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>> Councilmember Herrera: I'd like to call the meeting to order, Community and Economic Development committee meeting for September 26th. And let's do our roll call. Councilmember Liccardo.

>> Councilmember Liccardo: Here.

>> Councilmember Herrera: Councilmember Oliverio.

>> Councilmember Oliverio: Here.

>> Councilmember Herrera: And Councilmember Kalra, here. We're all here. We have several requests to defer and add requests to move and can we do this in one motion?

>> Uh-huh.

>> Councilmember Herrera: We have a request to move October 24th meeting to October 31st. And that is because -- again I think we have some folks missing.

>> Councilmember Liccardo and I will both be out of town. So I thought since we had five Mondays in the month, we would just move it.

>> Councilmember Herrera: They're going to be in China. Advancing --

>> Councilmember Oliverio: Madam Chair, could we conduct the meeting with three people on the committee?

>> Councilmember Herrera: We could conduct the meeting. We wouldn't have a quorum.

>> You could have two to one. It is only when you have two members that you can't take action.

>> Councilmember Oliverio: My only concern is I can't make the meeting on the 31st. I replied back to whoever had the first inquiry. My preference is it's stayed on the 24th. That's been on the calendar for some period of time.

>> Councilmember Herrera: Should we separate that out and come back to it. And I have a request for deferral, okay. Request and add the foreign trade zone application. To add to October 31st.

>> They would all be depending on what date you have it in October, it would be the October meeting. Whatever that date is.

>> Councilmember Herrera: Why don't we just decide on whether we're going to do -- Kim, are you having second thoughts about the request to move it?

>> Kim Walesh: It's really up to you. If I can't be here on the date Nancy Kline will fully play my role.

>> Councilmember Herrera: I think since we'll have the same on the 31st, we should keep it on the 24th.

>> Councilmember Oliverio: Keep it on the 24th?

>> Councilmember Herrera: Yes, so how does that impact other things? Foreign trade zone we would want to have that heard on the 24th?

>> Correct.

>> Councilmember Herrera: That's not adding, so everybody's clear in the audience, we are not adding something new, that is not within our mission. To add something new. We are just adding it to a new take it and then we are deferring until then the report on key legislative issues. I think Betsy Shotwell will have some other things, they wanted it deferred. The clean technical demonstration business center plan, that's also being deferred

to that meeting. So do we have any comments from the public on these changes, if not, is there a motion to approve?

>> Councilmember Oliverio: Motion for orders of the day for the October 24th date, all items 1 through 4.

>> Councilmember Herrera: All those in favor? Aye, motion passes. We don't have anything on the consent calendar. And moving on to our verbal report from our director. Kim Walesh.

>> Kim Walesh: Great good afternoon, thank you, Madam Chair. This is a verbal report to give you a sense of activities that have taken place in our Community and Economic Development city service area. Since we last met, just four weeks ago. So we would like to start with a fun factoid for you all to use. And this was interesting this came out a few weeks ago. This is data for calendar year 2010. But you start to see the growth in the San José metro area economy. We, meaning Santa Clara County, grew 13.4%. On our regional GDP, in 2010, 13.4%, and then compared to .5% in San Francisco and Oakland, and 2.6% nationally. So you start to see how the San José area economy is really the bright spot now in the Bay Area economy, the California economy and nationally. That is starting to translate into job growth for us, but not necessarily for the state and the nation at this point. So we had five areas we want to give you some quick updates on. The first is providing business outreach, retention and attraction. You recall last month you approved the plan for business outreach. Staff collectively have had 16 business outreach meetings in the last month with companies like Cupertino electric, Sun Planter, Watts On, Tacado, Chroma Sun, Sanmina, Vocera, Encore, Technica, Brocade, Hackers and Founders, Pet Airways, IBM, Sony and Tivo. So you can see a lot of variety in targeting large companies as well as those that are scaling. Had really interesting conversations with Sanmina, about just a critical role that contract manufacturing plays in San José Silicon valley. You'll recall the whole story about SMTC, it's a small scaling manufacturer. What Sanmina really emphasized is NPI, new product introduction and innovation. That's the part of contract manufacturing that is actually expanding here. And it's closely tied to tech and is really being bolstered by the activity in clean tech. So it's really interesting. Sanmina has five facilities in San José. We also had great conversations with Kliner Perkins. As a venture capital company we continue to have strong partnerships with them to discuss their portfolio companies and some of the demonstration projects that they are actively watching

with companies like harvest power and enlightened. We continue to meet with brokers, so they understand what San José has to offer including a meeting with a chairman of Colliers, so a lot of activity in business outreach. In the second area support for retail and small business growth. Just want to make sure on your calendar you have October 12th as a big day in San José. In the evening, from 5:00 to 8:00 p.m. is a launch of the shop San José initiative which will be at the convention center. In partnership with festivale, we expect thousands of people to turn out as they have in the past for festivale. During the day on October 12th, also at the Convention Center, from 10:00 to 2:00, work2Future is hosting a job fair that is targeted to NUMMI, Cisco and now Solyndra employees. We expect 100 employers to be there and 3 to 4,000 job seekers. So if you're available to I think to stop by during the day and in the evening, at the convention center on October 12th, you'll get a strong sense of the important work we're doing to support small businesses and our unemployed residents. Also want you to be aware that effective September 15th work2Future has relocated all of its services for adult, youth and businesses to the three community centers, so it's actually now paying lease to the city, at Shirakawa, Kirk and Almaden community centers. A full range of services are available at all three of those centers. The next area is enhancing the downtown core. This might be slightly out of the core, but wanted you to be aware that staff, actually led by planning and housing, submitted a \$2 million HUD community challenge planning grant on September 16th. This is the second round of HUD sustainable communities grants that have been made available. And this would be for proactive partnering for the urban village area on Santa Clara roughly from City Hall to highway 101 with the San José medical center as the center of that. So this was done in partnership with the county, is San José State, Lawrence Berkeley national labs and a lot of partners. So we should hopefully know by the end of the calendar year if we're successful. We've got our fingers crossed. We came very close last year, learned from that experience, and I think just wrote an absolutely fabulous grant and want to thank Michael Brio from planning and also Scott Green from OED for shepherding that. Very significant work product. Lee is going to talk more about the downtown in his report but just wanted to also make you aware in our other people's money OPM strategy we were awarded \$1 million from the art place philanthropic collaboration to support -- half of that to support improvements to gore park, parke de Los Publidores in sofa to turn that into a more active outdoor living room for the Sofa creative district. We'll also include our first pavement-to-plaza project for a temporary shut down of the south first street area for activation. We'll be bringing more specific plans to you over the course of the year. Another \$500,000 was for ZeroOne to hopefully move into the sofa district and hopefully have a year-round

presence there. I know many of you were at the urban market sign-lighting which was attended by 500 people. That's a prelude to the October 22nd opening of urban market, and also, the tech shop grand opening on Saturday which was just fabulous. They have several hundred members and we are all working in partnership. To get their membership levels up to where they want them to be. But they're being very, very successful so far in our downtown. And also, University of San Francisco this has been several years in the making, OED, and are already talking about being so successful here that they will move other graduate programs shortly. I mean in a number of years, they're already thinking about moving other programs here. I think that you know that we are all managing real estate. I just want you to know that since January, OED Real Estate unit has valued very small staff doing invest important work and this is just an example of one of the ways our real estate staff actually enables other projects that benefit the economy and work with a lot of partners to do that. In the culture and sports area, I think you know that we had to eliminate for budget reasons the City's active role in the arts express program. But that program has been transitioned with symphony Silicon Valley and is going to be relaunched in December under the name of art spark. So it's a very good example of changing a model from a city based model to a community based model and I actually think the model will be improved. Also on October 7th and 8th, the national in the arts is going to convene a special conference on art and technology in San José. This is a great example. They are for some reason having their main conference in San Francisco but coming down here for two days to learn from us about art and technology and showcase everything that we are doing here. And then last, I wanted you to be aware that we submitted a bid for the 2012 Amgen tour of California. Again this is an example of continuing to change models at the city. So last year, we changed the model so that the Silicon Valley leadership group was committing private sector funds to make the Amgen happen rather than using city funds. This year we took the next step and are having the San José sports authority be the lead entity in submitting the bid, and if successful, managing the relationship with AEG, rather than our events staff. Because our events staff has gotten so small we have to focus on our normal coordination and facilitation part. Thank rock 'n' roll half marathon is coming up in the first week in October. There is a lot going on, this doesn't capture everything. Thanks for everybody's input and this is a highlight of what the good work the staff is doing. Thank you.

>> Councilmember Herrera: Thank you Kim for that report. I did come downtown and saw the tech shop, I missed the I ribbon cutting, I heard it was a steel ribbon was that true? I did take a walk through and heard their

CEO give his keynote address. He said some stuff about us after you left, so I'll have to tell you about that. The thing that struck me about this, tech shop is a future of where manufacturing is going. It's how to get people to understand manufacturing and to get everybody interested in helping people make things and be focused on that about. So I was very, very excited about what it offers. The potential to partner with schools, the potential to have folks come in there and have a dream of what they want to make and turn it into a company. They have had several companies come out of tech shop in Menlo park and San Francisco. It can certainly happen in San José too. I think it's a very interesting company and we should definitely take advantage of working with them. It's a new face of manufacturing. Anyway, other questions from my -- go ahead.

>> Councilmember Oliverio: Yeah I just thought it was great that tech shop and Karl bass, the CEO CAD software. Kim on the increment, I think you had on the first slide 13.5% growth in San José. May I assume that cities like Boston and Austin had sort of the same growth that broke the national pace?

>> Kim Walesh: Actually I didn't hit my most important porch line, that we grow the most of a large helicopter area. Thank you for that, that was the best.

>> Councilmember Oliverio: The most important punch line.

>> Councilmember Oliverio: That's great. , some points that there is some acts with angst with some, we don't want to necessarily approve everything a broker wants to bring. But do they know that any deal they bring forward that they can get a rapid TI permit that type of thing?

>> Kim Walesh: Yes, I think it's all about relationships and an agency has strong relationships and brokers change and staffs change. We want them to have information that they need to sell San José. A big part of it is STI. But especially in downtown as you can see in lease presentation we have a very positive message about Downtown San José and we want to drive our vacancy rates down. We want to make sure if they are selling North San José or downtown or anywhere in the city, they can refer clients to us.

>> Councilmember Oliverio: And do something like the foreign trade zone does that make them raise their eyebrow because they might not be aware of it?

>> Kim Walesh: Yes, absolutely. We need to keep talking about the enterprise zone and the foreign trade zone and the STI. Those are some very specific very tangible benefits that have bottom line impacts.

>> Councilmember Oliverio: Thank you.

>> Councilmember Herrera: Anybody else?

>> Councilmember Liccardo: Yeah I just wanted to add, kudos, I think that Joe and his team Lee Butler and everybody else there, I've had conversations now with two folks in the last week and a half who have just opened businesses. Really having very positive things to say about their experience in dealing with the process in the downtown. One of whom compared us to a small suburb to our north, that will go without name but they have a baseball team that's not making the playoffs this year.

>> They have bridges.

>> Councilmember Liccardo: They have bridges yeah. And said it was really night and day and were incredibly pleased how quick they could get up and running. Thank you for that, kudos. The tech shop was the first time had a blow torch to cut the ribbon, really cool. Lot of fun.

>> Councilmember Herrera: Anything you want to say? I want to say one more thing about tech shop. Their CEO told me they were really interested with how our Planning, Building, and Code Enforcement department thanld process. They couldn't say enough enough good thing with the city and ooptdz in terms of how we were able to handle things I won't go into the details but it doesn't sound good for them. But we did a really good job. To be commended. They were very happy.

>> Joe Horwedel: The work of the building and Planning and fire staff to go through and pull that together was a complicated rebuild of an existing facility but it was one that we see as an important part of our economic kind of strategy in downtown in bringing a new kind of whole new group of people into the downtown that would not otherwise be here. And so as part of that homesteading, but we don't compare ourselves to the city with the bridges. As I really look at comparing myself to some of the cities just to the north in the county. But we did really good.

>> Councilmember Herrera: Okay, great. And we're going to hear now from Lee Wilcox.

>> Kim Walesh: You need to accept --

>> Councilmember Oliverio: Motion to accept the report.

>> Councilmember Herrera: Second -- I mean sorry, I don't think I can second. All in favor, moving on. We have a report by Lee Wilcox on the Silicon Valley city center. One of the places he's been was league of cities, you talked about downtown and presented up there.

>> Yes, a few of us through the responsible hospitality institute gave a presentation on the importance of a nighttime economy, linking it back to take time amenities and being able to really good and an opportunity to collaborate with other cities around the state and see what they're able to do and not do. Thanks for having us, committee. Want to talk a little bit about Silicon Valley city center which is Downtown San José. We've had quite a bit of change since the last time we were in front of the committee in the springtime. The Office of Economic Development has long been a participant in the economic engine of downtown, together with the Redevelopment Agency, city, 1stAct Silicon Valley and the downtown association we developed a vision three years ago. And what that vision looked at was the big deals and small wonders of a downtown and obviously, convention center and the baseball stadium are the big deals, but that's great. We night the small little things that are companies rather than what visiteddors would really love and all those things together really make a vibrant city center. The last time we were in front of you with the safe action against the Redevelopment Agency has been somewhat of a

big shift in the way we approach downtown. With no actual dedicated resources from the agency, we really had to re-look and refocus and strategize on the way we approach downtown. Externally Office of Economic Development, 1stAct and the downtown association spent quite a bit of time over the last six months divvying up the work, strategizing what we need to really focus on I'll show that in a second and then internally on the city side the reemergence of our downtown working group or downtown management group as we're calling it with OED as kind of the center of that wheel but the housing police department, fire, Planning, Building, and Code Enforcement, housing all playing a real important role how we address downtown. So much of a team -- teamwork on how we approach downtown right now. So for the next 18 months, our four focus points are to continue to create a safe environment, urban environment that tricks a crime go up in the downtown so we are work really closely with our businesses and our police department to be really creative in how we approach that. Petty crime, graffiti, litter, homelessness has been a real big deal in the downtown. We had our downtown services unit which was a group of 20 officers three years ago whose sole focus of that nighttime situation, 8:00 p.m. to 3:00 a.m. have a refocus to help in all parts of the downtown no matter what days. So it has been cut to between seven and eight officers. Given the time, but they've really been helpful and flexible on their schedule to be able to help with our retention efforts with our businesses making sure that PWC, Oracle, the Deloitte are happy with downtown. And they are also cross training with Groundworks as part of the Pbid to have constant communication and be able to help one another. That's been really important. Also we've been focusing on positioning San José as an easy to access competitive work environment for startups scaling businesses freelancers by highlighting our innovation and creativity, I'll speak to that in a little bit. And our big push in the last couple of months is to maintain a dialogue with our existing employers and residents in the downtown in person visits. That's one of the things that OED had not really partaken in the last few years so we've really partnered with the downtown association on our retention advantage to make sure that we are keeping our existing employers happy. And then lastly provide oversight and enhance our competitiveness and success of our convention center our CVB and all of our downtown cultural facilities and our office of cultural affairs is working very closely with Deloitte to identify cultural facilities in the downtown. So on to some of the positives. Within arts and entertainment. We have touchstone climbing, in the sofa region which will be downtown or actually the South Bay's largest rock climbing facility joining our sofa community which even diversifies the type of businesses that we have in sofa even more. Which is hard to believe. We do have the civic auditorium, auditorium starting a

concert series in October. And Team San José is very close to finalizing a contract with Niederlander who is our programmer of that facility to start a 15 series concert series in the holiday and winter and spring which we're very excited about. The don't continues to see reemergence with live music with jazz every Wednesdays. We now have up to I believe 12 to 15 venues in the downtown with live music any given weekend. Anything from rock 'n' roll, jazz, classical music, Indian music. And that's been wonderful for us because that was a real big strategy for the council, you know they gave us two years ago. And we've through the permitting process of making it easier to achieve that live music, businesses are starting to partake in that. We are having a very successful transition for downtown for the holidays as well which can answer any questions but the office of cultural affairs and our stakeholders have worked really hard to make sure that event happens in kind of the new model this year. In addition we in November we will have the PWCI lead challenge conclusion. So again that's 150 young professionals that work for PWC putting on anywhere from 12 to 14 events over the course of three days in our downtown. So as we make sure that we have a vibrant downtown and our employers you know we constantly hear from our employers, our employees want to be some place cool, they want to go do something after work. So that is getting the employees outside the their own downtown, see what downtown has to offer with these events, new partner we are partnering with PWC and the mayor's office on and lastly before the end of the year you will before and those are really to streamline the process and make it more flexible for restaurants or eateries, early on in the night, to be able to play live music or have entertainment for families. It's very difficult actually for there to be anyone under the age of 21 in entertainment venue such as even Magiano's during the day if they wanted to have entertainment. The police department, Office of Economic Development will be bringing about changes to that in the next few weeks. Our urban living strategy, this is something still left over from the Redevelopment Agency, and we are seeing success and a little bit of turnover as we see businesses move in. The actual vacancy rates have started to improve. The bike one being 360 apartments. I actually heard that it's actually 50% occupied almost and they're close to 65% leased. By the end of next two weeks, so that's a number that continues to improve and will really have a positive effect in our sofa area. Our public realm. I can't speak enough of the importance of our Pbid in the downtown and what Groundworks has been able to accomplish in the downtown over the last couple of years. With the State's take of the Redevelopment Agency, the Pbid is going to be playing an even more important role in the next few years and how we look at public-private partnerships. And how we continue to offer services for our businesses and our residents in the

downtown. We are starting to see more sidewalk cafes and street vendors come into the downtown. Not just the food trucks but actual street vendors as well. Those have picked up over the last few months. Our downtown or Department of Transportation has a San Los streetscape project that is now taking place and that's going to be from San José State all the way back to second street I believe first phase of improvement and our public art program is also involved with a portion of that kind of activating the street and bringing some light to the area. So where we just were for the tech shop opening we will be looking for improvements there in the near term. And our I.T. department will be upgrading and relaunching our WiFi system in the downtown. This is a fairly major upgrade. We've been told that any given day in the downtown, anyone could throw open an iPad and start watching Netflix and the network wouldn't shudder at all. It's actually more than Google is putting in in Mountain View. We're really excited about that. .

>> Office of Economic Development we are starting the city lights skyline project. This is very preliminary and we are meeting with the likes of the Adobes and Ciscos and our property owners in the downtown. Essentially how do we light our downtown. There's been a lot of talk, of bringing this together by the end of the year. So I would say hopefully in the spring you'll have an update, from us on this. But this is something just like Adobe did a few years ago with the centrifuge. How do we bring vibrancy, how do we attract people that a person is driving in on the freeway and sees the downtown, says that's really interesting I want to go there. Kim mentioned the gore park improvements boston, Austin, San Francisco, all cities that have tried this have had huge successes. nearby residents and businesses are very excited about this. Shopping and dining front. In the beginning of the summer we had 25 new retailers activating 96,000 square feet for roughly 330 jobs. As we see in the downtown there is a constant flux of retail. Councilmember Oliverio to your point on the retail side with our brokers, with Nancy Kline as the lead from the Office of Economic Development we have been visiting our brokerage community and not just speaking about the downtown but the city as a whole, what we have to offer about the foreign trade zone, enterprise zone, instead of just being reactive in that community we are trying to be much more proactive. The retail side is a little bit more difficult. The business, the business and the economics of it kind of dictate what we can and can't do but it has been successful thus far, kind of building those relationships and getting the word out. And October 22nd we do have the San Pedro urban market opening. We're very excited about that and we've seen a lot of success out in that area already with San José eats and what they have to offer so that will be a big

day for downtown. We're really excited. I'll say really the focus of our work for the past six months has been on the work environment. We do have a very high vacancy rate in the downtown right now, roughly 28%. Together with 1stAct, some of our business leaders, and the Redevelopment Agency, we have repositioned downtown to really focus on making sure that everyone knows it's a competitively priced high access environment for companies to grow. Proximity to experienced managers and programmers, we have a knowledge base here and that our incubators and collaborative work space accelerate access to community partners in the downtown . We did put in place at the beginning of June a joint retention program. So the city Office of Economic Development, our police department, housing department with the influx of homelessness issues and the downtown association has really played a key role in retention efforts over the last six months. We've had a lot of success stories. We actually heard through the grapevine through Kim that pinger was close to signing a new lease in Palo Alto because of issues going around in their building and just general safety in the area. And downtown association, our office, PD and our housing department worked really close with their staff and their CEO and they did renew a five year lease in the downtown. That's a company that did 20 million in revenue last year and is budgeted to go over \$200 million this year and continues to grow, actually looking for growth opportunities in the downtown already. So a big success story for us on the retention effort and again it's been the collaboration with the downtown association and the different departments that we've been able to achieve that. Our park incentive program continues to be a real deal for our businesses. That is a huge attraction tool for us to be able to use as we talk to some of these new businesses. And we are looking at possible changes to that to make sure that more of our businesses can partake of that. We are streamlining our enterprise zone program. Right now it's heavily focused and staff's intuitive on the administrative side. We are going to be doing a program and launchings this online and putting it back on the businesses to be able to partake and really fast. We are really excited about that, third city in the state to do that. And given to our broker outreach and property owner outreach, we've really focused on that as a department over the last six to nine months, to go out and talk to the brokerage community and let them know what we have availability downtown. And property owners Boston properties, companies that are may or may not come up so we've been doing that quite a bit. Wanted to speak a little bit about the convention center. The greatest news is the fences are up, demolition has begun on MLK, December 15th is the date the demolition could be complete. We'll continue to update the committee on the renovation and expansion. Actually just wanted to come back to this graphic, this graphic is something we've used in the past to

describe away what we have, the new realities who's in charge and you can see that there's a lot of organizations that played a role. Not just inside the building with all of our departments on how we collaborate and work together and how OED project manages this effort but really with our external stakeholders such as Team San José, that will be our primary focus over the next 18 months to work with those stakeholders so make sure that downtown is the economic engine that we all want it to be.

>> Kim Walesh: If I could just close. I want to thank Lee for his leadership. As you can imagine a lot has fallen on Lee's shoulders over the last custom of months. I think what we all realize, there is no way that Lee terrific as he is or OED can ever replicate the significant staff talent and resources for staffs and programs that the agency had but that means that we need to be very focused and on solving problems and taking advantage of opportunities. And it's really managing all those relationships, within the city, and then to our external partners, and adding value to situations where we really bring something unique to. And I think Lee has just done a fabulous job really marshaling this team and trying to pioneer the next model for how we both manage downtown issues but also keep the positive momentum going and keep adding the attributes to downtown that help it become the kind of place we want it to be. So just want to thank Lee for his efforts.

>> Councilmember Herrera: And I want to join in thanking you Lee. Great report and great work being done. 28% vacancy rate is rather daunting number. What-d are there any tools that you don't have at your dispoap or you would like to have from your perspective that we can do something about? Like the top --

>> It would be a long list.

>> Councilmember Herrera: I realize. That we could do something about?

>> I think one of the things that we all need to do is keep on promoting downtown. Often edit suffers from a brand that they think they know what it is before really experiencing it. So I think and specifically for downtown really do help us retain and attract businesses.

>> Councilmember Herrera: Great do I have questions from my colleagues? Sam.

>> Councilmember Liccardo: Thank you. Quick question about the parking incentive. Do we have -- I know this is putting you on the incentive Lee. Do we have an update on how many companies specifically have taken advantage of that?

>> I do not have a number. I could definitely get it and send it to you.

>> Councilmember Liccardo: Just curious. Are I really agree with everything that both our chair and Kim said. Really, in the new world, it's all about partnering with folks outside City Hall. Lee, you've done a spectacular job with a very limited amount of resources. I know you're mostly a one-man band so thank you for all that you're doing.

>> Councilmember Herrera: Pierluigi.

>> Councilmember Oliverio: Thank you for the report. Just a couple of questions, that pavement to plaza issue, on Gore park, what are you doing taking down the four foot walls or something?

>> Specific on the gore park, the walls are budgeted to come down in that first design so it's more open. Pavement to plaza and specifically to gore park from the beginning of first street there to Williams street what we would be doing is be shutting down the street temporarily for about a year and painting it and making sure that the park flows into it and flows into those businesses. So essentially makes gore park larger. A lot of cities like San Francisco have done it and --

>> Councilmember Oliverio: Where can I see that in San Francisco, where is that?

>> I don't remember the specific intersection but I can e-mail you the Website.

>> Councilmember Oliverio: That would be great.

>> It's really fascinating. Usually a city or a nonprofit will paint it and make it interesting, with our input put a little bit of furniture out there. And TTYs surrounding community and businesses that make it what it is. It is quite organic and interesting to see what oarlt cities have done.

>> Councilmember Oliverio: sidewalk cafes I won't say names but I think you see these ones that are very open and can you see people versus others have a barricade castle like environment. And I think there's a difference in that view. Is there any direction from the city on what someone makes, how they make it look or is it just up to the proprietor's choice?

>> Joe Horwedel: It's a little bit of both. One of the questions that comes up is the issue of alcohol, if alcohol's being served out on the tables. And in the past there has been a lot of concern about enforcing alcohol that would be passed off to somebody walking by who might be under age. I think that's one of the things that Lee has talked about of us looking at how we encourage the things we want to go back and look at. Our goal really, it should be pretty seamless transition of the sidewalk cafe and the sidewalk itself to really have our desired goal of seek -- people seen out on the streets rather than hiding behind barriers.

>> Councilmember Oliverio: I think the ones I think about both serve alcohol and food, but some are more inviting and others you it doesn't even seem like a sidewalk cafe. Just a commentary, thank you.

>> Councilmember Herrera: We'll take comment from the public, David Wall. David Wall good afternoon Your Honor. I heard such a stellar group of accolades, it's just stellar. I don't know about the downtown, I don't like these Silicon Valley city center business. I like Downtown San José because that's what it is. It would be interesting to have the committee direct an allocation of source of funding from the previous testimony, from our manager here. As far as how much where the funds are, how much this plaza business is going to cost. And also, there's nothing in here to deal with St. James park. In other words, you have no vagrant management plan. It's great to build up the downtown. I'll support it but you've got people with means, want to come out to a restaurant

and have to trip over some drunks or other people that should be just rounded up by the police and they're there all over the downtown you're shooting yourselves in the foot. First I'd like the economic background of 1stAct Silicon Valley last time I looked they were running on papers until they got an infusion of cash to that Mexican heritage plaza. Also some San José downtown on the city dime and I think they're scheduled for another \$495,000 payment as well for this next year. I don't think we're getting a lot of bang for their buck. So I think all of this really needs to be reviewed absent all the folderol and accolades of doing the job and all this stuff. We need hard core evidence to see how much money is coming in. Thank you.

>> Councilmember Herrera: I'll entertain a motion to accept the report.

>> Councilmember Oliverio: Motion to accept the report.

>> Second.

>> Councilmember Herrera: All those in favor, motion carries. And we are on now, to our economic strategy work plan.

>> Kim Walesh: Good, thank you. I'd like to invite Nancy Kline and Joe Horwedel and Jeff ruster, anybody from D.O.T. here to come and join me. And the reason is, this work plan really represents hopefully, they'll be on their way, represents a real team effort in our Community and Economic Development CSA. As you know, there was an initial 18 months work plan that was adopted right after the economic strategy was adopted so this is the second 18 months work plan. And what I thought I could do Madam Chair is maybe take it section by section, and we can answer any questions or take comments as we go along. And I'd like to also point out some of the successes of the prior work plan. In particular there were 14 items on the initial work plan that are really completed and some of these items carry forward and some of them are new. It represents I think a really hard nosed look at what is most important to be focused on where we can move the needle and how much we should get accomplished. Would that be okay with you if we leave that up? This is last year's work plan. This is the prior year. Okay. But focus on the one that you have in front of you which is the current one. And as we go along I think

it would be helpful to think about what do you think are the top priority actions of all of these. We think we can move them forward as a group together. But especially as we look at the remainder of this fiscal year are there some things that pop out as really important for the first half of the work plan period. So the first goal is really about encouraging the companies and sectors that can generate city services -- revenue for city services and really drive the economy. So the first one is engage 250 companies, and last month you approved the business outreach plan, and that is the main team that will be driving this.. One B is really representing the model of partnering with other partners to promote San José as a desirable location. This is the kind of situation that Lee mentioned with the downtown association and we are in conversation with the chamber of commerce how they can be a more silicon Valley China business connect where we're partnering with local companies to promote San José as a desirable location for Chinese investment. One C is about the clean tech demonstration center turning that into a viable business plan. You'll have a check-in on that at your next month's meeting. And oneD is the direction we have to make some revisions to the development agreement in pretty short order. So we can still use development agreements to provide more certainty but have more direction to do so. I just wanted to point out in this section is one of the main accomplishments from the first 18 month plan is getting a new financial tool in place. And that was the ability to do sales and utility tax sharing agreements. Like we did with Netflix but of course we did some with C-8 meta centers, Maxim and solar power that's a tool that we didn't have in place that we do have now. So I can stop there, if there's any questions on that sects and -- or I can keep moving forward if you have a preference.

>> Councilmember Herrera: I think we can keep moving forward.

>> Kim Walesh: Okay. So then under retail, you see two goals there. One is to really advance some major destination retail projects, that can again play a significant role in place making and also generate really significant revenue for the city. And then, continuing to work on the new sign code ordinance so that companies, retailers can promote themselves and have greater visibility. As I think about the first 18-month plan I think we really made big traction on working with car dealerships. So we had the expansion of capital Honda, we had worked with Del grand to bring in new dealerships, the capital cheferld and capital Kia dealerships. sales tax continues to be a really important area of activity for us for the fiscal as well as place making benefits. Number 3

concerns manufacturing and we continue to want to preserve the industrial lands. And really have envision 2040 we think incorporated appropriate protections. The last 18-month plan there was direction to protect and improve trucking and freight transportation access to employment areas which was a particular reference to the Monterey corridor. And that has been incorporated into the general plan update. And then 3B is really a nod to the importance of contract manufacturing as a key role that San José plays in the Silicon Valley ecosystem. And we continue to work with our manufacturers to support that capacity. Number 4 is the whole area of small business which in addition to the agency, the leadership for the small business services is really provided by Jeff Ruster and Work2Future so the small business development commission is now staffed by Work2Future. We've had an integration. Businessownerspace Website has new assessment tools has a greening tool items you see here is really to continue to promote businessownerpace where any potential or existing small business owner can access the many services that are available in the region. Of course the shop San José media campaign which you know about and then you'll hear later 4C reflects the direction that you gave us to prepare a transition plan for the incubator programs. Number 5 is about increasing San José's influence in regional state forums in order to gain dollars and policies that are aligned that help us implement all elements of our economic strategy including the transportation element. So you see 5A as the regional influence team, the interdepartmental teamworking with those of you who are on regional bodies to increase our effectiveness. You see the goal about securing seats on MTC and being actively involved in ensuring that the SB 375 implementation is really aligned with where we want our city to grow with our general plan. And then number 6 is an area that has been very, very important. In the first 18-month plan we were directed to retain and improve the STI and ITI program and we are so happy to still have those. And have to have retained the staffing for those programs as well as the position, the development services project manager. What you see here is reflection that we have on 6A, direction to look at our existing impact fees and taxes that affect new development, and tenanting. And to explore whether there should be some potential changes. That is a directive that we received that it's our intent to come back next month with some analysis and some potential options for you. 6B is retaining the expedited planning permit and continuing streamlining. 6C is to initiate enhance development plan check submittal process and then 6D is to continue the aggressive promotion of the projects that we have that are really business incentives. I think the first 18 months, we were directed to -- for Public Works to adopt the enhanced development plan check submittal process. And this has been completed and is really a model now for what PBCE and fire and the remainder of development

services are remaining to implement . The final goals, through the mayor's office we continue to include a goal about San José 2020 which is a major as you know city partnership to eliminate the achievement gap and better prepare students to enter college. 7B and 7C I think continue to reflect the good work that the Work2Future is doing. Specific example in preparing workers for clean tech jobs and working with industry to understand really where are those jobs and what are they going to be and what do we need to do to prepare people. Number 8 is all about the vision of advancing the Diridon station area, the first 18 months we did what you told us to do. You said complete the Diridon station area plan. So we did that. And you adopted that I think in January. We also had direction to work, as you recall with the Diridon area good neighbor committee, I think that was a good process and resulted in a framework for implementation being adopted by council. The goals you have here 8A is now adopting the implementation plan around the adopted Diridon station area plan and time where we will be able to slit a planned developer. VTA to extend BART service not just to Berryessa but to Downtown San José and Diridon station and to continue to facilitate planning of high speed rail. Number 9 has to do with the airport and I think you know very high priority, and we hope to have some runs on the board with recruiting new international and domestic air service shortly. We continue to have the goal 9A about having a cost competitive airport and 9C, private sector development opportunity on the airport's West side which would benefit our significant property tax revenue for the city. Downtown, I don't need to say anymore about that. Those four action items there are the four that Lee just presented. Number 11, I think this is interesting. This is where you start to see that in San José, urban planning and urban form is part of our comprehensive economic development strategy. So 11A, you're going to do this shortly, complete the general plan update. And then 11B is where we need to go next, right? Implementation plan to catalyze development especially in target mixed use growth areas, urban villages and we think we need to make a concerted effort to work with our local developers but also to attract developers from outside our area who have successful done mixed use mid rise development. When we go to Portland it is our intent to meet with developers there who have done that kind of development very self in Portland. 11C, do whatever we can to healthy foods. And then the last goal I think you can see in San José we really recognize that arts, sports and entertainment are essential for quality of life. And quality of life is the reason why companies stay here, and continue to come here. Because their talent wants to live here. 12 A we want to do everything we can to enable construction of the earthquakes stadium as quickly as possible at the highest possible quality level. We're going to continue to plan for that baseball facility here in San José and hopefully will get word on that and with the

agency we'll do what we need to do to make that happen. And 12C I think we all know that events and festivals whether on public property or private property are such an important part of what San José does. The tech shop grand opening, that's an example of an event. I think we've been successful in the last 18 months of maintaining a skeletal staff that has been able to create those events but team San José, other partners can really take the leadership role. So thank you for indulging me. I thought it was important to kind of go through that. It's a pretty significant work program and we have people here who can answer questions, either on accomplishments the last 18 months or where we go from here. Our hope would be that this moves forward to council on October 18th for further review.

>> Councilmember Herrera: Thank you very much, Kim. I know that last time we went through this process we ended up selecting a subset of these items to focus in on. Can you remind me of what we did and how many items?

>> Kim Walesh: I think last time we identified I think it was because it sounded great top 10 for 2010. I think it was ten items that we were going to get completed in that calendar year. What you might want to do here is since this is 18 months starting in October, please look at the remainder of this facility here in now to the end of June. And if you wanted to identify some top priorities for that period I think that might be helpful.

>> Councilmember Herrera: Yes I'm just looking in terms of the amount of staff we have and the list of activities it might help to hone in on the priorities since all of these things are great but I don't know that we can focus the same attention on all of them given our resources. So I would support our committee talking about coming up with some priorities. I had another question, though. Out of the -- I guess we had 39 items in the work plan we are just completing -- 14 were completed entirely. Can we have a listing of those 14 items that were completed and the outcomes that were achieved.

>> Kim Walesh: Yes, we have that if you want to see it. I was highlighting some as we went along. We could also as that moves forward to council provide that to you, so you have that documentation.

>> Councilmember Herrera: As much as we can see sort of quantitatively, what is it that we were achieving? We want to look at how we actually achieved those things. Those are my questions. Pierluigi.

>> Councilmember Oliverio: Thank you, chair. I could certainly prioritize some for the balance of the fiscal year. However I already noticed they would be in contrast to what the council's priority setting was. The ipse streamlining in the permitting process, but the council chose to not make those as high a priority as some other things. So I mean I would mark those items as my priority this year. But that discussion has to be at the county level again because we directed you to do some other things as far as ordinance time, because some of these were ordinance nipped things.

>> Councilmember Herrera: Are you on 6 still?

>> Councilmember Oliverio: Generally in the 6s, and 1D. For me I'd put a priority on 1D. 2 crment 30A and 6B and 9B. might just be a longer time line than you know, June 30th, 2012. That's it, thank you.

>> Councilmember Herrera: Ash.

>> Councilmember Kalra: Yeah, I think that -- I know that just because locked in on these priorities doesn't mean that staff or OED stops working on the others. But I do think that some of the ones Pierluigi indicated certainly are important. I think there's number 1 in general, kind of retaining and attracting and retaining businesses that have got to be continued top priority. So certainly, ensuring that the exeant we do have are able to access every tool that they'll be aware of for them to first of all stay involved, stay in business but also add jobs. I think we've seen some of the success from that already throughout our city in trying to do retention and certainly I think here, the good news on some of the companies that have been able to attract. We do know that auto dealerships can get a great point from the bang for the buck. I know that Tesla dealership it is? I actually went by there and seemed like it was more of a demonstration showroom site and there was no actual sales, selling going on. The people that were there were representatives that were there to talk about the vehicles.

>> Joe Horwedel: Several a month.

>> Councilmember Kalra: That answers a question for me then I was bringing that up also saying there's no reason we can't do that for existing dealerships away from the auto rows. It clearly works for Tesla electric vehicle demonstration showroom which kind of tracks people, that aren't at the show rooms to the capital or to the Stevens Creek car dealerships. And so I think that the Tesla model can work, I mean they don't have any dealerships at all. But since we already have dealerships that are heavily invested in San José, getting people to them I think can be something we can do in the same vein as Tesla is doing at Santana Row. In 3B I think is another one that does the contract manufacturing. We have a tremendous amount of contract manufacturing throughout north and Downtown San José. Great big bang for your buck there in terms of increasing manufacturing at those sites. And many of them are in a position to expand, around so they're capable of you know doubling even some of them in size. Other these start-up companies, emerging technology companies, are looking to go to pilot production, we have the manufacturing capacity right in their own backyard. We realize that in Edenvale, some contract manufacturing just down the street from where they're doing their R&D. So I think in terms of, again in terms of it being as high as possible, I think making those connections is critical.

>> Councilmember Herrera: Sam?

>> Councilmember Liccardo: My two or three votes would really focus on oneA. I know Nancy has spent an enormous amount of time doing this. But I think we should recognize where we're really in a unique time, where easts are up and people are moving in a big way. I certainly hadn't paid quite a bit of attention in the past but I haven't seen missed some of that lightning in a bottle, certainly with Netflix and polycom and some of the great successes you've had. I think while the iron is hot you should keep trying to get there. 6 B andC whatever we plan to do on planning and building. And development services to be able to make those services smoother and continue to really try to create positive reputation for the city I think is going to do us a lot of good in the long run. So those would be the two areas I'd really focus.

>> Councilmember Herrera: Great. And I would --

>> Councilmember Liccardo: Sorry may I ask one quick question about some of the items? Which was a master developer, is there any plan for any time sooner for us to start thinking about formulating a partnership?

>> Kim Walesh: We have a partnership with the VTA and the CalTrain JPA and we meet mostly every other month. We have been exploring about how they structured their partnership among the murnlg property owners or many about others and oops that they used and then literally we're tracking down the RFPs or the R FQs that they were using and we are collecting models so that we can be ready.

>> Councilmember Liccardo: That's great. I really hope that whatever we collect private owners could get in if who is looking to sell suddenly who wasn't looking to sell a currently believe are not likely to be redeveloped but I'm hoping would be redeveloped with a positive nod from our friends over in the arena. I think it would be good for us to have a really flexible model so that land could move in and ow outed as part of that master development as the tintl arises.

>> Councilmember Herrera: Okay. And I also think the permitting process retention recruitment, the 6s and the 1s are really important and just in tallying up it seems that there's some agreement at least among the four of us at least on retention and recruitment priorities. I don't know if you need a motion to say those are the.

>> Kim Walesh: Do you want to say economic strategy number 1 and number 6 yearly.

>> Councilmember Liccardo: I would make a motion.

>> Councilmember Herrera: Do we have a motion? Do we have a second? Fails for lack of a second.

>> Councilmember Oliverio: That's fine. It's wofnl if staff hears what I had to say. It's going to come to council anyway. Are just see how we're all in consensus all of us I think that was interesting that we're also focused on at least two of them.

>> Councilmember Liccardo: Why don't I make a motion, that these are priorities, we submit it to the full council for prioritization .

>> Councilmember Oliverio: Second.

>> Councilmember Herrera: Any further discussion? Before we vote on that I think I'm omitting our public comment. So David Wall you wanted to speak on this item.

>> David Wall: Madam Chair, I'm very much pleased by you asking some questions start quantity fiability and holding some people to task, very pleased about this. I would also like you to think about holding them accountable on a monthly basis so far as how much you can get done on this list, one of which I would like to see done and focused on is the sign ordinance. Director Horwedel is given too much stuff to do even though he does it all very well. But if I were to say one thing that ought to go would be that habitat plan. 11C, and that's no fault of director Horwedel by any means. 11C is interesting because if you start having school kids grow their foods, that would be pretty, pretty healthy for them I think. Pretty good for the economic too. Overall I'd like to see what is actually doable with the upcoming budget deficit, let's just say for today's discussion of somewhere in the realm of 100 to \$150 million. And how much of the OED folks, how are you going to structure them by funds? You know, what type of funding can they have outside of the General Fund? Because if that's the case, they will be even more schedule skeletallized than they were in the future . A work plan item say 13, this one will have the same ability to get accomplished as the rest of them and that would have OED pick the winning mega lottery numbers, three times in 18 months. Thank you. You did well, Matt.

>> Councilmember Herrera: I had just one admonish maybe comment or question before we vote on this, in terms I look for on here, where it talks about contract manufacturers, 3B, I don't know if we had 80 contract manufacturer is having an association really was interesting because it brought us into public view so people knew what we did. And it was interesting because it is a very competitive markets place which you know most marketplaces out there are. And a lot of people felt that maybe contract manufacturers couldn't come together

because they're so competitive but it's not true. They can. And it actually benefits the industry because you start talking about standards and you start actually getting the word out. And so it helps all the businesses. So it might be something we'd want to talk to them about is making them more visible because they are rather invisible as far as the presence in San José and I think that would help us them becoming more visible.

>> Kim Walesh: We can certainly look into it.

>> Councilmember Herrera: Not to make them higher --

>> Kim Walesh: And their office they were so happy that we had come to talk with them and were interested in contract manufacturing. The people who lead these companies love contract manufacturing and they do feel like they're invisible to most people in Silicon Valley. I don't want us ever to reinforce the thinking that there's no manufacturing in Silicon Valley, or it's all leaving. Because it's not. There are signs it's growing and some of it is being brought back from other countries because of the quality of manufacturing we do here.

>> Councilmember Herrera: I know selectroon was one of the we need to revive something like that.

>> We actually have a small bit of research going on related to contract manufacturing as a follow up to our green contract manufacturers in the Silicon Valley area. And some recommendations in how we can more effectively engage with them and promote what they have to offer.

>> Councilmember Herrera: Yeah, even if the city would want to be, and I'm not suggesting that we pay for it but we be the first one to offer a meeting with them and see if they have some comments. Pierluigi.

>> Councilmember Oliverio: I have to differ in this topic, the contract manufacturing is there purely for the market. Anyone that's an OEM, that's making something certainly knows that yurves very well, there is a flextronix, benchmark, Pemstar, new product introduction and that's great. They're here and yes certainly showcase them but I don't think we're going to actually add much to them. Those companies that are going to

have their products built will do M pimplet run here and then they're going to you know based on where they're selling it they'll have it made in Mexico have it made in China have it made in Hungary it's up to them. I don't see us doing a lot in this. They are helping themselves, if Solestica is in Edenvale, they circulate be calling on the OEM focus more on the companies that are the original equipment manufacturers to try to get them here because the point of sales could generate sales tax versus the sales that they do at those types of companies don't because it's just a value-added service and I mean I think they're great that they're here but I just don't see it's a big bang for the buck as I could see in other verticals, thank.

>> Councilmember Herrera: And I want to make sure you're clear. I don't want employ people in manufacturing. They employee the great people that we say are unemployed right now. We should recognize they're here and as somebody who ran one of those companies, who started one of those companies, helped for us to come together to talk about standards and to make ourselves a little more visibility. For instance Carol BARTs, potential commerce would come to our meetings so I think the value of coming together is very important. Anyway. Any other comments before we take a vote? Okay. All those in favor and I guess we're accepting the report with our general recommendations here? All those in favor? No, motion carries.

>> The motion included the cross reference to the city council.

>> Councilmember Herrera: And a cross reference to the city council is that right maker of the motion, seconder?

>> Yes.

>> Councilmember Herrera: Okay. And we're on now to report on incubators. And --

>> Kim Walesh: Great so Richard Keith is going to lead this presentation with Mary Sydney and operators of the incubators are here in the audience also.

>> Councilmember Herrera: And Richard, great.

>> Ripped Keith managing director of the Redevelopment Agency. Mary Sydney to my right is the CEO of the San José State University research foundation and I also want to introduce and if you don't mind standing up I want to make sure you're awake out there, I'm going to introduce these very consummate professionals in --

>> Councilmember Herrera: She's always awake out there.

>> In the areas both on the incubators with the entrepreneur center. I think it's important if you don't know them you get to know them and I'm not going to go into detail on their programs but I'd like to introduce them. Alfredo coppola, please stand. Melinda Richter and Erica Kula. Melinda is the executive director of the San José biocenter and environmental business cluster and Erica works closely with them bob Judevant is the deputy director of the small business development centers of florn California through the auspices of Humboldt university gail Budenbeck is the business service coordinate for the Silicon Valley small business development center and the East center. Connie clink is the general manager of a new America. And Dennis King is the executive director of the Hispanic chamber of commerce of Silicon Valley. Thank you Dennis and Bruce Whittaker is vice president of TMC development corporation. Towards the latter part of the presentation I'll go over a few of the statistics on the entrepreneur center. I'd like to roll into the presentation now. And I'm introducing Jennifer Chan who should be at the table. Thank you. Who is our fact check and data woman for the Redevelopment Agency, and is a great asset to the redevelopment team. First and foremost, I want to make sure and I say this every year we do this presentation, that the agency's role is one of sponsorship through the master lease agreement of the facilities. Be it the San José biocenter down in Edenvale or the San José innovation center downtown. We have sublease agreements with the two operators, the San José State University research foundation which manages the biocenter EBC and U.S. MAC. And we have a co-sponsorship agreement and sublease agreement with Humboldt State university sponsor program foundation which manages the entrepreneur center. The 100 East Santa Clara street the downtown innovation center as we're calling it that houses the three entities has about 26,000 square feet. We're paying about \$1.50 monthly if you take all the space including a common space, which is important, in because of the conference rooms and the training room, which would be hard to replace. If this facility were to go

dark. The annual rate is about \$470,000. We have the rent subsidy through June 30th, 2012. That's an enforceable obligation. But our master lease doesn't terminate till September, 2014. On the biocenter side it's almost 36,600 square feet of leasable space. On the second floor. And that lease terminates August 31st, 2012. And we're paying about 90 cents a square foot and \$395,000 for the annual lease. Our rent subsidy, the board approved recently to go through June 30th, 2012. Just two months shy of when the master lease terminates. I'd like to then turn to the financials of the operation a bit. You can see here, we show the revenues and the total expenses for each of these entities. And I'll just go through the bottom, the net income, the bottom line. You can see U.S. MAC is about 77,400, the biocenter is about 55,000. The EBC's in the negative 59,000. And the East center has about \$34,000 revenue. The East center has \$82,500 in the bank, due mainly to carryover excuse me from past years. On the EBC side of why that's negative, they had several factors that contribute to that. And two of which are just in the transition to moving to the innovation center. They did lose tenants, as did the US MAC, but the U.S. MAC was able to through a number of new programs and retenanting come out positive year over year. They also when the clean tech contribution dried up and that affected the bottom line. However, looking at next year's numbers in all cases these should go up. And particularly important for EBC which now has the Canada clean tech folks you've read about in the paper and hopefully were at the opening the other day, has new tenants and also has received some grants and sponsorships, so I think everyone will be in the black. The real bottom line and the gist of the problem and it's formidable as can you see is how do we get from the net income, whether they're in the black or red, but in enough to cover and -- the subsidy, the deep subsidy that the agency plays right now. And to that end, we -- I'm going to turn it over to Mary. Oh, no, I have one more slide I'm sorry, then I'll turn it over to Mary. We spent a lot of time already discussing the transition plan, as you'll see in the presentation. And we're nowhere by any means complete but we realize the importance of this and we're going to work our hardest to have a good transition plan. Where both entities can stay competitive and in place. I just wanted to mention a bit of the state of the business. This was a very comprehensive study done in 2006, five years ago 50 national business incubator association which is headquartered in Ohio. And I encourage you to go online and see that organization's material. Because it's quite impressive. 95% of all incubators are nonprofits. 6%, obviously, are for profit. Then breaking that down, the fiscal sponsors, you can see roughly you take the 31, 20, and 21%, 72% are either funded by universities, government entities or economic development organizations. And to a lesser extent, 4% for profit, 8% are these hybrid and

16% are others sources. So with that I'll turn it over to Mary to start beginning to discuss the incubators panned the transition plan and then I'll come back with the few pieces of data on the East center.

>> Thank you, Richard. Madam Chair, council committee members, pleased to share with you the transition plan as it has taken shape thus far. And we thought we'd begin by talking a little bit about just the definition and the distinction between shared work space versus incubators. Because sometimes the terms get or the concepts I think get blurred. Shared location are location whereas incubators which is what the San José incubator program has been since its inception is one where you are looking at and providing not just co-location and space and specialized facilities in some case but also the heavy entrepreneurial support in terms of mentoring, coaching and the whole host of services that the three incubators provide. What's also significant is underneath that incubator association, who reinforces the previous pie chart that Richard just shared, that is very, very few incubators across the country are actually profitable when it comes to their operations. And so at most they typically are looking to break even and that's even with a subsidy. So all that just to say and put it in context what we're attempting to do here will really be showing some true leadership National nationally if not internationally, not that it's not achievable because we've got some big plans but it's no small feat detailed conversation with the new San José State university president Mo Kaiome and so he has some thoughts about working with industry, looking at grant programs and I'll talk a little bit more about that. So similarly the research foundation expresses the desire to be the leaseholder upon the lease termination date. So our goal is to make a smooth transition, the agency steps back, the research foundation steps forward. So in terms of the discussions thus far, the critical issue as Richard has said is the ability of the incubators to support 100% of the lease costs at that point of transition. So there's a couple of items in that regard. Both facilities, that is the downtown and the Edenvale location, are currently above market. And there is room and we believe there is a need to renegotiate those lease rates. And so critical then to our transition strategy is that we do both, a renegotiation of those facility lease agreements, but also, look at ways to increase our operating revenue, and that's what I want to talk about in the following pages. So keeping those two points in mind, for the transition plan, in terms of decreasing cost, because the research foundation is not on the master lease, the Redevelopment Agency continues to be on the master lease, any sort of renegotiation with the landlord must be lead by the Redevelopment Agency and we want to partner with them and as soon as it is appropriate begin those discussions ASAP to get the lease rates down. Then in terms of increasing operating

revenue we've got a number of possibilities then that we want to pursue. The first being that we want to gradually increase rents. It must be gradual because ability to do this primarily because we can build on a brand that has taken years to establish. We have a lot of satisfied clients. The incubators now have national and international recognition. This includes by the national business incubator association, the Harvard bright ideas program, Forbes.com, et cetera, you can read the research, the reputation of the organization that we're asking these tenant companies to step into is important. Another revenue increasing strategy has to do with working with those industry partners. We have been really ramping up this effort over a year and a half I would say where we shifted focus to really going more aggressively after sponsorships and I have to really commend the current executive directors as well as the previous one Omar Merson and Alfredo Coppola sponsors in the fiscal year that just ended, so obviously, that's that number that we're targeting to at least double, in the period of time where we get to lease termination. But these are highly reputable and certainly financially able, capable organizations that are interested in supporting the incubators. They are not necessarily simply client companies. These were contributors Bayer Health stepped up and we will be going back to them to do more. Another strategy then to increase revenue has to do with the program offerings. Again I'm really pleased with what the directors have already done in terms of introducing new programs, new services, to the client companies, beyond what they had in place when those client companies first came into the incubator. So things like what they're calling concept labs, an expanded meet-with opportunities and the Kaufman findings now these things were not in place two years ago. And so now they're working, to increase the rich set of services that are available and to price them in such a way that there's still a net gain to incubator operations. And then the last strategy to increase revenue has to do with working with the research foundation as we have been doing through the duration of the program which is to provide the working capital for the daily operations. So for example when we go back to the slide it shows some ended in the black, some ended in the red. That that part that dips into the red is through the financial capacity of the research foundation. So that's not coming from the client companies, that's something operationally that the research foundation takes on when we manage the program and we plan to continue to do that. Pursue grant-funding we have seen a couple of opportunities that we think will be really key for the incubator program to take advantage of. And once we sort of stabilize and see which direction things are going we want to aggressively pursue those funding opportunities as well. So again, moving forward, then, talking about the transition plan activity, if we take it facility by facility, in terms of the

invocation center which houses the U.S. MAC EBC and the E center the least termination dates really do allow time to ramp up the sponsorships and the client revenue that we're just describing. So our target date for transition to a smooth transition is for those programs to be completely self-sufficient by lease termination. We think that that's doable. For the biocenter, that transition is more challenging. Still doable but definitely more challenging. Just being realistic. Because the minimal, we have a minimal ramp up time between now and transition. One piece of good news is there continues to be a national need for what the biocenter offers which is small scale wet lab space. And because of this we see the biosciences as the priority area in which we want to expand our industry partnerships prp certainly we want to do it across the board but the need is definitely more urgent in terms of the biocenter. So one of the things I'm pleased to say too going back to the new president, Mo Kaiame working with our industry partners and any grant opportunities and what have you that he is very keen in seeing what we can do in terms of working with partners that we've had in the past identifying new are partners to try to make the transition as smooth as possible. But he's also interested in expanding or rather yeah increasing the relationship or the engagement of the university in terms of our faculty involvement, our student involvement and seeing what opportunities might come from that as well. And lastly one thing we realized, what I was just hearing previously with regard to the previous agenda items I think fits well that we really want to align with the City's broader economic development goals and strategies. And so while there are opportunities to continue to promote the incubator program we absolutely want to take advantage of those opportunities. And I did see the insert in the San José business journal, about big deals small wonders and there was a page on entrepreneurship. The incubator program was not included but it is my hope that if we can be working in alignment that if these opportunities or some sort of publications are planned in the future if we can be a part of that information we can provide the help, that we would love to be able to get that kind of alignment. We recognize that the incubator program has been a significant 17-year investment so we want to do everything we can to promote that and protect that investment going forward to just cultivate it as much as we can, and we believe working with the agency and the OED we can do that. Just wanted to point out again because I realize since the last time we came before the committee, and it may have been the Rules Committee, there was mention about another report that would be distributed to the councilmembers, and hopefully you've gotten that by now. It's actually a strategic plan developed by business cluster development. It has a lot of thoughts in there, strategic ideas, improvements that can be made and we're always looking at ways to improve, in fact a couple of

those have been implemented. The most significant of that is there was a recommendation that the incubators be consolidated into one facility. I'm really appreciative the agency thread way in doing that. But I just didn't want to lose track or lose sight of the fact that there was one overarching statement made by that report as well as the previous one that the services, the expertise, the relationships all of which foster the creation of successful technology companies, is what the incubator program is all about. Creating companies, creating jobs and that report as well said that the incubators utilize the model with great success. That's what we want to continue to do. Just briefly, the next slide talks about satisfied customers. You have handouts there with detailed testimonials for each of the three incubators. Just not planning to read these by any means but let you know, one of the things I notice as I read through the testimonials is we've got different voices speaking, sometimes it's the voice of the CEO or the leading business technologist, most of the times they are speaking about the services. That's the key difference in what these incubators offer. But what's interesting is the bottom quote from someone in Claremont and what they're saying is that combination of facility and service is valuable to them. They look at placing their portfolio companies in the incubators, they keep an eye on which one might be a good placement and they see that their investment dollar goes much further when they can place their company for example at the biocenter. So we think all of these things really speak volumes to the quality of what's going on in this incubator program. Then just as an update we wanted to include the latest statistics on the incubators in terms of companies employees affiliates graduates et cetera. And the venture funding, again the city has made a significant investment in the program but so do have our partners. They have invested both in the operations as I mentioned previously but of course more significantly, most significantly to the client companies. And so now the total debt we're seeing is about \$2.2 billion in venture funding to the client companies in the incubator program. Next page again, just more statistics to keep you current with what's going on in terms of events, attendees, tracking in our database, and as well as hits to the twibt. And with that I will turn it back over to Richard.

>> Thank you, Mary. Just -- these are just a small fraction of the number of statistics that were provided by the E center tenants. Cancelled 195 clients last year this is no charge. They also do business plan, finance, marketing seminars as well, TMC development corporation financed 25.3 million to 14 businesses in San José. Their total portfolio or the the year was over \$122 million, with 58 businesses. A new America served 202 entrepreneurs in

their family and provide 150 trainings and almost 1800 individual training sessions. And the Hispanic chamber of commerce provided 77 workshops and 774 San José base -- 774 business based owners. The E center is -- has about roughly anywhere between 60 to 75 sessions every month in using the facility there. So I think that's an important statistic as well. I just wanted to say a couple of things that are interesting before I go to key dates and follow-up. That's okay, can you go to key dates. If you want to go to I want to go on record I think it's unfortunate if we can't continue to fund it and no one's more aware of the agency's financial situation than we are now. But the city and the agency has funded a lot of programs and has in the past that are a lot less valuable than I think these are because this serves every population from Connie's and new America to people that barely speak English that are new immigrants to pHs in biochemistry and other biosciences. The sheer breadth of the spectrum of new services key component that Mayor Reed was trying to drive home that these entities provide services, that can't be replicated. And so then there's the -- both the tangibles of that said of all the visitors that come to the biocenter in Edenvale and come downtown to help stimulate the downtown competent in the innovation center and there's the intangibles gist promoting the San José name or Edenvale as a hub of biocenter and life science activity so I just wanted to quickly go over the key dates and talk one more minute about the transition plan and where we go from here. In two days the Rules Committee will look at, based on the mayor's memo and discussion that happened at Rules in August, the consideration for ating incubators to the work plan. And it will be up to the Rules Committee to decide whether or not that takes place. And then in November we'll come back to the committee with an Inc. bairlt transition plan looking for your input and recommendation. So it will be an actual document. And to that point we'll be working, the agency will be working with the San José research foundation, nd Humboldt, as well as Office of Economic Development. We've already started, Kim and I have assert engaging in discussion there because we definitely think OED's input on this will be valuable. And then in December, if mayor's memo directed us to go to the city council to ask for the transition plan for approval. So with that, we'll be glad to entertain any questions you may have.

>> Councilmember Herrera: I really appreciate the report, Richard. I want to understand, our job today is to make recommendations on accepting the verbal report and then provide guidance on the transition. So where -- I don't think we're weighing in on -- we're not dealing with whether there's an audit or not. I certainly want to add my welcome to everyone here who's representing all the various incubators. My personal viewpoint is that you

provide a tremendous service to this city. And I've had a lot of opportunity to be able to go out to the biocenter, spent more time there than elsewhere. And my focus is really simple as somebody who's really concerned about jobs being created and industries being nurtured in San José. We have a foot hold out there in Edenvale with about 22 or 23 companies right now of bioscience companies. My question is how do we keep them? I know the issue is how do we transition incubators. But part of it is, these companies that are incubated. Part of that is, I wasn't here 17 years ago when it started and I don't know that I would have voted to support it or not. Was it the best use of money back then but right now we have the companies that are here and they have a potential to grow and certainly part of that decision making back then I have to believe was that to have companies grow here and stay here, that had to be part of the thinking I would guess. Richard or somebody, can somebody talk to me about what is our plan to help transition these companies, to help the companies that are here in the biocenter and in the other incubators, what are we doing to partner with the private sector to facilitate them staying in San José? Does anybody have any thoughts on that?

>> We do. And obviously, that's the core element, I think, of the transition plan, and in essence keeping the facility, keeping these companies so they can transition and grow. Hopefully in San José or in Silicon Valley nearby that increases the boat with the increased water. But also we've been looking at an Kim and I have talked about this, of how do we, and to many of your points, as we've done this over the years, how do we keep companies in San José at least entice them and have the facilities. We know the biocenter is a unique footprint have the wet labs. We just don't have the other wet lab space. Hopefully we can do more with tandem that moved into the downstairs area, that was privately financed with the small board incentive voted on several months ago we need to look at that and then job 1 is to keep these facilities intact so we can keep the jobs in San José.

>> Councilmember Herrera: I just want to share a little story. And then I will not hog the microphone, I'll be opening it up to my colleagues here. I was very -- I'm very interested in a strategy to help those companies stay here. Because we have a beginning of a bioscience industry down in South San José in Councilmember Kalra's district here and I'd like to see it stay here and flourish. We fortunately through contacts, I talked to people, we met somebody at a company called Wexford and they actually build science and technology parks and we had them to come to San José and give us their feedback on bioscience centers and incubators and what to accommodate

those companies so that they could graduate from where they are now, into a larger facility, five, 10,000 square feet, whatever they need, in terms of that buildout of lab space, specialized lab space. This is a private company who has money and who can build things and who does this all over the country. And they were very impressed with our bioscience center. This isn't somebody in San José, this is somebody from the outside that came and weighed in on this and that's what got knee real excited. I'm not an expert in bioscience but when I hear people who are, come in and talk about what a great facility we have and opportunity we have to allow these companies to grow that got my attention. And they are not yet ready to make a decision to come here and build that. They could and there are other companies like them. But what it told me is, there's opportunity and we need to I think look bigger than just San José. I think we need to look regionally. We need to look how can we work at San José State, I really appreciate Mary and the new president of the university as well who has a great attitude about trying to move things forward and very entrepreneurial attitude. How do we work with Stanford and USF and Bill and Melinda Gates foundation, that would attract a Wexford to come in here and do things. They usually work with a university that has a medical school. We don't have that in Edenvale. But we have these companies and we have lab space that they told us they have not seen. Anywhere in the country. They've not seen this kind of great space for these companies to start. And it's very precious, it's very hard to have space like that, for these companies to start. So we have it, the question is what are we going to do about it? And there's a real challenge here with trying to find a way to transition this program especially the biocenter because it has such a short fuse burning on the lease. We are going to have to put our heads together. But I think we need a vision going forward. It's not just a real estate deal. This is a new industry, that could help us create jobs and opportunity for generations to come in San José. So I think we need to think a little bigger, and that's what I'm suggesting. But we have to also tackle the real hard issues because the city has tough budget crisis so we need to get through it. But I think we should not take our vision hat off either. We need to look at that as we're moving forward and now open this up to my colleagues. Do you have anything? Sam did you want to -- I think you're on. One of you.

>> Councilmember Liccardo: Thank you for the presentation. Let me go back to the slide involving the quotation from Jim Robbins on that '07 report. There it is. Richard, I don't think you had -- I don't think your role at redevelopment involved the incubators at this time is that fair?

>> That's correct. But this study I was aware of. And had read at the time.

>> Councilmember Liccardo: Not, Jim Robbins didn't actually perform a evaluation of incubators in this report, is that fair to say? This was a strategic plan.

>> It was a strategic plan in looking at the overall operation of the incubators.

>> Councilmember Liccardo: Right, he admitted he wasn't trying to do a performance elevation, this was about how to move forward and he played some recommendations about moving forward, is that fair? And Jim actually had quite a relationship with our incubators and specifically that is he co-founded two of them and in fact he was the director of one of them at the time this report came out. Is that right?

>> Correct. I think two of them, he was -- if I'm correct he was still with both the software development center which now is closed.

>> Councilmember Liccardo: Okay. So as we look at the basis for his recommendations and his conclusions, one of them refers to, going back to page 21 in his report, or his and hers, I should say, there's a quotation in there that reads, according to report jointly published by the RDA and the San José State university research foundation in 2006 the incubators have graduated 250 companies in approximately 70, 7-0, 70% have remained in San José after their graduation from the incubators, in many cases helping the RDA fulfill their goal of filling vacant industrial space in redevelopment towns. You see what I'm referring to?

>> Councilmember Herrera: Which page are you on Sam?

>> Councilmember Liccardo: Page 21.

>> Councilmember Liccardo: That's in the paragraph under C. First paragraph. For maximizing the agency and city return on investment. Fair to say today we know that's not true. Is that right?

>> I don't know the numbers. I would imagine some of those were the software as well.

>> Councilmember Herrera: They were.

>> Would I imagine a good number of those were the software. Whether that's accurate I can't tell you.

>> Councilmember Liccardo: It's certainly inconsistent with the performance evaluation done two years later by the three consultants including chase is that right?

>> Nancy Kline economic development and I was staff to the incubators when I was at the Redevelopment Agency with Bill Ekern and for a period of three to five years was actually higher than 70% when the five companies I can't remember it in front of me agile and others moved from three to five mile radius. Because at the time particularly around the software incubator and the model, again this is predot-com, they had a stellar group of consultants that helped bring core competencies to advance the companies more quickly. So I think there was a period of time where the performance on retention was very good.

>> Councilmember Liccardo: Well, my understanding is, that's based on a report the RDA, I don't have that report, I assume someone's got it but that was released in 2006. So the incubators would have had ten or 12 years of work at that point. Two years later, according to three consultants that put out the Chaven all right they looked at 285 graduate companies, where the entire historic period and less than 11% were still in business, and the number that actually remained, I'm sorry let me catch the right number here, and none of the incubators had more than 10% it appears that actually remained in San José. They look at all the companies that graduated from the biocenter, only 1 out of the 19 remained in San José, 5 out of 67 in the software business cluster, two of the 71 companies of environmental. There is some sort of a mismatch right?

>> Just one other quick comment on this, this is mostly anecdotal. Having worked with Coopers Lybrand, that tells you how long ago, right --

>> Councilmember Liccardo: We remember them.

>> -- To initiate the program, they were dedicated staff, on a personal note if I may what has been missing in terms of dealing with those companies on a day-to-day basis to make sure their location decisions were a match and those were very low-bar retention requirements, because they were strictly office and the C level office was great because when they were coming out of the incubators, the lower cost was perfect. Plus the really stellar consultant services, anyway that's why for the moment of time I can just say without -- because I don't know and hadn't read the Chaven report until shortly ago but from both sides having worked with Bill Ekern on formulation of the software business incubator and then having been directly involved in retext efforts, I can tell you that for a moment of time, it was particularly successful. But I don't know --

>> Councilmember Liccardo: I appreciate your comments and I know you're as disadvantaged as I am because you don't have that 2006 report sitting in front of you.

>> I don't.

>> Councilmember Liccardo: But what Robbins specifically said they have graduated approximately 250 companies and approximately 70% have remained in San José. We see 280 companies and the number is 10 or 11%. I appreciate the fact that we are both lacking all the information we'd love to have at this point but clearly, the basis for Robbins' statements, which I assume is the same basis that comes from Chavin report since they are both relying on the agency and the research foundation, they both come up with a similar number of companies, a few more companies two years later, there's clearly some discrepancy here. Is that fair?

>> In a bleed of time where companies were relocating and if they didn't have good enough reason to stay they began to move out.

>> Councilmember Liccardo: It doesn't explain how in two years you go 70% of 250 to 11% of 285.

>> You're right. The only point is the timing, in terms of what time frame Robbins was mark off of, maybe that was 2006, or 2004 or just after 2000 and then we lost a lot after that. So I -- all of that as you say don't have good data.

>> Councilmember Liccardo: Okay, I guess -- I won't spend a lot of time on the Robbins report but clearly, there -- let me go straight to a recommendation he makes. Page 13, he urges that neither the Redevelopment Agency nor the San José State University research foundation has currently organized, are the most effective organizations to manage a large number of incubators now being funded by the agency. And he specifically wanted to see city or RDA control over a board of managing -- of a managing nonprofit that was independent. And he wanted to see the hiring of a professional director with fundraising skills. He was specifically concerned about the lack of fundraising that skills that exist at the time. A lack of grant sponsorships. I think everybody agrees that you need grants and sponsorships because nobody expects incubators to survive without grants and sponsorships. But we didn't actually follow those recommendations did we? In 2007? Is that fair?

>> Well, just one comment I had, each when I read the report, is excellent recommendations in some cases. But they require funding. And so we certainly didn't have it. And I think there's even a recommendation for a reserve fund which would have been great, I know. We've requested in the past. But yes. So from my understanding, a real limiting factor is funding.

>> Councilmember Liccardo: Actually, Sydney, I think he is actually quite clear when the fact that funding is a problem and that the RDA should not have been footing the bill. He talks on page 20 about the fact that the shortfalls appear too large in the balance sheet. That RDA's just agreed to pay for approximately two years rent at that time biocenter for a total of \$800,000. This shortfall was limited primarily to initial startup cost that were not covered by rent and sponsorship and then later on in that page, or before, I should say, he criticizes the fact that the RDA is supporting so much in rent precisely because the individual incubators in the foundation weren't doing enough to solicit grants and sponsorships. Is that fair?

>> I think you have to recognize that when he talks about foundation, he's talking about the incubator directors themselves which includes him. Right? So they, since then, have pursued grant funding opportunities. So it's not the foundation in abstract. We were employees --

>> Councilmember Liccardo: The fact that foundation was taking a 26% cut on the project specific grants and that was hindering the ability to create a revenue stream for grants and funding.

>> Yeah and for that I would respectfully disagree. It's just an overhead and all grants have overhead. And so we have millions and millions of dollars in programs that we manage on behalf of the university and those rates are set by the federal government. So that's an issue that he had for a long time. He always wanted to discount the rates.

>> Councilmember Liccardo: Well, your overhead was actually already cut, the 8 to 10%, your overhead for annual expenses, the 26% was separate from that.

>> Right, there's two different rate structures, one is governed by the federal government, the department of health and human services audits our rate structure for grant programs. The other is what's called a self-support fee which this program is. In other words it pays for itself, theoretically, that it generates revenue to cover its own cost. That's separate from a grant funded program. So many times and this happens with our own faculty. They get those two blurred. If I get 10% here why can't I get them over there. These are two different vehicles altogether.

>> Councilmember Liccardo: Okay. Mr. Robbins was an expert in incubators, as I understood it, throughout the country, and unfamiliar with those grant funding.

>> Not next, those are two separate things.

>> Councilmember Liccardo: When we look at this \$800,000 back in twech when this was written, actually wasn't the plan for RDA to be paying rent on the biocenter after the initial two years was it?

>> No it wasn't.

>> Councilmember Liccardo: Okay, so when we talk about a tricks and a lot of talk is go ahead made about a transition to a new model, it was actually the intention of the time we created the biocenter that there would be a \$6 million investment up front and \$500,000 for the first two years and after that the biocenter would not rely on any Redevelopment Agency support for operations isn't that right?

>> Uh-huh.

>> Councilmember Liccardo: Okay, and in fact we've been relying I should say biocenter among all the, really all of these have been relying on redevelopment support.

>> Yes.

>> Councilmember Liccardo: Every year since.

>> Absolutely.

>> Councilmember Liccardo: So I guess my concern is that you know this transition to a new model financial independence isn't all that new and the transition has been taking many years.

>> Uh-huh.

>> Councilmember Liccardo: And so I'm trying to understand what's different today that didn't exist in 2004 be, 2006, when I I think we all appreciate that the going is, the sledding's a lot tougher today.

>> Yes.

>> Councilmember Liccardo: Why should we be confident that we're going to be triggering to this quote unquote new model that we had actually originally proposed back in the early part of the decade?

>> Right. A couple of really key points and this is important particularly for the biocenter. The initial plan to launch the biocenter had to be significantly modified. It was part speculative, part based on study but we were doing something in the City of San José that had not been done before. Creating a whole new industry. And so based on the best data and our best thinking at the time, the facility was built out. But as you noted, it was lacking in the kind of space that the market really demanded. We had to move in and live with it a while to learn what the real market demand was, which was for small scale wet lab. That's not how it was built. And so in those initial months we paid the price. Additionally, the initial plan had nowhere near the level of services that are developed today. The directors have taken it to an entirely new level than what was envisioned at the very beginning. Also at the very beginning frankly I think from my perspective, unrealistic now 20-20 hindsight, I believe the initial business plan had hundreds of thousands of dollars of grant revenue that would be available in the first year of operations. That's very unrealistic. It takes years to build up your reputation, your plan for a sponsor to fund that amount of money to an entity like an incubator. Now we're at a point where realistic eye business plan early on just was not doable. Was not realistic.

>> Councilmember Liccardo: Did the managing companies have grant-writing capacity today?

>> Oh yes. Yeah I mean it comes out on your back, you're staying up burning the midnight oil but you can do it and we have done it.

>> Councilmember Liccardo: I know what you're saying, I know a little bit about the nonprofit world, executive directors who are doing 20 different perfect world have people who are hired specifically for grant-writing. 2007, the recommendation was clearly that there needs to be grant-writing capacity. Explicitly. In other words it's not

executive director doing it at 2:00 in the morning and away I'm trying to understand is there really that capacity today?

>> Yes, I believe there is. In fact we've submitted a couple of grants, and there have been some successes in the incubator program since the report was written. So it does happen.

>> Councilmember Liccardo: Okay.

>> Yeah.

>> Councilmember Liccardo: We're -- and I look forward to that. I know that we haven't yet seen the numbers come in but we're still -- I look forward to that. When we look at the job numbers that were presented in this slide, relating the statistics as of September 21st, I think it's a couple of pages later --

>> Yes.

>> Councilmember Liccardo: So we see the number of graduate employees that are listed there which is 4060. You see what I'm referring to now?

>> Yes.

>> Councilmember Liccardo: So if you look at the report that was put together by the three consultants in 2009, the number they come up with, and these are jobs wherever the company may be located in the world, right?

>> Yes.

>> Councilmember Liccardo: The number they come up with is 2600 jobs and they get their data from incubators directly as I understand it. So I'm assuming the source of the data is the same. And it would appear that in two

years' time we've gone from 2600 jobs to 4,000 jobs. And I'm trying to understand where the 1400 jobs came from. Which would be remarkable given the fact we've shrunk the number of incubators from 4 to 3.

>> Well I could certainly open it up to the incubator directors if they wanted to respond. They are closest to the data. But I certainly rely on them for the way they track their clients. And account for their numbers. And since then, I know there's been significant change in the business plan for the U.S. market access center in particular. It was nowhere near doing back then what it's doing today. It's been completely revamped. But in terms of you know, what number, how it measures up with another number I couldn't speak to that off the top of my head.

>> Councilmember Liccardo: To be fair though the market access center's the model is one in which international companies really come to land, theoretically, right? And it's probably the least incubating of any of the incubators. That is, a company doesn't start there and grow but rather, the company comes from outside the United States and lands there.

>> Land there but then it grows once it gets here.

>> Councilmember Liccardo: Okay. So we can certainly come back to that question about where the 1400 jobs came from in two years.

>> Sure.

>> Councilmember Liccardo: I hope you appreciate why I'm asking the question.

>> Sure.

>> Councilmember Liccardo: Which is over 15 years we got 2600 jobs and two years we got 1400 more which would be a stunning rate of increase.

>> If I could just add on the other hand you would hope that you would start to see some exponential growth because you have seeded multiple companies and as they grow and graduate you are going to get a hire rate of growth.

>> Councilmember Liccardo: I would feel comfortable if there was an independent source of those numbers because it just seems contradictory.

>> Sure.

>> Councilmember Liccardo: Similar with the kind of contrast we saw about the 2006 report about the number of companies that are actually staying here. And the 2009 report when they talked about the tax revenue that was generated by these companies an order of magnitude of eight or nine.

>> If I could respond to that, something I've observed, an interesting partnership we had, the Redevelopment Agency, the OED and the research foundation and the incubator management teams and we've had changes in all of those entities over time. Part of what's happened is sometimes there's a slight shift in philosophy and the way things are viewed or counted. It's like economists. I've heard different thoughts on what the multiplier effect should be and the rate, and I'm not aware if there's a standard and that might be impacting this as well. I think it would be fine for us to agree to a set of standards and stick to that. But I think that's a factor, as well.

>> Councilmember Liccardo: I appreciate that.

>> We've had a couple of changes of management teams of the incubators as well is what I'm saying.

>> Councilmember Liccardo: And I appreciate there are reasonable differences of opinion on how to measure. Which is why I don't focus on things like economic impact, I know it's speculative. I would hope when we talk about for instance jobs,.

>> Exactly.

>> Councilmember Liccardo: We could fall on how exactly to measure that .

>> Yes.

>> Councilmember Liccardo: If I could go for a moment to this question of the public dollars that move into the incubators. As I understand it your foundation is a 501(c)3 is that right?

>> Correct.

>> Councilmember Liccardo: And you leverage some public dollars in what do you, you have some federal, government sources of funding and you probably leverage I'm guessing some resources that San José State has to offer, if they've got a -- I think they've got a material characterization lab that some companies may rely on is that right?

>> Yes, there's a olab like that.

>> Councilmember Liccardo: And of course you are leveraging millions of dollars of redevelopment money as a result of that effort.

>> I don't know about leveraging. The redevelopment dollars have paid for the lease cost and improvements to the facilities that are leased.

>> Councilmember Liccardo: Right. And I think we had some economic development dollars going to help pay for the rent.

>> You say going to pay for rent.

>> Councilmember Liccardo: Yeah I think from the clean tech open. As I understand it.

>> Oh yes yes yes.

>> Councilmember Liccardo: So now for a time period that foundation actually took warrants in companies.

>> That was the near.

>> Councilmember Liccardo: Yeah and then the foundation stopped doing that.

>> Yes.

>> Councilmember Liccardo: Why did the foundation stop?

>> They were worthless, quite honestly. It was a great concept. We were all excited as I said at the beginning of the biocenter it was new hadn't been done before, had a lot of great ideas, could we take an equity and be able to charge lower fees. Those were the concepts but what we found, we tried to execute on two warrant agreements and got pushed back from the legal staff of the client company. And we just don't have the wherewithal to get into a legal battle over the value of a warrant and what should be our share. And frankly what we learned over time, too, is the trend within the industry changes over time. At one point the client companies were more receptive to a 1% equity share. And these days as I understand it they are not interested. They do not want to come to your incubator if that is the business model.

>> Councilmember Liccardo: Right. I appreciate that the foundation didn't really take equity positions and the agency didn't take equity positions. But one of the managers did take an equity position. At least one that I've read about. I don't know if there were others. Were you aware of that?

>> Yes.

>> Councilmember Liccardo: And was that something that you shared with the agency?

>> I don't remember discussing it explicitly, no.

>> Councilmember Liccardo: As I understand it, the issue about whether or not there's going to be a referral to the auditor, that's going to be taken up on Wednesday, is that right, Madam Chair? That's not an issue before us.

>> Councilmember Herrera: It's not an issue before us today, that's correct. It's transition pln today.

>> Councilmember Liccardo: Fair enough. Sydney, I appreciate you being here today, answering these questions.

>> Sure.

>> Councilmember Liccardo: I just had one general concern which was this: I don't doubt that the awards and the public relations effort has been very solid and has been reflective of a very strong effort to get out and market, and I think marketing was a really important part of this strategy of incubators. And I don't take issue with anyone getting out there and hustling in the market and creating a strong PR strategy and clearly there was a strong PR strategy. Lots of awards.

>> I'm not quite following what you mean.

>> Councilmember Liccardo: We just saw a whole bunch in our packets here, lots of articles lots of awards and clearly part of this is about selling the space and selling the program.

>> Uh-huh.

>> Councilmember Liccardo: Where -- I have found to be a weakness here is the fact that there's a distinction between selling to the external world and then transportly conveying the force to the people that are accountability to make decisions with scarce taxpayer dollars. And I believe that those functions really merged in many ways and I don't necessarily hold you accountable because you're not an employee of the City of San José but I think there are lots of folks who, for whatever reason, believes that the task of marketing and selling continued even as we're talking to the council about what we should or shouldn't know about jobs, about how much of a financial drain this is going to be on the city treasury, on the Redevelopment Agency, and whether or not this is really creating tax revenue for the city. And I -- that is really the source of my frustration here. And so that is what has motivated my actions from day 1. I appreciate your direct answers. And I know that we're both trying to figure out exactly what's happened in years past here so thank you for taking the time.

>> And if I could just clarify that point when you talk about the public relations efforts and marketing of the incubator, certain that's there and it has to be there because there are businesses that need to generate revenue, attract clients. But the awards that I mentioned in particular in terms of recognition from the national business incubator or from the Harvard new ideas program, that was recognizing the quality of the programs that go on there. And the effectiveness. So you I didn't know if you were referring to those as well.

>> Councilmember Liccardo: Yeah I was.

>> Okay.

>> Councilmember Liccardo: And every single CED hearings in which I've been a part of and which we have ever been a part of we have heard about endless awards, I don't doubt those are wonderful accolades. In 1986, this city lost 60 million dollars in a bungled bond deal and the year before the director got the award and we had Redevelopment Agency reports for three years on the budget that overestimated severely the A revenues that this agency could rely on and every year, got awards on financial reporting.

>> I see.

>> Councilmember Liccardo: What my frnt frustration is the great disparity. The great contradiction inherent in all the awards and the PR and what I'm hearing interirly and seeing internally when it comes to hard numbers and jobs and dollars.

>> Then I would say I would look to the client testimonials. Because for me that's sort of where the rubber really meets the road. Because they're the ones that are paying and they're finding the value and they're saying there's quality service, there's things in our incubator program that they don't see elsewhere in the world. And so I think that speaks volumes as well.

>> Councilmember Liccardo: I appreciate it. I also appreciate though that plenty of people come to me making lots of phone calls that don't want to be identified who tell me I was on the board or I was a sponsor and you know what? There were some real problems there.

>> Okay.

>> Councilmember Liccardo: And you don't know the half of it.

>> And that's fair.

>> Councilmember Liccardo: You don't know the half of it and I'd say theats interesting.

>> It's good to know. Fortunately the ones appreciating valuing the services new outweigh those because we do have the occupancy that we have and so there's probably room for improvement and we'll always look for that.

>> Councilmember Liccardo: I don't doubt that there's been occupancy. But I think as you distinguish very well there's a great difference between the nextspace model as you described the shared work space.

>> Yes.

>> Councilmember Liccardo: And the image bhairt. And to what I'm concerned about is to what extent you essentially shared work space. Rather than truly incubating companies that are adding jobs and adding revenues here in the City of San José.

>> Sure and I've never known them to be shared work space. So I appreciate your comments.

>> Councilmember Herrera: Okay. Comble.

>> Councilmember Kalra: Thank you, and Mary, thank you, particularly in regards to the missteps early on when you were trying something new I think that by itself to be a very helpful, even going through a transition period in terms of what can be anticipated.

>> Yes.

>> Councilmember Kalra: And expected in terms of not overreaching, as well as terms of expectations. And I think it's particularly important right now when you want to try to bring people in to take over. Or to help in investing.

>> Yes.

>> Councilmember Kalra: With RDA, looking at what was shown on one of the slides, the RDA rent subsidy expires on June 30th. So you no know we're nine no, sir away and so it's going to be important I think having your experience in starting it, I think now we're in a better place as you indicated has been transitioned to small lab space and the services offered seem to be much more in line of what dmers want as opposed to what you might have thought they wanted.

>> Correct. Correct.

>> Councilmember Kalra: I know the buildout at tandem is critical because I've only been on council being since 2009. This is all something Councilmember Herrera has been indicating I've been educating myself on the model, what's happening to the biocenter or the incubators, the companies can transition into. A lot of the companies especially in the life science, were moving into peninsula where there was already existing lab spaces.

>> That's right.

>> Councilmember Kalra: It's very hard to get anyone in the private software company where basically you put up cubicles, the amount of infrastructure up front is quite a lot of space. I'm helpful that at least being wu of the largest land owners, you have the hopefully you'll see the wisdom of expanding further because you know I think as reports have indicated the incubators have done their jobs. It's the end of the relationship with the incubators, where it seems like there are going to be a lot of growth and seems like some of the jobs numbers looks like there's been some improvements of late. But as Sam indicated it's hard to really know. Some of the incubators now that they are here and they brought jobs here and now they've grown maybe out of the few more jobs in San José they're about to go to the next level, why have we not been able to capture them at that point? That is something you know it is methodology to look back what RDA did or did not do or Office of Economic Development did or did not do, or the private example the berg to allow for those companies to expand out. So I think that we -- I think it is certainly helpful, in looking at kind of how these programs evolved over the years to see where it is now and see how we as a city -- because I think the transition really should be as a city ends its financial relationship and kind of pulls out, the city still needs to figure out what they can do to keep those companies here right?

>> Yes yes yes.

>> Councilmember Kalra: And so from a city perspective that is something I certainly want to focus on okay well find the San José State foundation and kind of go get private sponsorships private partners come in keep the incubators going, which is a great idea opportunity the biocenter certainly, you know, at capacity they -- and there's opportunities to capture some of those companies. But what can we do in terms of just like we look at helping to retain or attract companies to San José, to encourage the property owners to create spaces that allow for that easy transition and I mentioned the biocenter in particular because that's unique space.

>> Yes.

>> Councilmember Kalra: It's not as -- I think it's unique space that we can really create a competitive advantage if we offer those spaces with some of the software incubators and so on, we are competing with a challenging that's where we have to get more creative and figure out what we can do to kind of transition folks into downtown office space or into other office space around the city. But I think some of Sam's point were well taken including the lack of information over the years that the council had. But I think that now, we're in a position of looking at a transition to figure out what we do using that information, making sure that communication, you know, I think that with RDA now, in the position RDA is in, I think really we do have to rely much more on private and foundation sector partnerships than with RDA, having the ability to do anything or even the city having the ability do anything. But I think that you know the transition plan is going to have to certainly rely on the renegotiation of those leases. You know, almost immediately, I think with the one that ends at 2014 you know figure out some way to get a long term lease with some discounts on the front end going forward with kind of attaching it to maybe market rates so that we don't get in a bind where we're overpaying for years at a time. You know the biocenter is a little unique because of the kind of space it is but if berg sees that he's got some kind of advantage out of being able to get tandem down, maybe he'll start to see that there's an advantage to keeping the biocenter there for the positions of filling out the some of the vacant properties he has all around the technology park there. So I think there are opportunities. I think that you've identified good ways of going forward in the transition. I think Sam brought up some good points in terms of what we can really rely on in terms of success of the programs but I think that in terms of incubating I think that that has been done at least from the biocenter perspective that's been

done. Capturing the business on the back end at the end of the relationship of the biocenter has been the problem.

>> Yes.

>> Councilmember Kalra: Continues to be a problem and I'm just hopeful with the berg situation that that can be the start of some good things because industries take many years to develop. They don't happen overnight. And hopefully we're getting to that point that we have developed the industry and can create the kind of synergy in the region to keep the companies from going anywhere outside the region.

>> Yes.

>> Councilmember Herrera: Pierluigi.

>> Councilmember Oliverio: I'm fine, thank you.

>> Councilmember Herrera: Okay. I think it's really important that we stay focused on transition and I do appreciate Sam's questions. And some of this is going to be focused on resumes rather than transition. We certainly need to keep our eye on that ball, because we can't go back 17 years ago and not be where we are now. We need to focus on where we are now and what kind of equity that we have from this that we can move forward. And do we want to have, does San José want to be part of building new industries and going forward? What kind of role do we want to play in this? And I think Pierluigi who's not going to comment now but he made some very good comments at Rules and I'll paraphrase and would I share this you know, any time you're involved in dealing with the private sector there's risk. We should have expected a lot of these companies not to make it. Any time you're involved with that, and so I think we need to be very cautious getting involved in the private sector in any kind of trying to pick winners or anything like that. I mean I took a very firm stand in the catalyst fund issue when that came up because I felt it was very wrong that we had money invested in grocery stores. I was able to work with my colleagues and have that money go to something else. I think we do need to be

very concerned about how we use that money but I'm very concerned just like Councilmember Kalra new on the council and looking at the end of this thing rather than the beginning of it, what can we do to move forward? And I certainly take you at your word Mary and everybody else in here that we're going to work towards a transition. Some of the differential numbers we're seeing here, I know some of those came from software development. I don't know what the heck we were doing incubating software companies anyway. I wouldn't have agreed with that having been involved in the software industry. I think biotech makes a lot more sense in terms of what they need. But you're going to make mistakes when you get involved in the private sector. You're going to pick some risk involved in it and I think that was the point Pierluigi made. I'm happy to hear there's a real focus on this transition. I want to hear what your expectations are about renegotiating the leases since this is a big piece of it. Have there been any approaches working with RDA maybe can you talk about that.

>> Yes, I've already spoken with Carl Berg about the biocenter. And to Councilmember Kalra's point, he's aware of what happened at tandem. We've been trying to get that done for years and of course we wanted to also build out the first floor space, whether we should use public dollars which we don't have or didn't have even, to get to that second generation level was critical. But he's aware and he did say very explicitly that he wants to keep those 20 or 22 companies in there, how we get there is something we'll have to work out over the next few months. And the transition plan, and your guidance and input is welcome. So the other landlord and the -- that has his entrepreneur center, I have not spoken with directly about this, because we're still, but we do feel that as Councilmember Kalra mentioned, that this seems to be a little bit slightly overpriced for the class of building it is. And hopefully, we can work further and see. The trick there is, how do we commit to long term funds when we're all so short on cash so that might be an interesting conversation. But I think if she wants to keep the building tenanted that she'll work with us. She's a very savvy property owner.

>> Councilmember Herrera: Hopefully we can move forward on this. So what is -- the action we need here is to -

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>> There were recommendations for two, to accept the report and also to provide some direction on the transition. So can you do both or can you just accept the report -- you can do both or you can.

>> Councilmember Oliverio: Make a motion to accept the report and that's it.

>> Councilmember Kalra: Second.

>> Councilmember Herrera: Okay. Any comments? On the motion?

>> Councilmember Liccardo: Yeah I -- I'd like to see you know I understand that there's been prior discussion about getting out of the leases as quickly as possible. Be helpful to understand what our options there are.

>> This is an agency lease. And I know that when our agency council has been looking at it. But once you signed the lease it's difficult unless the other party agrees to modify the lease or unless there's some default to modify it but I think Richard has indicated that there are some desire to have some conversations about it. So we check and see what options there are. Other than waiting to get a consent from the other party to amend it.

>> Councilmember Liccardo: And is there an opinion you feel comfortable sharing publicly about whether or not if the agency -- if we fail to prevail on a lawsuit, against our friends in Sacramento, does the city remain on the hook for the lease? Is that something you feel comfortable talking about?

>> It is not something that I could say anything at this point. I know that Tom and patty from the agency counsel have probably looked at the issue but at this point I don't know whether they've come up with any proposal.

>> Councilmember Liccardo: Thank you.

>> Councilmember, long discussions with the attorneys patty and tom we've discussed that just in case, I hope not, we lose the lawsuit, the successor entity would really have to be in the same position as the agency, break a lease, or decide in that water fall of debt, who gets what. And then I would think they'd be subject to lawsuits just as if the agency or the city would be, if we remain and break a legal contract.

>> Councilmember Liccardo: So Richard, you're saying it's on the successor agency not on the city, is what you're saying?

>> That's what they're saying, yes.

>> Councilmember Liccardo: Okay, thank you.

>> Councilmember Herrera: Any other comments? We have a motion on the floor. Do -- we have David Wall would like to speak on this, I think. Yes.

>> David Wall: From the excuses that I've heard today, from the research foundation, I don't see how a transition plan could be allowed to go forward without an audit by the City Auditor. This has gone out of control for too many years. Let me quote something from your report here. Page 14, footnote 25: "the 2004 return on investment analysis taxable sales note, many of the incubator tenants are service providers. Intermediate product manufacturers, original equipment manufacturers are engaged in research and development which are not taxable sales contractors. It is highly unlikely that the incubator tenants and graduates created taxable sales in San José, of \$4.5 million per firm per year, from 1994 to 2003, as confirmed in surveys with tenant companies during this assessment." You can't believe anything that's in here. These multipliers are skewed. Just about everything in here is a variation of a white lie. I wouldn't -- the only people that benefited from this whole thing is the foundation. And I can see why they want to be in charge of the whole show. I would suggest that this committee have structured interrogatories to the foundation and the tenants, but absent that I would shut this whole program down. And I'd like to thank you, Councilmember Liccardo, for your interrogatories.

>> Councilmember Herrera: We have a motion on the floor. All those in favor? Aye, opposed, carries. I think we are -- open -- we're at open forum. David.

>> David Wall: I just would like this committee to entertain a program to start to attack poverty in San José. One way I would suggest doing, if it's at all possible with all your contacts in the federal government, is to look and see how many food stamps that could you give kids at schools. Per week or per month. So that can augment their food and also, take a drain off their parents' financial status. I don't know if this has ever been done but I'm sure with the expertise that sits before me it would be innovative and it would really I think spur the local economy if it was allowed. Thank you.

>> Councilmember Herrera: Meeting is adjourned.