the city's not formally part of the biocenter.

>> Councilmember Herrera: Best to make sure these companies have a chance to grow in San José. We certainly don't have control over them as Pierluigi has pointed out many times. Businesses do what they need to do to take care of what they need to grow and sometimes that means moving away but certainly we should if we can provide a landing pad for them or launching pad for them to grow and be in San José. That's something, that is the equity we have from our \$32 million investment is the companies that are here. While I'm really sympathetic to my colleague Councilmember Liccardo on his concerns about moving forward and our investment, I think the best thing we can do moving forward is make sure these companies they have an opportunity to stay here and that we either you know we support those who have -- who are working right now trying to get this lease redone with mission West properties which I think has been challenging, and so either that or I'm also very supportive of the idea of an outside investor coming in and working, you know whatever, works best to make sure that this is going to take off. I think we have and I'll say it one more time, the vision I have of this is it could be you know the beginning of a real life science kind of center there. We could work to reach out to the reasoning. It doesn't just have to be San José and not even just San José State. I would like to see us reach out to other universities to foundations to companies and create a ream center of gravity down at Edenvale. We have a company that's interested in doing a life science park in San José. We have a vision for this areas but the great thing is we have 85 companies. That's the good news, we have companies here so however this thing works out whether it becomes a private company really moving in to do more of the management of this or San José State, I want to see this thing move forward. I think unfortunately time is not our friend here. Because it is in this lease it's up in

August. So whatever we do we have to move quickly or I can imagine these companies thinking about their future, and if I were one of them, and I did run a small company, I would be looking to go somewhere else quickly because I would not want to be caught in a situation where I didn't know what my future was going to be. So we need to give these companies certainty where they're going to be so they can move forward making their plans so I don't know how much time the city has to do a big extensive analysis and get involved in picking different folks and trying to get involved in this process and go in a different direction and that's why I'm supportive of what the staff has recommended. I'm comfortable with bringing it back in December. If my colleagues want more time you know, to do it in January, I just think we need to move forward with this. I think we've done a lot of examination of it.

>> Councilmember Kalra: You know and I think this was indication in discussion with the mayor's office that at least the mayor's office didn't have a problem with this committee having further kind of taking a further look at this before going to the full council. So I don't know --

>> Councilmember Herrera: Actually I would like to see this cross referenced either to December or January.

>> Councilmember Kalra: So we can go back before going back to full council --

>> Councilmember Herrera: We're not going to have a meeting in December.

>> Councilmember Kalra: If we come back in January, Councilmember Liccardo raised some questions, the research foundation continue to do their analysis, they can come back and at least present at least what the setup is, what their outlook is going forward. So I don't think it's unreasonable for us to have them come back and both - even the biocenter still six seven months we know until 2014 unless some other arrangements are made we have a commitment, I would like to see if there's a plan to kind of extricate the city out of that before that, that means your foundation could come forward with.

>> Councilmember Herrera: Is there some way we can look at this different --

>> Councilmember Kalra: I don't think we could meet and come back here in January because it would further progress on how the transition plan is going with a couple of the concerns that have specifically been raised addressed at that time.

>> Councilmember Herrera: Can we -- I just want to be sure that we're not causing a problem with the time -- with working on the leasing and things and I'd like to Kim maybe Mary Sydney can give --

>> Kim Walesh: Seasonal dates, the normal time this would be cross referenced to city council would be December 13th, coming out from this committee. And then we could get to work, my only concern is the RFI process as you know could take a while and potentially there is a double RFI process that would need to be completed by May, June. The other suggestion you are suggest is to bring it, you could defer to the city council meeting on January 10th. If you really wanted to bring it back here, your opportunity to do that would be January 23rd and then it would be getting to council February 7th. So just wanted you to see the time --

>> Councilmember Kalra: I share the concerns that the chair shares. I don't know if there's a way that we can just go forward with the staff recommendation and still come back in January with further update.

>> Kim Walesh: Yeah, that's good.

>> Councilmember Kalra: I don't think it precludes us from continuing to look at it. Nothing's definitive at that point. But I understand there might have to be two things going on at the same time. But I do think that it will be helpful for us to come back to this committee in January. Because this is such an important issue, this period is so critical. So I would --

>> Councilmember Herrera: Is that a motion?

>> Councilmember Kalra: Motion to move the staff recommendation and additionally come back to CED with a follow-up both in terms of kind of the process that's being recommended here as well as you know further information as to the foundations and their further analysis as to how the foundation anticipates going forward and continue to successfully operate both the entrepreneur center as well as the biocenter.

>> Does the motion include Councilmember Liccardo's request to look into the issue of developing the partnership?

>> Councilmember Kalra: Well, I mean I think that if --

>> Councilmember Herrera: That can come back to committee.

>> Councilmember Kalra: That can come back to committee.

>> This is going to council on the 10th or the 13th?

>> Kim Walesh: On December 13th to approve the transition plan that currently stands with a report back to the committee on January 23rd.

>> Councilmember Herrera: Can we still get a report back on the questions that Councilmember Liccardo has to the committee?

>> Councilmember Kalra: I'm personally fine with that, questions going forward as to the viability of the foundation's plan and I think that really speaks to you know, it speaks to going forward, particularly with the entrepreneur center, whether the analysis, whether the plan's viable. As far as timeline, I think we have to go forward at least with a transition plan at this time. Nothing stops us from at some point saying wait, you know, due to further information we received, and additional facts that there might be a better option and I think that everything has to be on the table including what Councilmember Liccardo indicated which was potential

dissolvement. It all has to be on the table at this point and it all has to be out there. The squeezing of the time frame, it all has to be out there at the same time.

>> Councilmember Herrera: Do we have a second?

>> Councilmember Oliverio: I can second that.

>> Councilmember Herrera: All right, that includes cross referencing to the council on the 13th?

>> Councilmember Kalra: Moving forward with the transition plan but coming back to CED subsequently in January, both with how the transition plan going, as well as the further analysis of the strategy and plans moving forward and a look at all options for the council including from dissolvement to the strategy we've been moving forward with.

>> Councilmember Herrera: And San José is asking for assets, looking at the assets, to --

>> Councilmember Liccardo: No, I was referring to assets to really get at the broader question which is this. Let me just try to reframe it. There are other folks out there who manage these. There are education institutions that actually do biotechnology research like USF and Stanford, they might be interested. There are folks that run incubators like Y combinator that are fabulously successful and get lots of foundation and VC support and run them profitably, unlike ours. There are VCs on sand hill road who may be interested. To what extent can we actually look at who else might be interested in running something like this so this could actually be sustainable and viable rather than what it has been the recent years, constant drag on redevelopment funding which no longer exist.

>> Councilmember Kalra: And I just want to ask staff based on the comments of Sam, I mean, this recommendation seek investment partners, doesn't seem like it precludes any of that but I do think it's important that it's specifically addressed. So there could be other options or partnerships that even San José State

foundation could make with some of the entities that have been doing this. I don't see the recommendations precluding that and if I'm incorrect on that please correct me.

>> Councilmember Herrera: I want to say that is exactly the path we've been trying to work with. Mary I don't know if you want to address that. We've been looking at those options and a regional consortium that would contemplate working with Stanford, working with UCSF, working -- maybe Mary can address that, that kind of thinking is certainly what we have been talking about.

>> That is absolutely correct and in fact just as council is already discussing, we're looking at collaborations with other universities, as well as private sector partners. We're looking at the whole spectrum of possibility. There's so many unknowns right now, but it's hard to be definitive, but I think we'll have much more information in January.

>> Councilmember Herrera: We have an investor right now that does not want to be named. So we couldn't mention that investor, but we are talking to people out there.

>> Kim Walesh: Just to clarify and Richard, maybe you could provide clarification, because you're a little bit closer. But for the biocenter, transition strategy 1 and 2 both envision an ongoing role for the San José State University Research Foundation at this time.

>> Yeah, I think one thing everyone needs to be cognizant of, the assets as I understand Councilmember Liccardo, that our co-sponsorship agreements are all over by June, at the end of this year.

>> Councilmember Liccardo: Well, we've actually invested in the physical equipment for instance, with our goodwill --

>> We do have about a -- after it's been probably \$1 million worth of -- it was more than that --

>> Councilmember Liccardo: Quite a bit more.

>> Depreciated over years. We could get that number. Technically if that were to dissolve it would be ours to either liquidate or do what we want.

>> Councilmember Liccardo: I'm not arguing to liquidate. I'm not trying to liquidate. There's ongoing concern, there's good will with is an asset as well. We decide as a partnership that we're just going to concede that San José State research foundation runs everything and we look for the exit, that's not how partnerships dissolve. We should be sitting down as partners and say, is this really the best way? How likely is Stanford or UCSF going to get involved if there's another university running it? Probably not. So maybe what we ought to be doing is talking quite honestly and bluntly with our partner and saying, it may mean that existing partners both get displaced in order for this thing to sustain itself.

>> Councilmember Herrera: I think the motion on the table is going to contemplate looking at all these options. I think that's what we have or at least bringing it back.

>> So in January we'll come back with some discussion of the issues that Councilmember Liccardo has talked about with regard to the possible dissolving of the partnership, or adding additional partners or --

>> Councilmember Herrera: I mean I think I chair the committee and I'm actively in discussions with San José State university about various permutations of these things including having an outside investor run the program and San José State not running it. So we're looking at all these different options.

>> Right, the only option is, Councilmember Liccardo asked those be addressed and the issue is we're bringing those back in January, including the issue that the chair has raised.

>> Councilmember Herrera: Yeah, and we have one more thing we brought up, who owns the name biocenter, if the city owns that? Is there some way for us to continue to have equity in it in terms of branding? Not financial responsibility for it but to have some equity to Councilmember Liccardo's point about the \$32 million in

investment. We want to make sure the company survives, I think the city wants to be a part of it going forward in terms of retaining some equity in the brand, maybe there's some other points we could have in that discussion. We're all trying to go in the same direction, I really think so. Any other comments? So we have a motion on the floor. All those in favor? Opposed? Okay motion carries. We move on to the next item. Which is entertainment zone police cost sharing.

>> Kim Walesh: So this is a policy issue related to policing of downtown that Lee Wilcox has been leading along with the city attorney's office and the Police Department. We have a short presentation.

>> Thank you, Kim. Lee Wilcox downtown manager for the Office of Economic Development. I will try and be brief because I know we have gotten close to 4:00. In 1997, the city developed its first entertainment zone policing plan. Primarily was to eliminate night clubs and or bars hiring police officers through secondary employment. Part of this plan developed and implemented the downtown services unit which at the time had 18 officers who worked at the downtown regularly at night and the creation of what the police department refers to peak load deployment and these were police officers on overtime who were brought down to downtown starting at 1:00 to 3:00 to help alleviate closing time in the downtown. Since we had roughly anywhere from ten to 12,000 patrons leaving the downtown at one time. To implement this, this overtime cost the police department anywhere from 800 to \$1.2 million a year annually. In 2008, approved by the city council, the Mayor's Budget Message included the language work with night life operators in the downtown to create a funding mechanism and staff scope of services for a new deployment model in the downtown. Staff worked diligently with an entertainment zone policing consultant, a lot of best practices research in San Diego in the gaslight district, San Francisco, Austin, San Antonio, Chicago and New York to see how those cities worked with their night life businesses and approached nighttime activities. In addition the police department crime analysis unit conducted hours of research to try and target who was creating the peak load or that demand for those peak load officers. And the city and the downtown association worked extensively with downtown businesses and stakeholders as part of the outreach. At the end of this very long work plan, council finally approved a new cost-sharing methodology which I'll review and a new entertainment zone policing model that we'll review as well. So it's important to note that the police department crime analysis unit conducted what we call a nexus study to determine who created the need, or a reason for this

peak load deployment and it really pointed to businesses in the downtown that had an entertainment permit. So anywhere from a restaurant, bar or night club that had an entertainment created the demand, calls for service and police initiated events. What we were also able to determine was that as the occupancy played a big role in these calls for service, so as a business's occupancy rose, so did the calls for service or police-initiated events. So what staff proposed and council ultimately proved in June 2009 was a budget target of 500,000 down from 1.2 from this entertainment component and entertainment venues should pay half of that total cost so \$250,000 a year. And that it should be an occupancy based fee. So for example, a night club or bar with an entertainment permit that had an occupancy of 200 would pay roughly \$5,000. At the same time, in 2009, the city closed a wet night club two times and was sued in federal court over constitutionality challenges to our subordinates. While the case was ultimately dismissed and the city worked with our entertainment venues in the downtown to address any problems, such as the time and length of a permit, the time that it would take the police chief to issue a permit, the city attorney's office and City Manager's office did postpone bringing back an ordinance to ultimately collect this fee from entertainment venues in the downtown. With that said, staffs were ultimately led to a lot of successes in the downtown. In 2010 the city was awarded an award for safety in an entertainment zone from the responsible hospitality institute for the new deployment model. We worked over 12 months with our businesses in the downtown to create this model. And while ultimately, no additional resources given the City's fiscal realities, could be given to the deployment model, we've been able to address the problem while cutting cost considerably while still maintaining the same Public Safety and actually, enhancing it in the downtown. So our downtown services unit has gone from 18 officers to eight and our overtime officers where we were spending roughly you know anywhere from 800 to \$1.2 million annually has gone down to roughly 600,000. So ultimately the new policing model in downtown has saved anywhere from one.7 to 2.1 million annually. It's important to note that the new spirit of collaboration we have with the night life businesses and their commitment to this new model is really important. It really reliance heavily on collaboration between the city and these businesses. As you can see we're doing the same job with a smaller amount of officers and our businesses that have been committed to making sure their employees are ABC LEED certified training through the state a lot of their security officers work hand in hand with our police department on training and off the offside any police officer who does work in the downtown does need to go through a training module that Office of Economic Development, police department and our businesses helped put on for those officers so they better understand what they're dealing with in the downtown

and the general goal of downtown. So that brings us to today. While we've still been saving 1.7 to 2.1 million a year we are still expending \$600,000 a year out of the general fund on overtime. So staff is hoping to get some feedback and policy guidance from the committee on these options. Option 1 is to move forward with what council originally approved which is an occupancy based fee on entertainment venues in the downtown. Staff doesn't recommend this approach. Considerable time for in the police department's crime analysis unit went in to do the original nexus study. Three years has passed so this study would need to be updated and would take considerable staff resources. In addition we really have seen a shift in our venues downtown. Before, we really had three or four I would say problem clubs generating a lot of calls for service and issues in the downtown. We've seen a small dip in the total occupancy of entertainment venues in the downtown but the numbers actually increased so now we have a lot more smaller venues and of the venues that are large, 500 plus, actually the Improv, Los Gatos Brewing Company, so restaurants and larger venues such as bars you know taking the opportunity of partaking in live performances live music and other things we talked about in September. We also do feel that we right now at this time last year had five venues in the downtown with live performance and live music right now we have close to 12 so we are seeing a reemergence of live music in the downtown. The additional tax on these businesses specifically just 27 businesses could curtail that growth. The second option is a late night business fee. While the original nexus study pointed out that entertainment venues generated the need for these overtime officers one can argue that any business open after midnight in the downtown do benefit from the officers in the downtown. So that is something staff could explore and we are recommending we spend more time on that. And then lastly it's important to note, Kim mentioned at the beginning of her committee during her report, OED's main goal in the downtown is to increase our commercial to better our commercial vacancy rate. We want to fill those buildings. Without any dedicated resources any longer in the downtown from the Redevelopment Agency, OED, downtown association and 1stAct and others have really stepped up with Mayor's Office, Councilmember Liccardo's office to try and do that. One of the things that the Pbid is doing is they're going through their ten-year renewal process right now and have included a scope of services for security. And while it doesn't specifically address late night operations, it does address daytime, quality of life issues that they want to talk about with their large property owners. Given the staff resources that OED has and our focus on that we do feel that we should approach downtown as a whole for all 24 hours of the day not just specifically how do we pay for this two hours at night but how do we better the overall Public Safety

and enhance the Public Safety in the downtown on a 24-hour basis. So staff is recommending that we explore options 2 and 3 further with downtown businesses and stakeholders and that through the budget process, we bring back actual recommendations to collect a fee. But at this time we're looking for feedback.

>> Councilmember Herrera: Thank you, Lee and it sounds like you're doing by the way a tremendous job coordinating downtown, doing that work and I think sounds like things are going much better than when I first got on council, and used to have to listen to these discussion best all the issues downtown. Councilmember Liccardo.

>> Councilmember Liccardo: Thank. Gentlemen, I just wanted to echo the praise. This has really been a team effort of a lot of people involved but you certainly has been churning up a lot of the load. Has made it to her 1,000th meeting on policing in downtown. Congratulations. Downtown association has been responsible for an awful lot of that second, of course our police department and the change in model they've implemented has been a great improvement as well as I think we need to acknowledge the club owners doing things like lead server training is really important, and the property owners. You know, Richard Berg is going to be installing a climbing wall facility where we previously had our frequent flier for the most violations of just about every city ordinance in the city. And I think the number 2 club is now the San Pedro square market. I mean there are property owners who are stepping up, the clubs are stepping up and everybody is doing their part and I think that's a great thing. I would be happy to move to approve the recommendations, at least approve the further exploration of these recommendations 2 and 3 but would I ask that special attention on number 2 with regard to late night business fee be given to creating a nexus with the service of alcohol and the provision of public parking. It seems to me that restaurants that want to stay open after midnight that don't serve alcohol probably would be doing us a service of staying open and we probably don't want to discourage them from staying open. I want to see if we can enable that to happen.

>> Councilmember Herrera: Motion, do we have a second? Okay, and before we -- okay and before we take that Blage Zolalich from San José downtown association.

>> Thank you for the opportunity to say a couple of words. I would like to acknowledge all the work that we have done collectively, and Sam has been to at least a thousand of the meetings, 999, as well as Pierluigi Oliverio, too, a lot of work over the last several years and creating a much stronger relationship between the business community and the police department. And I think it has paid dividends by the reduction 1.7, 2.1 million reduction in expenses is just extraordinary. So do want to acknowledge that. I also am here on behalf of the property owners association and the P bid as you said we are out now for the draft management plan for the renewal of the Pbid. Richard Keet is one of our board members, and so he has been through every step of the way in terms of this management program. We have talked a lot about safety and overall quality of life issues downed with our large commercial property owners and currently I just want to reiterate what Lee did point out, currently all the discussion has been around I daytime 24 hour security. We've got the ambassadors out there, we've got the Groundworks cleaning folks out there. We haven't had discussion with the board about this kind of nighttime entertainment zone. So I think that is just something that we need to create a little bit of space around. I think you know we're okay. Obviously we are partners with the city moving forward and doing the clean and the safe downtown. But it's also obviously something that we need to even broach the subject with our board. So I just kind of want to put that out there as a word of caution. So -- but we are here, we're partners and we look forward to working together on making it a 24-hour safe and vibrant downtown. So thanks.

>> Councilmember Herrera: Ash.

>> Councilmember Kalra: Thank you. You know I'm supportive of the recommendation although I would like to see in the analysis the late night establishments, some of the establishments that are open past midnight are also creating tax revenue as well. And so I think you have to kind of not balance but certainly see any kind of initiation of police activity from any particular establishment but also look at those that are open past midnight. I agree with Sam that those that are just restaurants that are offering really a service that we'd like to see more of to patrons who are downtown later in the evening are great. But there are also more active night life establishments that every big city needs to have, many are them are grounded, actually we don't have the one or two giant ones, probably separate intermediate smaller ones. But I think we have to at least be cautious about driving out businesses that are downtown that have been downtown that have been committed to downtown for many, many

years. I've heard from a couple of different owners that they're starting to pull back their focus on downtown and looking at other places like Campbell Los Gatos and other places than San José to put their future investment and so I think that there's been a positive, a lot of positive feedback in terms of police relations with the businesses downtown and so whatever -- and I really want to commend the police department, Lee and others who have worked very hard on new business models with policing downtown to reduce our cost and I just want to make sure that we're cautious, yes it's \$600,000 but we want to be cautious we don't go overboard in driving out business downtown. We definitely want to get rid of the bad actors but not all the actors. Again as I've mentioned many times before it is great to have a goal of having more live music for small venues but there's also market-driven forces based upon our demographics, based upon our population that we have to allow to kind of organically grow, as long as we maintain a safe environment for people downtown and can do as much cost recovery as possible, I think that we need to look at the tax generation that's created by allowing our downtown to become that vibrant urban downtown, that you know most big cities allow, and find their own unique way of handling.

>> Councilmember Herrera: Pierluigi.

>> Councilmember Oliverio: I know a lot of work has been done on this topic but a lot of the work has been done because the prior police chief was adamantly opposed to paid jobs for police officers, and having been a customer of many of the places that had paid police officer jobs I thought it was just fine and dandy. I just have a question on now that we have another police chief and we actually have more need for paid jobs to supplement the income of those that might be laid off and trying to get back on the police department, has anyone even broached that subject again at your level?

>> Yes, we have and I certainly don't want to put words into the chief's mouth. I think in 97 when the entertainment zone policing plan was created it was that direct relationship. So the bar and/or night club actually hiring directly a secondary employment officer and giving that officer a check at the end of the night and there was a conflict of interest in and around that. Police officers are required to enforce ABC state law 24 hours a day, so that created a huge conflict of interest for them. And I think that's what chief Davis was ultimately talking

about. Chief Moore, myself and others have long, at least for the last year, talked about where downtown association, a Pbid or some other entity, such as we do with a special event hiring secondary employment officers and running it through the police department such as we did with Music in the Park this year and all of our other events downtown. So I think we would be looking at it, how we use secondary employment now, not reverting back to how we did it in '97.

>> Councilmember Oliverio: I was aware the conflict the former chief had about the payment directly to the officer but the question always became, someone could have been a clearinghouse, you know pay the police department police department would cut the check for the off duty officer. I also remember the chief's worry was that the moral temperament would be tempted of the police officer being put in that position which I don't really believe and so I'm just curious. I know we've sort of thrashed around this topic for a number of years but I just feel that sort of things have changed. And if you know it is working from my perspective is working fine outside the moral turpitude arguments. Okay thank you.

>> Councilmember Herrera: Okay, do we have a motion to -- do we have a motion -- wait, we have -- we had a motion to -- okay. All those in favor? Opposed? Motion carries. We still have two more items guys. Update on Work2Future Jeff Ruster.

>> Thank you, Madam Chair, city council members. We're here to provide an update on Work2Future's activities over the last years and talk a little bit about the challenges that are on the horizon. And I'll be brief with my remarks. I know time is short here but I do think the context is really important. Last year when we presented there were kind of whispers of a recovery. We had seed knelt job creation over the previous 12 months of three to 4,000 jobs. Over these past 12 months we've seen about 20,000 jobs created. That's a positive sign. We're principally seeing those jobs being created kind of at the high end of the market, lot of demand for software engineers, web developers, technicians, kind of information communication technology sectors that we're seeing most of the job creation. So again there's reason to be more optimism than was relatively the case last year. But honestly that doesn't tell the full story. We have just recently completed some research over the last three or four months that looks at underutilized and underuse id workers. Underutilized are high school people and lower

skilled jobs, underutilized workers are people that are looking for full time work in part time jobs. Perhaps more in Silicon Valley than the rest of the nation. That's probably another 20 to 30% of our population. It's a huge drag on the purchasing power of our economy, and it also is potentially, not potentially but it is having a big impact on youth unemployment rates as you might imagine. Youth unemployment rates are at 32% right now. But again, if you are asked the question, when someone's doing unemployment surveys do you have a job and you say no they will ask you a second question, are you looking for a job and you say no because you've given up on that you are youth and you decide to move back with your parents you are not counted as unemployed. There is a lot of economic dislocation that is found in our community. There is increasing demand for our services. Our significant increase in underemployed people looking for our work and we've had a significant reduction in our funding over the last two years. But even with that context there is a lot to talk about in terms of the accomplishments of Work2Future. This slide I'll go quickly through it. You'll see that we've served other communities, other cities in the workforce investment area, but the City of San José, depending on whether it's the labor force, the employment or the unemployed population it's about 80 to 85% of our market. So recent accomplishments. Again for the seventh consecutive year we've exceeded all our federally mandated performance requirements for adult, dislocated and youth programs. We're one of the few WIBS that have done that for seven consecutive years. Even with the significant decline in resources we've still served over 9200 clients in these past 12 months with each one of those clients getting 14 services on average which would be workshops meeting with the talent coach, assessments job fairs and training. Half the clients we've served we did about half the clients we served did receive some sort of skill enhancement including certificated workshops, we sent a lot to San José State as well to community colleges, we work with 40 to 50 training providers. One key indicator that the Department of Labor doesn't capture or put out for us. But the clients we placed into employment earned at the aggregate \$40 million so hopefully that has increased all things being equal purchasing power in our community. And again we're very proud of the fact that we meet all the performance requirements but as independently verified we have 90% customer satisfaction ratings and did receive an international award from the international association of workforce professionals given the quality of service at our one stops. Our other key client is business services. We are one of the few workforce investment boards in the country that's located in the Office of Economic Development. With the guidance that we get from our private sector led board of directors we're still continuing to spearhead business owner space which is a virtual one stop of 40 different

organizations that provide free or low-cost technical assistance to small business owners and entrepreneurs and connect or serve directly 50 to 60,000 a year through businessownerspace, and we're appreciative of the support we've gotten from Councilmember Herrera and others on this committee in city council we just launched the shop San José campaign which is all about partnerships with social media companies and how small businesses can use social media in a prudent, targeted way to grow their businesses. We're to launch a new initiative, when I say we through our partners with the world bank with techba which is an international incubator from Mexico and a few other organizations, an association of international bridge and incubator organizations, there's about 40 of these organizations in the Bay Area that are funded by the Argentine government, Bolivia, Thailand and many other governments, but they don't really network, share leads or resources, so the idea is that they are going to form their own association and base that here in San José. And the city and through business other than space and Work2Future kind of like with boss we would work as the convenor of that to attract new businesses to locate here in our area. Through our business services we're very busy right now with rapid response efforts with fiscal workers, there are about 1100 of those workers that have been laid off that we will be serving and with Solyndra. There are 1100 Solyndra workers that are laid off more than half are located in our area as well and we hope to get special grant funding for that. And of course we do a wide variety of specialized recruitment and job fairs during the course of the year serving both high tech and low tech employers, so finally kind of looking ahead. We've just relocated to three community centers: Kirk, Shirakawa, and Almaden Winery. And Shirakawa is where we will have our youth programs, Kirk principally will be where we have our adult and dislocated workers services, and in Almaden for our administrative and business services. We know the lights are going to turn on the computers are going to work we're really going to start an extensive outreach effort to the community to make sure they're aware of our presence there. There's a lot of federal and state legislation, a lot of -- that's pending and some that's recently passed with this last legislative cycle. One piece of legislation now restricts and tells us how much money we have to spend on certain kinds of services. A lot of legislation is trying to reduce local control around the board's discretion and how they spend their money. So we're working closely with our representatives in D.C. and Sacramento to various advocacy agencies to make sure that our voice is heard in that process. And last but not least kind of where I started out with kind of on the gloom and doom story here, the House Republicans have now proposed a 73-90% reduction in WIA funds for next year despite the fact that there's 13.2 million Americans unemployed, 2.2 million Americans in California that are unemployed and with

about a 50% reduction for youth services. So there is the process we went through last year where we were actually proposed to be eliminated so I guess it is a relative improvement over where the conversation was last year but still one we're very engaged with and hope we would get the support of council in terms of pushing back against those measures. That would -- one thing I do want to say I would be remiss I am very appreciative to Chris, is here, Chris Donnelly has done a great job as director of operations for Work2Future, spearheaded a lot of the innovation that's happening there, along with the staff. So again, as we want to do, give credit where credit's due, and that's to the staff and to the board.

>> Councilmember Herrera: Jeff, thank you so much. I had an opportunity, a year ago, I guess, to attend an end of the year party or end of the year function over there and got to meet a lot of the board members and companies that are involved and you guys just do a tremendous job. These numbers are daunting. I always ask the unemployment numbers of San José because we get these numbers that sound a little better when you miss Sunnyvale and Santa Clara in but we do have some serious challenges there especially with our youth it's what 10.7 unemployment rate in general for people who are saying they're looking so this certainly presents the challenges we have and it's just one more reason we have to get our house in order at the city level so we can continue to provide services because our citizens are counting on us to do that. What's our plan B if these cuts happen? What would happen to us?

>> Right, so it's kind of a Devcon 4 kind of conversation, right? If we really are hit with a 90% reduction --

>> Councilmember Herrera: Occupy Washington?

>> Something like that. If the cuts come in and are on the magnitude of even 25 to 30% even after the 60% reductions we've had over the last couple of years we've radically restructured our business model in the last two years in terms of our relocation to three community centers. We basically have the same amount of space but are saving substantial dollars in rent. We're also more widely deploying technology, using technology to serve our clients, to enroll our clients to do all the paperwork that's required with federal programs so we've got a massive technology deployment effort that's gone on as well and ultimately it's going to come down to how we work with

partners. We work very closely with EDD, the Job Corps, the Council on Aging and others, so through partnerships we can mitigate the reduction in services but again if it's on the order of 73 to 90% that's a whole different ballgame at that point.

>> Councilmember Herrera: Thank you Jeff. Any other comments? I need a motion to accept.

>> Motion.

>> Councilmember Herrera: All in favor, aye, opposed no. We have a we don't need a presentation, a local small business participation, we need a motion to support. We don't need to hear the report. Okay, I think we have a motion. Was that a second, Councilmember Liccardo? All those in favor? Motion carries, meeting adjourned.

>> Councilmember Liccardo: Were there any cards for the open forum?