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>> Mayor Reed: Good morning, like to get our council into session with this particular meeting. I know there's some councilmembers in the building who have been out here and are getting coffee in the back so give everybody a minute to get out here onto the dais. This is a joint redevelopment agency-city council budget preparation study session. I'm pretty sure we have a quorum. All right, we have almost everybody here and I think I've seen the rest of the councilmembers coming into the room and will be up shortly. This is a new addition to the usual routine for rolling out the redevelopment agency budget. This is a pre-budget proposal study session that we've added, so we're having a slightly different sequence this year than we have had in past years. So the kind of information you will see this morning ordinarily would have been released before the proposed budget comes out, and so we're still doing that, but we're doing it in study session format. So you'll see some things this morning for the first time but it's still ten the days before the budget proposal will come out from the executive director. So we want to do this in a study session format because there's lots of questions, lots of uncertainties, and this is the chance to get us up to speed on them before the agency puts out the proposed budget. So the sequence is different. The information is along the lines we've seen in past years and how we approach this but obviously, these times are different, and more challenging than they have been in the past. So we will start, and let Harry and his staff make a presentation. And there will be plenty of time for questions and answers with council discussion before we finish up. So with this, at this point I'm going to turn it over to Harry and let Harry introduce it.

>> Harry Mavrogenes: Thank you, Mr. Mayor, members of the board, council, I appreciate this opportunity to present to you a background for our budget. As the mayor said, we will be rolling out our budget on September 17th, and today is really our first opportunity to share with you some of the issues that we've been facing. We will present to you a brief background on redevelopment, and the challenges faced with the recession, a review of historic tax increment patterns and how previous recessions have affected the agency, an in-depth look at the recent tax losses and gains. We also have Mr. Richard Carlson here today from spectrum economics who will share with us his new forecast. He will be available for questions afterwards, also. We will also conclude with a preview of the potential budget and recommended guiding principles for the budget and then we'll open it up for discussion. Again, just sort of a reminder of some of the way we work for the audience, primarily. The redevelopment agency is created by state law, to eliminate physical and economic blight. Tax increment

financing, which is from the project area, is the primary financing vehicle. Although we do have other revenues, grants, leases, and sale of assets. Each project area is subject to its own redevelopment plan. And because project areas are merged financially, the funds can be used for projects and programs in the area. Now, in our case, the strong neighborhoods areas, we do not collect tax increment currently. So those have been funded from the balance of the merged projects. We cannot use our operation of the funding for operations or maintenance of public facilities. We must use the funding on programs that either benefit a project area in a project area, and we cannot use the funds to pay for city services unless those services are directly related to defined redevelopment purpose. Our core services, have been in our budget every year. They are to create jobs and expand business, to built public facilities and infrastructure, strengthen neighborhoods, and develop housing. Now, this is a very dramatic photo I like to use showing the downtown of San José in the 1980s and currently today, or at least last year, with many of the major projects in place. This shows a dramatic difference that has occurred, due to the availability of redevelopment and creative use of those funds and being able to create major projects in an area that had been left desolate for many decades. So we have done quite a bit. Of course one of our -- this is an image of our future. We're doing everything necessary to prepare for the A's coming to San José. This shows a development of a new stadium in the vicinity of the Diridon station just south of the arena, and potential for major new development between the two facilities linking back to downtown. So there's a lot of stuff to still be done. Redevelopment investment stimulates new jobs and the retention of existing jobs. Creating new jobs is quite a task. We work on it constantly. And retention of existing jobs is just as important. Are it's much easier to keep the companies you already have, so we do everything we can to make sure that they are happy here in San José, with Services that they have and we conduct visits with many other companies throughout the year. Now, recently the agency invested in 12 industrial companies, $11.5 million total, which leveraged $415 million in private investment. The employment for those 12 companies is 4700, over 4700 with another 2150 jobs coming from those. That's pretty dramatic, in the way we can leverage our funding to make new development happen. From January 2009 to August 2010, the downtown absorbed another 85,000 feet of retail but another 280 jobs. We work to expand businesses, and this chart shows that the partnerships have generated more than 100,000 permitted jobs over the years. 30% of San José's total jobs. And we've listed some of the select investments and partnerships we have done over the years that help create those jobs. Our vision North San José plan which is being implemented now, the San José biocenter which is incubating new companies in the biosciences, we've invested in clean technology. Corporate headquarters, hotel development, and manufacturing and recycling as well as the environmental and business incubators. We've had challenges, recently. Of course, the economy is uncertain right now. And this cartoon kind of shows the uncertainties that I think we all face, in a little humorous way. But you know, with all that difficulty, I think we have a good future in Silicon Valley. Mr. Carlson will talk a little bit about that later. Our other major challenge is the State which raided our funds. We had $75 million taken from redevelopment by the State over the last year. We are hoping that not anything more like that happens. So far this year, there hasn't been an additional take. This chart also shows some of the things that have happened this year. We've had a loss of 75,000 jobs since the second quarter of 2008. The state takeaway, which we've talked about earlier, the assessment roll county wide has declined an historical 2.43% total. For us, our assessed values declined 7.3% this year. The gross tax increment came down from 200 million to 184. And the net tax increment is declining approximately 11 million. But this shows in the chart over the years how we have fared. Overall, the agency has continued to grow as we've grown the pie, grown our industrial areas and invested in economic development. And it shows a couple of troughs in the '90s, revenues in '95 went down a bit and then they came back up. We had a tremendous increase during the dot-com boom and then we had a lull after that. We had a significant decrease of about 24%. And then we've come back up strongly and this year we're down 7.3%. This is really the third downturn we've had, and we're trying to crystal-ball where we go from here. So for that effort I'd like to ask Mr. Richard Carlson of spectrum economics to come up and give us his perspective on our future.

>> Hello, Mayor Reed, and councilmembers. I've been a economist here in Silicon Valley for just about exactly 35 years. It's been a very interesting time. And this is certainly one of the more interesting times. Although if you look back, nothing compared to what happened back in the early 2000 down period, where I did my first forecast for this organization in 2004, at a time when you were having significant declines in revenue, and there were all kinds of gloom and doom about the valley, was over, et cetera, et cetera, et cetera. I did not believe that at that time. I expected some modest further declines in assessed value. But a significant revival in both the economy and assessed values. And I actually underforecast, for the next four years, the boom that took off in that time period, especially in assessed values, was more dramatic than the one I expected. And that you can see here in page 13, starting with my first forecast which was for 05-06 and taking you through 2008-2009. This last year, my forecast

was way below -- way above what actually happened. What happened was, the state missed a job loss of almost 20,000 jobs, which is the primary database I work from is produced by the employment development department. They'd never made an error of that magnitude. They had made a smaller one back in the 01-02 time period. They assured me all those problems were over and all of a sudden I found the base was much lower than I believed it was, nine months after I had to make my forecast. The additional thing that happened is that the assessor went back and made some further reductions which may have been justified, actually, for the 2008 calendar 2008 time period. So my base was lower than I believed it was for both reasons. I've taken those issues into account. I don't think the state is going to miss that many jobs again. I think in general, they don't miss job loss. They miss job creation. On average, there are 5,000 more jobs created every year than show up in the initial statistics provided by the state. So what I'm projecting at this point is a modest further loss in revenues. You've got some significant projects coming in but I think there's some more reductions in value in the pipeline. Most importantly for this time period, is the financial picture of commercial real estate in the entire United States has changed. It's changed very significantly because of the dramatic drop in long term interest rates. If you are putting a value on a piece of commercial real estate, there are only two major things that matter. Rents, which is almost the entire income, and interest rates which are almost the entire costs of any major commercial property. So if rents are down 5%, or maybe 10%, which is what I project for this calendar year, but interest rates are down 20 or 30%, the interest rate should more than compensate for the decline in rent, in terms of valuing commercial real estate. And this is not just theory. We have actual measure of this impact showing up right now in the financial markets, where people are investing their own money, hundreds of millions and billions of dollars, in real estate investment trusts. And the real estate investment trusts that actually own property, the equity real estate investment trusts, not only rebounded dramatically from their lows of early 2009, they've continued to grow and outperform the market this year. They're doing much better than the rest of the stock market. So the theory that those interest rates are the really vital driving factor really matter and are really affecting the market is borne out by the actual results and the actual investment performance of the real estate equity trusts. So that's a key part of my forecast, that the values are going up. That the assessor now can point to independent data at the national level. And also locally, we have a number of local real estate investment trusts that we know have major investments in this area. They are doing unusually well, at least the two out of three of them. The ones that are doing very well are BRE. Mission West is not doing so well. Boston Property is doing great. Blackstone, our fourth, we can't provide independent data on. They do too many things, so we can't value just what's happening on their commercial property. And finally, you have a number of major projects coming on in -- that will be completed in 2012, which will be revenue for you in 2013, 2014. So the combination of the change in the basic valuation of real estate at the commercial level, the economy stabilizing, we're probably pretty close to the bottom of the economy I expect modest employment growth from this point forward. And high tech continues to dramatically outperform the rest of the economy. And that's the result you see is my forecast for a small decline in revenues next year, in modest growth in the year thereafter, and major growth in 2013-14, and for the next couple years after that. So looks very much like the time period of 2004, or I turned out to be low. I don't -- I don't know if I'm low or not but I think that this is a reasonable forecast at this time. Thank you very much.

>> Harry Mavrogenes: Thank you. We will have an opportunity for questions, I think, after the presentation. I'll be concluding shortly. Going into some of the additional charts, this is how some of the other redevelopment agencies in the county fared. We actually were a little better off than many of those. Now I'd like to ask David Baum to talk a little bit about the -- what we have looked at, in terms of the losses this year and some of the gains.

>> David Baum: Okay, thank you Harry, and members of the board and the mayor, David Baum. And I'm here just to talk about some of the big losses and the gains, and the top taxpayers and how they fared in the current 10-11 tax roll. We were a little surprised as Mr. Carlson pointed out the big drop. There were a couple of primary factors. First and foremost were assessment appeals that caused our assessed value to be reduced by now 1.8 billion. This year alone we suffered more than a billion reduction due to assessment appeals. And here on this chart show the top 25 reductions in assessed value led by the bullet, once known as the Sobrato building, at the top line, Oracle Corporation bought BEA. BEA bought this building a few years ago for over $135 million and thought at that time that was a reasonable value. But the assessor has been very proactive here in dropping this down to the value it was first assessed at in the early 2001-2002 time frame. Now it's at $150 a square foot. We think to build this billion again would probably be in the order of three to $400 a square foot. Similarly, eBay in one of its occupied buildings, unlike the unoccupied oracle building is now valued at $179 a square foot for a four-story building not as nice as this downtown building, Hitachi Global Storage and just a few examples here, Hitachi

global storage lost all of the $150 million in the third line there from reduced personal property. In the fourth and fifth line I think are very interesting because they represent hotels. And so the fourth one, HLT San José, doubletree hotel, is a 505 room hotel that is now assessed at $106,000 per room. And the next one, the Walton San José Investors, the Marriott Hotel, a 505-room hotel now valued at $88,000 per room. Now, we -- since the agency has an ownership interest in the Fairmont Hotel, and because we are curious about the value, just to give a little context we did an appraisal of the Fairmont hotel just four years ago and found at that time it was valued at $220,000 per room. It, too, is not on this list, but it was reduced last year to about $100,000 per room. So the point is that of these top 25 reductions the assessor has been very proactive in reducing their values and we think these are likely to come up in the future years. Next slide please. This slide is the top 21 taxpayers in the redevelopment area, and much of the data that was covered in the previous slide is embedded in this slide. Almost all of these taxpayers suffered large reductions or for them maybe it's a good thing. The assessor very proactive about writing down values. There's only one company on this, or two companies, Adobe and brocade which saw an increase, that was because of some new construction. But all of the others pretty much received prop 8 appeal reductions, overall drop of 9%. These top 21 taxpayers represent a little more than half of all the reduction in the assessed value this year. Next slide, please. There were some big gainers. The result of new construction for some of these, Carlyle market post tower is known as the Gold building in the downtown. It increased improvement value by this $32 million. I believe it was due to some construction that wasn't obvious but probably internal to the building. Brocade is well-known because they're doing the 565,000 square foot campus in North San José. Adobe Systems added some new construction as well,and Brocade again down the list. So there weren't as many of these as in prior years. Only 227,000. We thought there might be a greater value associated with the biggest gains, but we're going to see that in the next tax year where we're going to see Brocade picking up a sizable assessed value as well as projects like Equinix. There's some new retail coming online like Target and we expect this to grow into the future. So those are the three slides I'm covering. I'll hand it back to Harry to talk about some other budget items.

>> Harry Mavrogenes: Thank you, David. We do have a significant amount of funding that goes out to other agencies, the city and the county in particular. And these two charts show the combination of those payments over the years that we have made for services to the city since 2002. That amount is over $307 million. We do

pay for the strong neighborhoods staffing, the B.E.S.T. debt service for the convection center and the fourth street garage also. On the county payments, we have the pass-through and the delegated and the settlement payments over the decade and that's almost $7 million over the decade as well. So it's a substantial amount of funding that we've provided. I do that as sort of a context to our projected budget. This is sort of a preview slide of what we will be presenting to you in the upcoming budget. This is looking at the reduction this year. Now, because of the reduction of 7.75%, it does impact our ability to do a bond issue this year. We have, however, had very substantial land sales from the last year which gives you a beginning fund balance of almost $80 million. Now, the question is, how do we spend that money, how careful are we in looking at an uncertain future? I think our budget will be showing ways that we will be metering, essentially, the spending of that money so that it will last us through some difficult times. Now I've taken the liberty in year 2 of being a bit more conservative than Mr. Carlson. I'm going to be looking at a recommended a 2%, not .2% reduction next year,and then a slight increase, a modest increase comparable to his the year after. But with that kind of budget scenario, it's really going to be a very challenging time period for us. The future, beyond that, I think everyone agrees, looks very good. But how do we get through the next three years I think is going to be the challenge. And part of that is going to be addressed by how we spend our money, how we manage our operating cost. Also, how we deal with other assets that we have, as well as grant-writing. We've been very successful in grants this last year. We anticipate continuing to aggressively pursue grants. So this basically shows that -- and I have another chart here that shows on the operating side. What I'm showing here preliminarily is basically after this year, in order to balance the budget, eliminating addition the county payments, the city support services. Now, there's another solution to help us with our budget. We've talked about it briefly in the past. But I believe, and I strongly recommend, that we pursue going after getting the tax increment in the strong neighborhoods area. We've been working on that, as you know, with the county, and I believe that that extra amount of revenue is going to be immensely helpful in balancing our budget, and continuing the many very vital services that this agency provides. Our -- another little drawing here, which shows you the uncertainty, we're at a crossroads right now between recovery and recession. The recovery locally will be driven by jobs, new jobs in construction, new jobs in industry, it will supporting the growth of the housing market and spurring new residential construction. And then that starts the spiral up we hope we will get to, increasing property values, sales tax and other things that we need to move forward. We cannot leave the creation of jobs at this crucial point for the federal government or the state, which is nearly -- is in great difficulty now. So we have to do everything we can here, to help create new jobs, retain new jobs, and we need to grow the pie. I said this, again, six years ago when we were in the last recession, about growing the pie. We did grow it. We will, again, I think, have the opportunity to do it. And be have a good future. I want to say also, something about our staffing. We have a phenomenal staff. We have a small staff. We're now at about 72 people. We have some vacancies. They're very valuable people, hard work people. I want to thank them publicly for their dedication, their hard work, in creating these economic miracles that we've created and touching many people in the neighborhoods. This work needs to continue. We cannot allow things to back-slide. It's just like with graffiti. The minute you don't pay attention to it, it comes back. We're at a crucial point in all of our activities where we need to continue activities. And our staff resources are very valuable. As I said in the newspaper, layoffs are my last resort. We're looking at elimination of vacancies. Instead of contracting out for architects for the facades and other programs, we will be doing that in-house. We are filling a GIS position with internal staff. We're looking at -- we're doing grants writing in our real estate group. So we are really creatively putting these people to greater use right now. We have a lot of work to do this year. We have a number of projects, we have over $30 million in encumbered projects that need additional work. We need to implement the policies in North San José and Edenvale. We have a downtown plan to update. We need to have people continue to work on creating new jobs and keeping the jobs here. We are seeking opportunities to invest in traditional redevelopment activities. Our baseball project must move forward. Land acquisition must continue on that. Our neighborhood business districts and our strong neighborhoods still have projects that need to be done and a lot of work to be done with the community. So again, we -- I think the agency remains critical. We've accomplished great things over the last 30 years. I mean there's still a lot more work to do and with the constraints that we have, we need to look where we go from here. Again, focusing on the capital projects, and prioritizing our work, completion of things under construction, and we can defer capital expenditures, and the payments to the county, of course we've already talked about deferring. And reducing our operations and exploring supporting redevelopment activities by creating new funding sources. That concludes our presentation. And we're open for questions.

>> Mayor Reed: Thank you. I had a couple of comments and some questions to start with. Do we have a slide that shows the schedule for getting to an answer on this budget? If not, maybe if you can just tell us what the dates are.

>> Mr. Mayor, we're bringing one down right now.

>> Mayor Reed: Okay, so we'll put this up, because this is the beginning. I think the ending date is November 2nd.

>> Harry Mavrogenes: That's correct.

>> Mayor Reed: Between now and November 2nd, in terms of preparation of a budget, there's more work to be done. Could you put up slide 20? I think the key thing going forward with this budget process is caution. We're working on projections. Which are always difficult, and these times make them even more difficult for reliability. I've had a series of meetings, met with the assessor, I met with a series of developers, people who have money, people who don't have to wait for banks to loan them money and talk to them about what it's going to take for them to make the decisions to make major investments, hundreds of millions of dollars. And I'd say there's not much enthusiasm for things getting a lot better quickly. There's a lot of guarded optimism. I believe projects will get started in this -- in the next few months. So there's reason for optimism but there's also a lot of reason to be cautious. And whether it's assessment appeals or a bad economy or whatever is going to happen, we have to be cautious. So while we know that this year's down 7.7%, we haven't finished all the assessment appeals. We don't know what next year will do. Maybe it's a minus 2, maybe it's a minus 3, maybe it's a minus 1. Impossible to know at this time and we don't know if it's going to be positive in year 3. So we need to hedge against the fact that these numbers might be wrong. It's easy if things are better. We never have any trouble figuring out how to deal with extra revenues. But we have to be cautious and hedge against things being more negative than what's being projected and what Harry's proposing or going to propose. And Harry mentioned a couple of areas that we can hedge. One is, open our capital programs. We can slow them down. And the second is to make staffing adjustments and funding adjustments in places that we can do that. But I think we can't wait until next year this time to figure out whether or not things are going as well as we are projecting. And one of the things I'm going to recommend in the budget process, in my budget message which I'm going to reason October 15th, that's part of the schedule, come back to that, will be that we set up a mid year review process, sort of like we do with the city,

in February you know we look at what we got and decide if we have to take actions in the middle of the year. I think that's what we need to do with the agency budget. We can monitor things on a monthly basis getting data from the assessor's office and looking at the appeals and looking at whatever's happening. And if things aren't going as well as we think they would, then we can make adjustments in February rather than waiting until the end of the year. And I think that's important, so we can conserve the funds that we do have, the beginning fund balance and the other revenues, the miscellaneous revenues. So that's going to be one of the recommendations I'll put out for the council's consideration as part of this process. And I think that allows us to be cautious. We have to proceed. Time is moving on. Whether we like it or not, the calendar is changing every day. So we have to make decisions. But we also can be cautious and hedge against the uncertainties. Another question I had, Harry, on slide 6, which is a slide about the investments that the agency has made. There it is. Investments in 12 industrial companies, $11.5 million, leveraging $450 million in private investments for 12 companies. I'd like to see more of that private sector investment. Could you talk a little bit about what the nature of those investments in those 12 industrial companies, how we did that, and what it will take on a going-forward basis to be able to continue to do those? I can remember a couple ways that the investments were done. We've had some enterprise funds in which we've helped acquire capital. I went out to visit one recently, and they pointed out the machine that we had helped to acquire, out at intermolecular. I know that Brocade is about ready to open their campus, and we had a special agreement with Brocade, that they've made hundreds of millions of dollars of investment. I don't even know if that's in this list, because they haven't opened yet. And that one, we essentially agreed to give back the first couple of years of tax increment, if I recall. So Harry could you just talk about how we go about creating more tax increment? That's very important to our future.

>> Harry Mavrogenes: Yes, Mr. Mayor I'd be happy to. I think this leveraging I think is the key. In that we, knowing that we have a limited budget, I think, looking at ways we can induce companies to locate here, and do their investment, we've been able to invest in equipment in many of these cases. I'm going to let Richard Keith, the director of our development division, talk a little bit about the -- some of the particulars, but the list of companies range anywhere from Borgata recycling, which is a small company we helped with the enterprise zone, benefits that the state offers, the one program that the state has. Brocade of course is our largest

investment, creating almost 2500 jobs there by investing in equipment. We have about a $4 million investment there. Richard, do you want to go through some of the others?

>> Thank you Harry. Yes, almost all of the 12 were for capital equipment reimbursement. There is one company IDT where we're paying over 18 years for, to refund. But most are pegged to job creation that -- and also claw-backs meaning if the -- if that company were to leave by the time we did -- prior to the time we did the full payout, we would get -- they would not get all their funding or in some cases money back. Some of the companies that Harry mentioned, certainly, and the mayor mentioned Brocade, Borgata, CTS, Intermolecular, Nanosolar, Shocking Technologies, SolFocus, Solo Power, Stion. Most of these were clean tech companies that you, the board, approved over the last two years. But again, most had to do with capital equipment, because in the purchase of capital equipment there is no need to do prevailing wage which is very costly, usually adds anywhere from 15 to 25% for construction fees.

>> Mayor Reed: Right, well we'd like to do some more of that assuming we have the capacity to do it which is you know an important part of this budget discussion and part of your recommendations for the principles which is to grow the tax increment which solves a lot of the problems. Another question about the ballpark, speaking of growing the tax increment, I think it's important to talk about that. From what I remember about the economic analysis that was done is that if there's a $460 million private sector investment in a privately operated ballpark, they pay taxes. Tax increment as well as utility taxes, sales taxes, things like that. I just want to verify that I'm remembering correctly that the total tax increment coming out of the ballpark is about $5 million, excuse me, $5 million, some of that goes to the county, some of that goes to the school districts but there's about $3 million combined between the city and the redevelopment agency funding.

>> Harry Mavrogenes: I believe that's correct, yes.

>> Mayor Reed: Okay, and that's because it's a private sector investment and they get to pay taxes, it's not a government investment. So that's an important tax increment as well as other revenue source to the city. And then on slide 19, that's the payments to the city and the county over the last decade. In this fiscal year, 2010 and

11 we're showing a reduction of almost $9 million on the sports services to the city. And that's something that we've already approved as we went through the budget process. That's the little footnote there, is back in June. And so, the total reduction to the city goes from $34 million down to $26 million, more or less, just rounding off the numbers. But that's already happening.

>> Harry Mavrogenes: Correct.

>> Mayor Reed: Okay, Councilmember Oliverio has a question.

>> Councilmember Oliverio: No, mayor, I just wanted to say thanks for the comments. I think the pragmatism on being cautious in the current economic environment is the right way to go. As you mentioned, if there was a spike in revenues there's no problem to go and spend it but the problem is to manage expectations. And I think being cautious is the right thing to do. The midyear budget thing sounds like a good idea because we can take action sooner. I think we just really need to focus on having a smaller redevelopment agency, a smaller redevelopment agency whose pure focus is economic development. You know, as much as we've -- Harry I know you said a lot of things to make the board of directors and the SNI but your comments need to be more focused, it needs to be strictly on economic development. There are a lot of good things there to do in the SNIs. And I know we spent $68 million to do that. But at the end of the day if I have to make a choice on where to do an expenditure, I'd rather have it on the economic development and the jobs. And when we say we created 2500 jobs at Brocade, we didn't create. We retained. Because without the agency's investment they could very well have left San José so I think that's key and crucial. And a one time spending on a certain SNI project sure it denotes value to that neighborhood and that's great but it's nothing like retaining those 2500 really high paying well paid jobs in San José so I think that's what we really need to focus on is on the smaller agency for now, and at the end of the day, when money's returned then we can do some grandiose things but just want to focus on that.

>> Mayor Reed: Councilmember Pyle.

>> Councilmember Pyle: Thank you, mayor. I had a couple of questions. Is there a formula for the return of the property taxes? In other words, what has to happen before the property taxes can be raised again?

>> Harry Mavrogenes: I'm going to let David try to answer that. This is with the assessor's process David how does he ratchet property value back up and how has that happened in the past?

>> David Baum: Yes, thank you for the question. That is one that is a head-scratcher for all of us. And as I mentioned, in looking at the top 25 reductions, representing so much of our assessed value, about half of it, first of all, is, again, that point is, the assessor has been very proactive in reducing the big values, the big properties. And -- but the assessor is also proactive about bringing them up. So for example, after the dot-com bust, the total reductions due assessment appeals was about 2.3 billion. It is actually higher than it is today although many would say that that's to be expected because vacancy rates were higher at the start of the 2000 time period due to that bust. But as the economy started to recover and jobs were created, the assessor brought that back from 2.3 billion to the low point, there was still even during the height of the job creation in 2008, there was still about 300 million of value reductions due to assessment appeals. But the assessor does bring it back. And so is there a formula? No. The assessor likes to say if you read the annual report that he doesn't lead the market. He follows the market. And so as he sees signs of recovery, then he brings it back up.

>> Councilmember Pyle: But in the last go-round of property cuts, those seemed a little out of sync with former property cuts. Do you see that? Or am I just imagine things?

>> Harry Mavrogenes: There was a fairly aggressive bump that we saw, the 25 properties that we mentioned.

>> Councilmember Pyle: Yes.

>> Harry Mavrogenes: Accounts for almost half the loss. So there were some targeted very high-value properties that were reduced significantly. But that is a bit unusual. But again, I think it reflects, you know, his approach that's there to go after some of those larger properties.

>> Councilmember Pyle: And which really certainly affects us tremendously. I think your suggestions Mayor are terrific. The private investors, trying to get them more on board, the mid year review, the job creation. But question: Is there any kind of a formula for the economic impact for the budget in toto, regarding job creation? In other words, is there a dollar value that you could ascribe to the average job creation? Is there anything like that in your world?

>> Harry Mavrogenes: I don't believe we have -- we can maybe Mr. Carlson can help us here with that. If there's an average value to each new job created, it depends on the industry and the specific kind of job, I think. But I don't know if --

>> Well, all I can say is that this area, even today is very high, especially compared to the national average compensation rates. The average here is over $70,000 per job. And that's a pretty significant number. Now, that's an average. The high tech industry is actually hire than that. High tech industry closer to 100.

>> Councilmember Pyle: So are you saying in Silicon Valley or here in San José would be 70,000 average?

>> I'm using Santa Clara County data.

>> Councilmember Pyle: Santa Clara County, okay thank you, I appreciate that.

>> Mayor Reed: Let me just add to that, Councilmember Pyle. In all my conversations with developers and investors in commercial, retail, industrial office, residential, all kinds of residential, there's one thing that they all agree upon, I think. That is jobs is what drives demand for their product. Jobs is what drives new development, it's what drives vacancy rates, it's what drives rental rates. And as long as we're bleeding jobs we're going to have trouble building the buildings and assessed values and everything else. But if we're growing jobs then things can turn around pretty quickly. And if you look at our last six months here, I think we've had net job growth five out of six months. But we're still behind last year at this time. But it's better to have net job growth even if only in Santa

Clara County, in the face of what's happening in the state and the nation than not. So we're swimming upstream and against the tide here. But clearly, developers and people in the industry see jobs growth as the key to whatever decision they're going to make. And so I don't know if you can put a dollar amount value on each job but the multiplier is pretty significant across all those areas.

>> Councilmember Pyle: About a year ago after John Sobrato opened his property over on Moorpark, nonprofits are now in there. We got talking about the economic situation, and I got about a ten-minute sermon on how important job growth was in importance in bringing things back. He is part of the choir and now I am too. I wanted to see if there was any kind of an average value. Thank you, good answers.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Thanks, mayor. Mr. Carlson, could you help me understand a little better the process? Mr. Carlson could you help me understand a little better the process in which these process are prepared and presented? My understanding, I had some conversations I remember last year I remember with David Baum and Harry. As I understand, prior to releasing the finished report, you present a preliminary estimate of tax increment projections to RDA staff; is that right?

>> Correct.

>> Councilmember Liccardo: And you look at things like projects that are in the pipeline, how real those projects are, how likely they are to come online?

>> I primarily rely open staff for the specific projects. My work is economic work.

>> Councilmember Liccardo: Okay.

>> Especially the job forecast. The job forecast is the key thing I'm doing and then I work from that to general across the area, change in valuation, based on a rent forecast. And other factors that go into real estate valuation.

>> Councilmember Liccardo: So your numbers are really primarily driven by the jobs numbers and not as much by projected developments that may be in the pipeline that could change valuations on key sites?

>> Those projects in the pipeline are added to my forecast.

>> Councilmember Liccardo: I see.

>> My forecast is, what would happen to the existing building stock, and how would that value change based on job growth and changes which leads to rent changes. And then I add to that forecast new projects provided by staff. I usually discount it, I usually take it down 10% or so. But I basically rely on the staff for the new projects.

>> Councilmember Liccardo: Okay. And then after you've had that conversation with staff and you've looked at new numbers you come out with a final report that is published and can be released and so forth, is that right?

>> Yes and the final report generally doesn't change much in numbers. It's just working with the text, and finalizing the list of actual projects. Because that's continually changing, and we use the most updated projection from the staff of what projects will be completed when. And much of the problem is, makes a big difference to your valuation whether it's completed and occupied in December or January.

>> Councilmember Liccardo: Was that true, you said the numbers don't change much between the time the preliminary estimates are prepared and the time of the final report. Was that true in 2009, that is, last year, when you -- the final report stated that you projected essentially flat growth, 0%. Was it true that the preliminary numbers were also flat, or were they negative?

>> The preliminary numbers were negative. And what happened is, we had another month's worth of employment data, all of which turned out to be false, that looked great. And based on what turned out to be that quicksand, I increased the forecast.

>> Councilmember Liccardo: Okay. And that was the EDD numbers you had mentioned the 25,000 jobs?

>> Yes, it was about 20,000 jobs that had been lost, that we didn't -- that had been lost as of March, as of June and July, of '09 that we didn't find out about until March of 10. And nine months later they said whoops.

>> Councilmember Liccardo: Right. And the relevant geographic area for EDD numbers, is that Santa Clara and San Benito Counties?

>> Yes, I do use the MSA numbers.

>> Councilmember Liccardo: Right, MSA. So San José's share of that's probably about half, about 10,000 jobs, yeah?

>> Well, no, no, no, no, no. It was in that case, we have very little detail on city-by-city employment growth from EDD. We can get city data much, much later. But you're actually a higher percent, probably more like 60% of the ups and the downs.

>> Councilmember Liccardo: Hmm, okay, that's counterintuitive but okay.

>> The growth is happening down here so you have a more stable base in other parts of the county in both the growth and the loss tend to be bigger numbers here.

>> Councilmember Liccardo: Okay, so then at most then, a $20,000 -- a 20,000 job number would be about 12,000 jobs, if we were to take that high number 60% that would be relevant to the city?

>> Yes, in that ballpark actually.

>> Councilmember Liccardo: When we try to figure out --

>> Excuse me. The key thing was the trend. The trend -- the actual trend was this but the trend they told us was this. It makes a big difference whether you're going down or heading up. We were actually going down. We thought we were going up.

>> Councilmember Liccardo: So there wasn't anything in conversation with RDA staff that persuaded you to change the numbers from negative to zero in 2009?

>> Well there were some discussions with staff. And then we had additional job data, that basically supported the staff position, that you know, things can't be that bad and you know with the initial data I said oh, I'm really nervous about that, I think you're going to have some more problems. And then the State came out with another month of data and said well, I'll have to agree with you this time.

>> Councilmember Liccardo: Do you recall what that preliminary estimate was that you prepared? Was it a negative 3, negative --

>> Negative 3 and a half.

>> Councilmember Liccardo: Okay. And staff encouraged you to increase that based on what they knew about projects, and you looked at that with the job data and went with the 0%?

>> Yeah, and I added an additional months of job data that implied significant growth was all well underway.

>> Councilmember Liccardo: Right.

>> In the area. And the combination of you know, the staff saying hey we've got these projects, and the job data looking better, it's a -- I changed it to basically flat which was wrong.

>> Councilmember Liccardo: When these reductions in evaluation occur from the assessment, particularly the prop 8 reductions in valuations, and then also I know there are more permanent valuation reductions that they do as well, but my understanding is, there's quite a bit of a lag involved. I had some conversations with Tim Steele over at Sobrato and others, who told me that essentially companies have to wait for other sales to go through in the area for there to be comparable sales numbers that are significantly lower. So that then they can make their application or appeal under prop 8 to reduce the valuations. Is that fair?

>> Well, I'm not sure about some of those details. Because there's a deadline by which you have to appeal.

>> Councilmember Liccardo: Yes, for that year, that's correct.

>> I think part of what's going on is, they just always appeal, hoping some data will turn up to support their position.

>> Councilmember Liccardo: Yeah, we don't disagree about that. But -- in fact when the data does turn out, turn up it's often in subsequent years. Because of the need to wait for comparables to come through, that is, for other sales transactions to go through.

>> Yeah, and I don't know if there's a cutoff date. There should be a cutoff date for data. And I don't know what the cutoff date is for data. And, you know, these are both formal appeals and negotiations. And part of the problem is in this kind of a market, actual sales, a biased sample, if you base all of your market valuation on actual sales right now, you're basing your valuations on the worst properties. On the owners that are giving up. So that's really a biased sample of the true valuations. Even the actual sales. We have very few sales. There's only

20 actual large sales in the data that we were using this last year. Only you know 20 sales. I mean, that's a tiny number for thousands of properties.

>> Councilmember Liccardo: When -- and David, could I ask you to go to that -- I'm not sure if you control the slides or someone else does. Slide 13, we hadn't seen the last two years of projections. This compares the projections with the actuals. And if we looked at the numbers that we got in the 2008 study session, we would have seen for fiscal year 09-10, a projection of almost 5%, 4.7, and in fact the actual is about half that much. And in that year, David you may recall, at the November 17th, 2008, study session, I said, gee, I know these projections came out in September of '08, do we have reason to believe that we should come out with a revision of some sort, a revision of these projections? And you'd responded, I just looked at the transcript this morning because this was puzzling to me, you responded that Mr. Carlson stood by his forecast, that they looked at -- he looked at the numbers again from September to again to November. And I pointed out that the assumptions in the forecast included such assumptions as the national financing problems of residential real estate will not significantly affect commercial real estate financing. And after I said that Vice Mayor Cortese joined in and said, you know, I got real problems with that assumption, too. It doesn't seem right. It's not what we're hearing, it's not what we're seeing around us. And the statement was, well, we stand by the projections. So then we go to the next year, November 9th of 2009 and that study session. And there we're looking at the projections for fiscal year 10-11 and we now know they're negative 7.7%. Tax increment. If we'd relied on spectrum's projections from 2008, which was 21 months ago we would have seen a 6% increase in that fiscal year, in fact we saw a 7.7% drop. More recently, Reeved November 2009 study session to 0%, they're still off by almost 8%. And last year I put out a memo saying, gee, these seem awfully optimistic. We're projecting stable tax increment growth, even though, when we look at historically, we look at 02-'03, when we have significant recessions, we have enormous drops, in fact 20% drop in tax increment to that period. That -- the spectrum report was relying on development activity that we know since that time could not have been accurate. It was a few months old and we knew that the time tables had worsened and I say gee do we really want to be relying on a 0% growth projection? And at that hearings, after I released the memo, I was told by several members of RDA staff, no, the numbers are fine. We've lots of reasons to be optimistic, everything is going fine. Now I want to be clear about the timing when we're talking about this. Even going back to November of 2008. The headlines November 17th, 2008 when we had that

study session in the New York times was, bankruptcy filings up 34%. The Wall Street journal article that day released a report from the national association of business economics, saying that there will be a decidedly more negative economic outlook for the next several quarters as a result of intensification of credit market stresses. We already knew by November '08 we were in a very, very serious recession. My concern all along with this, is this: We continue to stand by in the last two years overly optimistic projections. I think we've got another overly optimistic projection for next year. From spectrum the projection is essentially flat, 0.2%. Harry, RDA, has taken a more conservative view, this time actually disagreeing with the Spectrum report, presumably, or simply taking a more conservative view and saying it's going to drop 2%. When I talk to developers they're saying no it's going to be more and the reason it's going to be more is because these prop 8 appeals, and the method by which the assessor goes about reducing valuations, has a considerable lag time. Now, I noticed that the last two years weren't included in this chart on 13. Slide 13, had they been included, I think you would see considerably more variation. But then if we go forward, to slide 11, and you look at the ebbs and flows in assessed values you see that the greatest drops in assessed value actually occurred from fiscal year 04 to 05. When the severity of the dot-com bubble really struck in '01, and into '02. That's a considerable lag. I don't believe we are taking that lag into account here. I don't think spectrum's been doing that. I think staff has been consistently overly optimistic. And I think we need to chart a new course. Mr. Carlson I have no reason to believe that you're being anything other than entirely honest with me today, as you have been in the past. I think it's a time that we move forward with a different consultant. I think that we have been relying on overly optimistic numbers for too along. It is severely impacting our ability to be objective and sensible on how we budget RDA expenditures. And I'm worried we're continuing down this path despite two years of evidence of severe missteps. Now if anybody would like to respond I'm happy to --

>> Harry Mavrogenes: Well, I don't know where to begin. But -- I think if you look at the overall patterns that we have, and what was out there in terms of development in those years, I don't think it's fair to criticize Mr. Carlson. He was given data that we thought was realistic. We had projects in the pipeline. Many of those like all the North San José projects, we had over 6,000 units that we believe would happen. They did not happen. There are some that are now back in the pipeline. But as you know, the development patterns here move very quickly. And you know, we have maintained a more optimistic forecast. We've also been very agile in moving

around, in terms of utilizing our assets, utilizing other things available to us, as well as being able to, as the mayor said, monitor our progress, so that we are not in an over-spend situation. We have -- we are beginning with an $80 million balance. We are recommending a very conservative approach of spending that, as well as check-points along the way. Beyond that, I don't know what I could tell you. We could be wrong. We could be wrong either way right now. I -- I think the negative 2% that I'm doing is not that I disagree, I just want to be more conservative. I'm hopeful that Mr. Carlson is right, but I think for budgeting purposes, I do want to be more conservative. And you know, we can take this down as negative as you want. But the point is, we can be very wrong that way, too.

>> Councilmember Liccardo: I think we would be very happy to be wrong that way, Harry.

>> Can I comment? I don't think you appreciate from a local perspective how dramatically worse the 2001-2003 recession was. We lost 200,000 jobs in that time period. This time, we're getting pretty close to flat. We've only lost 75,000 jobs in the same time period. The last one was three times worse. And I think, you know, and you're talking about something that would have to happen dramatically, very quickly, and unless you're expecting a whole collapse, locally and nationally, that would reelect -- what would throw all of Congress out, I just don't think that's very likely, especially in this time period. I mean, every one of my forecasts, the most I've ever overprojected is, except for this one year where I've told you what happened, is 2%. I do agree that we need a lot more data that we really haven't gotten from the assessor on exactly what's in that pipeline. And, you know, what does he use for cutoff dates for data. Because if these things can continue forever, you know, they can bite us years later. We just don't know. Thank you.

>> Mayor Reed: Councilmember Liccardo, let me just add a couple of things there. And while I agree, we have to be as I've said, be cautious and next year could be worse, there's certainly an argument can be made it can be worse than a minus 2. I think the question is, well, what do we do to guard against that? And if next year were to go to a minus 7 instead of a minus 2, that would cost us about $18 million in tax increment, I think. Somebody might have to check my math. But because it would cost us in year 2, and year 3. So looking at these three years here that we've got, it costs us two years' worth. So then the question is, well, how do you take $18 million out of

this spending that might otherwise occur. And looking at those three years, can you put that chart back up? It's like slide 20 or 21, somewhere in there. Keep going, to the budget. Not that one. Okay. Slide 21. And then -- well, it's the two slides between slide 20 -- so on slide 20, over three years we have $58 million of total capital expenditures. Now, if you go to the next page, we have over three years' total operating expenditures of $38 million. Now, that's really the money that we have to work with, more or less. I think the question for us as we put together the budget is how do we guard against not having as much money and it has to come out of those two categories? And if we spend it all in year 1 and then things get bad in year 2 then the money's already gone. So we have to be cautious about how we spend it and hedge against that. So I think this mid year helps us do that. It's not -- certainly not going to cure all the problems. But it helps us make the decision sooner because it could go down more with all the things that you've related. And I think we -- our challenge is to figure out how to hedge it as we work through this budget process. Back to you.

>> Councilmember Liccardo: Thanks mayor. I appreciate your comments and I think you're right that the mid year valuation will help and I think the cautious approach is the right one. What I'm concerned about is the response that well, this recession isn't like the last one. In terms of severity of job losses, exactly what we heard a year ago when I raised this question, a year ago, which was how can we project a flat tax increment when the world around us is crumbling? And what I'm hearing from the private sector is much different than what I'm hearing in the chambers and that has me deeply concerned. I think we're a bit tone deaf to what's really going on out there. I think the exchange last year with the initial 3.5% projected reduction in tax increment, Mr. Carlson frankly you were right. That's what it was -- that was the direction we were going. Staff encouraged you to increase that. I think that was wrong. I think that's the wrong approach. I think the relationship here is not one that's going to get us the most accurate answer. And accuracy is critical for us in terms of how we make our budgetary decisions. So I am, again, skeptical of a negative 2 or a 0% tax increment growth projection. I think it's going to be quite a bit worse. I think that's what we should be budgeting for and if I'm wrong I'll be happily wrong and we'll have a much happier problem than the opposite.

>> Mayor Reed: Councilmember Nguyen.

>> Councilmember Nguyen: Thank you, mayor. I just wanted to make a couple of comments. First of all I wanted to thank you for your suggestions in terms of moving forward with caution. I think there are a lot of factors here that we obviously are discussing and considering the economic factors, the social factors in terms of encouraging the RDA to continue to work with the neighborhoods, for -- to do more improvements and then also the mid year review is also an excellent suggestion. I wanted to follow what Councilmember Oliverio's comments about encouraging the RDA to primarily focus on economic development. I think that it's important that the RDA continues to focus on economic development to retain and create jobs. But at the same time, I don't think we should be away from our mission, and that is to eliminate physical and economic blight. To me I think that's the core mission of having the RDA -- I think it's important to have a balanced city. While it's important to create jobs for residents, I think it's also critically important to make sure that our neighborhoods are blight free. And I think that especially in less affluent neighborhoods especially on the Eastside, it is programs and projects that the RDA has invested in the past ten years or so that helps these neighborhoods to continue to thrive. And I think that when we are in a situation that we are in right now, in terms of economically speak we shouldn't forget those neighborhoods. And I think that as long as we focus on the core missions of the RDA, I think that's where we should be heading. I also wanted to make a comment about what the executive director suggested earlier when he comments in his opening remark and that is, to look at ways to generate revenues, one of the ways to generate revenues is trying to get tax increments in the SNI areas. I totally support this idea. I think it's a great idea. I think that moving forward, we shouldn't have a smaller RDA staff. I think that as a matter of fact, the way things are going right now, staff is doing a tremendous job with the limited resources that we have. I don't think that we should grow less. I think that we should grow more. And I think that that's -- that should be the focus. I think that everyone's going through a tough time right now, both in the public sector and in the private sector. But at the end of the day, we shouldn't still steer away from the core mission of this agency. I just wanted to put those comments out there, thank you.

>> Mayor Reed: Vice Mayor Chirco.

>> Councilmember Chirco: I just -- one thing I wanted to ask about is, year 3 projections by spectrum. I don't know which page any of this stuff is on. And you said that you had looked at what was in the pipeline because the projection, as I recall it -- 10.7, is that right?

>> Yeah, that increase is primarily huge. There's over $700 million of projects that are scheduled to be completed before the end of 2012 that provide most of that ground.

>> Councilmember Chirco: That just seems, whoa! Like totally --

>> They are mostly residential. Remember the residential market's doing pretty well. Certainly doing better than the office and R&D market. But I am depending on that listing of projects.

>> Councilmember Chirco: I would have to be convinced that the residential is doing that well. And then if you could help me understand what you were talking about. The low interest and the lower rents which are the basis for calculating values of property. I didn't quite follow you on that.

>> Well, if you're --

>> Councilmember Chirco: Rejecting --

>> If you've got a project that will cost $100,000 and you're going to borrow it all, and if you're borrowing at 7% but now you can borrow at 5, that's a big difference. So if rents are going down a little bit, a $100,000 project might earn a few thousand dollars in rent. If rents are going down a thousand, but your interest costs are going down 2,000, you're ahead. So the project, the site is worth more. And that applies whether we're talking about a $100,000 project or $100 million project. And remember, we have a bond-boom out there right now. People are bidding up not just federal bonds but all high quality bonds. And the -- many of the real estate investment trusts. So those values, we know those values are going up. And I would encourage the assessor to look at that

data which is real market data, as a key indicator of valuation, rather than the few panic or forced sales that are out there.

>> Councilmember Chirco: Could you translate that for the common citizen, and who's losing their home, or the value of their home has dropped, and now they're upside down in the real estate market?

>> Well, first of all, we're talking primarily about commercial real estate here. And commercial real estate values, there is a lot of fear about it, but it appears to have stabilized and actually going up. The real estate trust valuations went up 9%, from January 1 to last week. That's grand total. That is billions and billions of dollars worth of projects across the country.

>> Councilmember Chirco: Well, I'm impressed. Because we have some tenants that we're cut giving reductions in rent. We, personally, my husband and I, because their business is so low, they're struggling to stay in their rented spaces.

>> Well, and there are -- there's an -- I'm dealing with the average and there certainly are many sectors, and there's some parts of the country, I mean, Las Vegas, Miami, Phoenix, Detroit, they're just disasters. And we have some sectors, we still have some economic weakness. I'm not saying you're going to get an economic -- a dramatic economic recovery. But you're going to get a modest recovery in values, as the job situation stabilizes, and as interest rates stay very low. And as new projects that are in the pipeline, that are permitted, the construction has already started on, will finally get completed.

>> Councilmember Chirco: And low interest rates are great. But all I hear is, people struggling to get bankers to even make appointments with them.

>> And that is definitely a problem right now. That is the national problem, as I said in my text, where you know, now you wonder why did we bother saving these bankers? Because they're sure not helping the main street borrower.

>> Councilmember Chirco: Right, have to absolutely agree with you. But when you look at projections they play an element in this also.

>> Well, they play a role in small business financing. And the primary problem we're having is at the small business level. And that's where they missed the job loss. The job loss, the unknown surprise job loss was primarily in small business. But once again, that happened, it's finally stabilizing. And it's -- people are adapting to the new reality. And again, using national data, the banks are finally starting to make small business loans. But nationally, there's no question that's a key issue. But the value of the real estate for these major real estate holders, you know, like Oracle and Brocade and your large tenants, that's -- they don't have a banking problem. And their valuation shouldn't be based on a few panicked sales by a few small business people.

>> Councilmember Chirco: But only half you know the 25 properties that took up 50% of the tax reduction, as I understood the presentation. So the other half has to be I'm guessing made up largely of your smaller businesses. I don't know if that's true or not but that's kind of the assumption that I made.

>> Well, that's a strange thing on the assessor did. You hit the nail on the head. Those values, since small business is more in trouble, those values should have gone down more, and the large businesses are very profitable. The major investors are starting to -- are bidding up values. But the big cut was for these large companies. And that doesn't connect. It doesn't make any sense. I think he went as far as he dared, to end their appeals, get them out of his hair, and give them everything they had asked for. And I think he was really out there, in terms of the magnitude of the reductions. And I don't think he can -- there's any justification now, with the economy clearly stabilizing locally to keep doing that.

>> Councilmember Chirco: Well, what made up the other 50% of the tax -- property tax reduction?

>> There were much -- much smaller proportionate reductions. The majority of properties received no reduction at all. He just reduced it a quarter of a percent. Some very limited number of -- all your reduction is in a surprisingly limited number of properties.

>> Councilmember Chirco: In some ways that kind of makes me wonder if there's not a surprise number hidden, like the 20,000 job loss that didn't bubble up until later. Because you're catching the big sharks but you're not catching the small fish that will also create an unstable business climate.

>> Well, I could comment on the business level. But at some point, exactly what the assessor does with this data is up to the assessor. He has huge latitude in this kind of economy. But the economy is stabilizing, every indicator we have is that this economy is stabilizing. And you can expect not dramatic growth, but you can expect modest growth from the bottom, and we're somewhat near the bottom locally. I don't think that's true nationally, but we're way better than the national average. Because the national average includes Detroit, and Cleveland, Phoenix and Las Vegas and all those places that are still disasters.

>> Harry Mavrogenes: If I can chime in a little bit. 5400 were reduced by the assessor and I think about 1600 were increased. So the bulk of the reductions were smaller. So it was almost 900 million in value reduction over about 5375 parcels.

>> Councilmember Chirco: Yes, I just -- I continue to have some concerns. But everybody up here has concerns. I am pleased to see that you did go with a lower projection, Harry. I think that's, what little I know, you know, you want to project your revenues conservatively and you want to project your expenses not so conservatively. Just a basic principle. I wish I had your education, Mr. Carlson, might make my life a little bit easier trying to understand very complex economic issues. I do want to say that unless we can go with the tax increment on the SNI areas, I think we really need to make jobs jobs jobs our priority. We just don't have the money and the resources to diversify that limited funding stream we have. If you can go with the tax increment, so that the properties that are in the SNIs, that make sense, and I totally understand that. But right now without having a tax increment on the SNI funds, we don't have the funds. And I'll have to go with what I heard

Councilmember Oliverio say, that we need to focus on retaining, attracting and generating business. So thank you very much.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: Thank you, mayor. And I guess I initially have some questions for Mr. Carlson again. It sounds like we're sort of seeing here that the valuations that these large valuations that were reduced, assessed values for 20, 25 companies, largest companies, if not ascribing panic it sort of looks like they were based on some data that might be viewed as a few sales of some panicked folks and not real -- not representative of the real value of those companies.

>> Yes, that is my belief.

>> Councilmember Herrera: So there's some negotiations that happened then, some --

>> Yes.

>> And how are we to find out what the pipeline -- I'm talking about the pipeline that Sam was alluding to, the other shoe to drop in a few years when the rest of this rolls through. How do we know what's in store for us then, with regard to more down-drop in assessments and how can we find that out so we can have more certainty in what we're trying to prognosticate here?

>> I'll take a crack at answering that. It is difficult to know what the future holds for these pipeline projects. We do have probably 10 years of data on assessment appeal filings and assessment appeal reductions. The assessor shows that over this time period, that they retain the disputed value at a rate of anywhere between 93% in the worst years to an average year of maybe 96 to 97% of the disputed value on the tax roll. So the assessor has been very adept at holding value on the roll. September 15th just next week is the deadline for the assessment appeals filings for fiscal year 10-11 and so soon after that we'll have an update on where we stand with the

assessment appeals. But one of the things I'd like to point out is, I mean we've talked before about how companies are very successful, very profitable here. And this time is no exception. If you go back to January 1st, 2009 and you look at the public companies that are among these top-20 taxpayers on average they're up over 60% in terms of their market cap value, that's publicly traded companies. You know led by Cisco and Brocade and Sanmina, those kinds of companies have grown in value, and although the jobs have not been there, and you might say it is a jobless recovery, those companies have been stable for the most of the last two years. Even going back to that 2008 timeframe where we were doing that difficult projection in 2008. So I hope that answers your question.

>> Councilmember Herrera: I find it shocking that they were given that kind of assessment relief. I find it shocking. And more shocking that other businesses who had been harder-hit, the small businesses as you pointed out receive very little. And these large businesses received more, and it's just sort of the tale that we're hearing from the federal government on down about the big corporate entities. And I applaud those companies because they provide jobs but we know that the small businesses are the big generator of jobs. We're not giving them relief and they don't have access to capital markets and they are struggling and those are some of the entities that we need to recover locally and nationwide. It is more of an editorial comment. Can we protest the assessor's reassessment? Maybe not I can protest it today.

>> Mayor Reed: You can protest it but I don't think the assessor is going to listen.

>> Councilmember Herrera: Well, I think we should call it what it is, anyway. I had another question in terms of the economic projections. You've mentioned interest rates being low is really the factor that's helping out our commercial real estate, not rents -- sort of offsetting the rent, rent issue. What's the future hold for that? I'm concerned that even though we see no inflation now, there are some signs that there could be in the future and so how long do you think we can rely on these very low historic low interest rates? To keep this working the way you're talking about?

>> Well, the bond markets, and there are markets in both existing bonds and there are now these complicated bond future markets. And they're all projecting very low interest rates for the next two years. Which, from a perspective of project valuation or project financing, is a significantly long time period, and enough to affect and drive valuations of these properties. And there's an enormous debate, what happens beyond that time period. I believe that interest rates have to start going up again. But there's just enormous debate on it. I don't know, and it doesn't directly drive my forecast, because I'm not using that as a major part of the forecast after the two years, where there's a abroad consensus of the low interest rate environment.

>> Councilmember Herrera: So after two years what's your assumption, what's your interest rate assumption after those two years?

>> My -- it doesn't affect the forecast that I'm using but if you would ask me as a economist what I think is going to happen interest rates two years from now, I think they'll be going up significantly.

>> Councilmember Herrera: Okay. Ask someone to make a comment about the idea that -- I agree with the mayor and I agree with others that have said we need to be conservative and we need to focus our attention on job creation. And I think leveraging and I commend Harry's group and his team for finding those opportunities to leverage private sector money. I think we absolutely have to not only focus on job creation but on leveraging as a tool. I also want to say that in terms of the SNI areas, the work in those neighborhoods is also very important not known terms of eliminating blight but also economic development. When you go out and you redo a shopping center, when you do work in those areas, you're creating jobs, you're creating hope, and you're also leveraging people. So you're leveraging individuals who have become very involved in making sure that their neighborhoods develop and stay safe. And that's worth something. That's worth something even on an economic basis. When you decrease graffiti, when you decrease crime, when you provide opportunities for young people to go get jobs instead of hang out on the corner in gangs you're reducing the cost of us having to incarcerate and lock them up and all the money that has to go into that effort. So I think there's an economic number that we can put on SNI. And I don't think we should abandon it. Yes, we're not going to be able to do all the projects we'd like to do, but I think to just walk away from it would be very short-sighted.

>> Mayor Reed: Had a couple of questions, one first is the PowerPoint that was shown today, I don't think that's been circulated electronically yet, you're seeing it here for the first time. But I assume you'll send copies out to the council and be posted on the Website.

>> Harry Mavrogenes: We will immediately after this session, yes.

>> Mayor Reed: And do you know when the spectrum report will be released?

>> Harry Mavrogenes: David, I think by Friday we can probably release it, if not sooner.

>> I'm just waiting for final comments and ready to get it out.

>> Harry Mavrogenes: We will have it to you no later than Friday.

>> Mayor Reed: Okay. And then on the overhead we had the schedule that we're working on here so today's the preparation session and September 17th is when Harry you'll release your proposed operating capital budgets.

>> Harry Mavrogenes: That's correct.

>> Mayor Reed: We have a study session on the proposal for September 30th, so we'll hear some of this discussion again at that time, but we'll have a lot more detail. Public hearing October 5th, and I'll release a budget message on October 15th. We have several dates there to consider that with a final adoption hopefully over and done with on November 2nd. So that's the schedule. So to the extent councilmembers didn't get questions answered today or they come to you later you've got plenty of time to ask the staff to get you the information that you might need as we go through this process. And I just want to remind everybody, the state's taking $75 million from us and that's not making it easier. We're still litigating over the last 13 million of that but that litigation is unlikely to be done before we have to write the check, the $13 million, when is that? May?

>> Harry Mavrogenes: May 10th I believe is the due date.

>> Mayor Reed: One of the things that was very clear in my meetings with developers and investors is the capital markets are very tight. That folks who have to go to the banks to borrow money to do projects are not getting a very good reception. There's not much that's going to happen with bank financing. But this is Silicon Valley and we have people here who have real money that are sitting on billions of dollars, and they are now looking at the opportunity to invest those billions of dollars now, in order to be ready for what the real estate market might be in two years from now. So I know of at least one billion dollars of pipeline projects that are not on the pipeline list because they haven't been in the pipeline that are privately financed and they would like to get in the pipeline immediately so that they are ready when they think things will be better two years from now. But to quote Yogi Berra, it's difficult to predict the future because it keeps changing. So we're doing our best here, with the data that we have to try to figure out what's going to happen in the future but we can't be totally certain what's going to happen and we can't totally rely on projections. We just have to use them to guide us and we have to be prepared to make modifications and changes along the way because we know those projections are unlikely to be 100% accurate. Councilmember Oliverio.

>> Councilmember Oliverio: Thank you, mayor. I'd say identity of all the economists the only accurate one is hindsight. There are so many views out there and we're all going to be influenced by the last thing we read or viewed et cetera. But I do know, one of the factors to success here for tax increment for us is that if people have jobs, they fill cubicles, which fills commercial real estate space, which brings up valuations, and those people that have jobs then can provide for their family and their community. That's a big deal, and if the audiovisual person -- did he leave?

>> Harry Mavrogenes: Here I am.

>> Councilmember Oliverio: On my screen, to the question that was raised earlier, I have a chart actually from the mayor's redevelopment budget of 2009 that talks about sort of the value of a job and to what that is. And

unfortunately you can't see it -- there it is. If you -- could you bring up my screen for the overhead so the rest of the council can see it? Again this is out of the mayor's redevelopment budget and what it does is puts side by side two investments. One that's what we've talked about today which is Brocade. And then the other one, which is portrayed on the right, you're going to be able to bring that up. Which one do I hit? Now I'll do it. But what it's going to show is the redevelopment agency investment in Brocade versus, for example, an investment at Belovida, Newbury Park, which is an affordable housing project, and it shows both the direct jobs through construction, but then it goes into the permanent jobs thereafter. But I think the question was raised earlier, what's the value of that. And that's the indirect jobs that get raised by those people having jobs. Because those people are going to spend their money where they work, whether it's getting their car fixed going to lunch buying things et cetera. And also, what the future tax revenue is coming into the city. The mayor said it well. If the ballpark is a private investment, the private investment will pay taxes. If it's a public investment, or in this example, affordable housing which doesn't pay property tax then there is no revenue coming back to the city. So this is I think a piece of what the question was earlier. And I don't know if the redevelopment agency, when we come back with the final budget, if that-d you know to answer the question that came from Councilmember Pyle, what is that ROI or what is that dollar value that comes from a job? Because there's this ability to go spend money once you're employed and has that trickle effect in the economy and I think that's one of the main points.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Harry, with regard to any proposed staffing cuts, would there be a -- if there's a change in staffing, would there be a proposed plan in terms of the allocation within the units, redevelopment that would come back to council so at least we can understand where the agency is looking to hang onto jobs or to lose them?

>> Harry Mavrogenes: I would bring you back a full report of what I intend to do.

>> Councilmember Liccardo: Okay, within individual units?

>> Harry Mavrogenes: I -- yes.

>> Councilmember Liccardo: Okay, thank you for that. And then I just want to address this issue that was raised, Councilmember Herrera I think raised some important questions and the assumption which is the same assumption I heard last year, I heard it repeated again today because last year I recall hearing from RDA staff about well, the NASDAQ is doing fine. We'll be okay. This nexus between the value of a company, and the value of the office building that that company occupies, I think we need to disaggregate those. We need to stop coupling them and believing that just because companies are doing well, that is their bottom lines certainly look good, financially, that that means the office buildings that they occupy will increase in valuation. I think that what I'm hearing from the private sector is, is that there's been extraordinary cuts in cost. The first thing you cut, in a private organization, is nonpersonnel cost or in any organization, overwhelmingly that's real estate. They're looking to shrink the A square footage they're occupying and modern technology is pushing many companies towards concepts like hoteling, like they do at the Adobe towers, where nobody has their own offices. That people simply move in and out of offices, and turn on a -- type in their own password that turns on a computer and a telephone and everything else to that individual user, so that way they can manage a much tighter amount of space. And so what I'm hearing from the private sector is, is that companies are managing in smaller and smaller spaces. And they're doing it as a key way of controlling cost. And, though they may be hiring, all too often those jobs are not necessarily being created here. But offshore and other states. So the fact that for instance Cisco is doing well, we all want it to do well, the reality is that may have absolutely no implication on their use of office space here in San José. And so, when we continually go back to well the companies are doing fine, the companies are doing fine and therefore that will push the numbers, I think we need to hesitate. I think the world has changed. It's changing at an increasing clip and I'm concerned about our continued reliance on that assumption. Dependence on low interest rates I think are also very problematic. We know how bond markets move. We see the extraordinary levels of public debt that are being incurred here in this country, in Japan, in Europe, unprecedented levels of public debt right now. That's going to crowd out private investment, and that's going to push interest rates up. All that's very volatile. And it just seems to me that my primary concern has been this is groundhog day for me, 2008 I raised these concerns, I raised them again in '09 I'm raising them again now. I hoped I was wrong in '08 and '09, I wasn't, I hope I'm wrong again this year, I at least hope RDA staff will

be much more vigilant about relying on assumptions that correctly reflect what we see going on around us in the private economy.

>> Mayor Reed: One more thing I wanted to point out about the pipeline and the prospects for increasing revenues, is I think we have around 15 million square feet of empty office and industrial space more or less around the city. And that a lot of what we're seeing are companies that are moving into that space, improving it, investing in it, and of course, enhancing the value of the buildings. And that's really a key thing, back to the difficulty of getting financing, it's much more difficult to get financing for a new project than it is for tenant improvements in an existing project. And there are several of those companies that are not in the pipeline that I'm aware of are seriously looking to try to come into San José to take 100,000 square feet of a building fill it up for people. And that would be good for us. And that's one of the reasons that the council has increased the budget for the special tenant improvement program. Because that is one area where we certainly can get the value of tax increment, utility taxes, sales taxes and all the other revenues for these companies that are growing within the valley. And while I agree with Councilmember Liccardo, that the valuation, the NASDAQ valuation or the market valuation or how much money these companies has, is not a very good indicator of what's likely to happen in real estate, when they're hiring people and growing which they will when they're profitable, that is a good thing. And Brocade is a good example. Not only did they keep jobs in the city, they've invested hundreds of millions of dollars, and they're continuing to grow. Because they've been profitable through the recession and they've been hiring through the recession and being able to facilitate that then of course I saw from the chart generates a lot of revenues not just for the redevelopment agency but for the city as a whole. And so there are opportunities out there. There are a lot of them. And we've had good success at capturing them. We've just got to capture them faster because we still are having to cope with the national economy that is not good and a state economy that's not good. But as I mentioned earlier over the last six months we've had some net job growth and that's a big plus, not enough to overcome the jobs that we've lost but, having some net job growth is a really good thing. And we want to continue to facilitate that. Councilmember Chu.

>> Councilmember Chu: Thank you, mayor. I just wanted to thank Harry for presentation, and encourage you to work closely with our City Managers providing services in the SNI area and also look at duplication in functions, I

know you have a very strong staff, in economic development, so does the City Manager. So we probably should look at eliminating any duplication in term of the economic development staff. I'm just taking that as an example. Thank you.

>> Mayor Reed: Councilmember Campos.

>> Councilmember Campos: I want to go back to Councilmember Liccardo's comments and let me see if I'm capturing what you're asking. So it would be helpful for us to know, as a company grows, does their space grow or does it shrink when we're talking about the real estate from what you're hearing from the private sector? And that is not reflected here, they show as the companies are growing is their space growing or is it shrinking and that affects the real estate in the City of San José. Is that kind of what I'm hearing from you?

>> Councilmember Liccardo: That's part of it. I think the reality is I think companies are vastly different and it's very difficult for us to generalize about whether or not a company's going to take on more space here. If they're an international company and they're expanding they may be expanding in other countries. So I think it's very difficult for us to make those projections. I don't expect anybody to do that. My concerning is that we are relying so heavily on just as we did last year and the year before on the fact that our tier 1 tech companies are growing and really cleaning that to say well, that means they must be consuming more office space, things will come back, when the reality is throughout Silicon Valley we have greater than 20% vacancy rates quite frequently throughout the last year, and more than that in downtown, I think it's 26% in the last count. So we've got to look at a bigger picture.

>> Councilmember Campos: And to that comment, I think that one of the things that as our -- if our tech companies are growing, are the jobs growing here, or are they growing somewhere else? And I guess, this is where the cities can work with the state because we know that certain policies that are made, not necessarily are made by city by city but they're made on a state level. So thank you for the dialogue. I think it was an important dialogue. But on another note around this budget, this discussion, you know, I see the parents from ace here as well. And I think this goes to a couple of the documents that my colleagues have made about as we move forward and where we're spending our dollars I think that we need to actually look at the bigger picture. It's important to

create jobs but as we create those jobs I think that we can't look at things in one year or two years or three years. But we also have to think about as we're creating these jobs are we creating the future workforce who are going to live here, raise a family here and spend their money here, versus creating or bringing in a workforce, where the money doesn't stay here, it goes somewhere else? So I think that as we, as leaders of the City of San José, think about where we're spending our redevelopment money, we definitely need to create jobs. We also need to keep -- be mindful of is how we're creating the future workforce so that we can keep the funding and the dollars here in our valley. And then, on commenting on what Councilmember Nguyen talked about, Harry, I think you made a comment that if we don't continue to invest and I'll just use I think what triggered my thoughts, is when you used the analogy of graffiti coming up. We've invested all this money in the neighborhoods and we've invested your staff to work with the community leaders so that they're able to govern their own neighborhoods. And continue to improve the quality of life within their communities. So I think we need to think about the investment that we made, and how do we maintain it at a level that will still allow us to move the city forward. Now, those are all my comments, thank you.

>> Mayor Reed: Any other questions or comments from councilmembers? I have no other requests to speak from the council. Anything else that you want to add Mr. Carlson or anybody else?

>> Yes, let me add a couple of facts, because Councilmember Liccardo's question about are companies prosperous but conserving on space, is a thoughtful one. He's correct, there's a lot of that happening nationally but we do have data on that issue here and here the space per worker is actually going up. It's inching up. I keep expecting it to stabilize but it's actually inching up. So that's one of the many areas where we're different from the national average. And the other thing that's happening here is that even though hiring is lousy in the technical area, nationally, it's holding up much better than nationally here. We're gaining share. Our big job-loss problems here are not primarily in the technical area they're in things like construction. Over a third of our job loss is just in construction alone. And then there are other things on top of that. But we're doing fine in high-tech thank God.

>> Mayor Reed: Anything else Harry? We have some requests from the public to speak. I'm going to take the publicly comments at this time. Please come on down. Greg Lipman, Elvita Martinez, and Mark Serrano.

>> Good morning, Mayor Reed, city council. Mr. Mavrogenes. Just quickly before I cede the microphone to a couple of ace parents. A couple of parents about the ace project. One is, is that the construction project for the new school in the Mayfair is absolutely shovel-ready and absolutely waiting for some decisions here to move forward. Secondly, to sort of point at another strand in this conversation: Although the official scores aren't out yet, I can tell that you these ace families and the ace students and the ace teachers worked together last year to create over a 100 point jump in their API score for last year. So what I'm hoping is that the two different sides of this conversation today, one is making sure that jobs are happening now, and two is priming the pump for a more prosperous valley in the future. The ace project really brings those two together in the future. We have a plan that's ready to go and ready to put people to work and we've got a school and a group of students that despite their track record previously of underperformance really are proving that the mayor's ambitious goal of proficiency by 2020 for all is something that is achievable. I thank you for your support and for your consideration of this new project in the Mayfair. Thank you very much.

>> Mayor Reed: Alvino Martinez and Mark Serrano, whichever one wants to go first, go ahead.

>> That would be me. Good morning mayor and council, I'm here on behalf of ace school. My son attends the school. I live right around the corner. I was born in East San José as a matter of fact. And my son, when he was going to Mayfair school was doing very poor. His averages were below average. And when he started at ace, he went way up to proficient in one year. You know, he did very well, and I have the papers here, of his proficiency. You know, his first year at ace, he started off slow, but he -- he did very good after that. And, you know, I've worked with ace myself, and done some work with the kids. And the staff they have is very excellent staff, and they care a lot about the kids. And I think that a high school would be really good for this area, especially. You know, I'm aware of the gangs and the drugs and stuff like that because I was born on the Eastside of course. I've worked with juvenile hall, I've worked with Santa Clara County suicide and prevention as of now. But I think, you know, this is going to be something good for the kids. A high school where they can stay focused, and get ready for college. And I can't -- ready for college. And I can't emphasize on how good it is to keep that school in the area. Thank you.

>> Mayor Reed: Valpina Martinez.

>> Buenos Dias [Spanish]

>> Good morning, my name is Valpina Martinez. [Spanish]

>> I'm a member of the ace charter school's parent leadership team. My son's name is Carlos Martinez and he studies at ace. I am here today to share my experience with you about ace charter school, and the importance of having such a great school within my community. For example, my son's academics were really low. He was far below basic or below basic, in both English and mathematics. And since he started attending ace charter school, I have noticed a lot of positive changes in him, and also, his attitude. And his behavior and also in his grades. Years back, he used to have a lot of problems with behavior, with discipline, responsibility. And a few, you know, since he started at ace, he has improved a lot. Because of this, I think that ace charter school is really good school. Why is that? Because this summer, I received the CSC scores for my son. When I looked at them I started crying because I was happy. Now, he is advancing in English and proficient in mathematics it's because of this that's it's very important that a school like this exists in our community. Because I'm sure that just like to my son, this school will help many more students. Having the confidence that a school like this will continue to exist in the neighborhood so that it continues to help the community -- and that it continues to be there she will thank you all for that. Thank you.

>> Mayor Reed: That concludes the public comments. Can we put slide 12 back up, that's the historic tax increment revenue. I just want to close with this slide. We are in the most difficult budget discussions ever for the redevelopment agency. Although maybe that meet be a little bit of exaggeration when you look at budget number 1, 1978-79 we only had $1 million to work with or thereabouts. There is no doubt, this is a very difficult budget situation. And I thought a lot about why is it so much more difficult than it was in 2001, 2, 3 and 4. I was also here for that. The real differential is we have a lot less resources to work with. Our beginning fund balance is a couple hundred million less than it was back in those years. So we have less opportunity to spread this out and that's

why we have to be extremely cautious as I said many times earlier. But not with standing difficulties we have now, if you look back over this 30-year history and think about what we collectively as a city and redevelopment agency have accomplished through the work of the redevelopment agency and think about what downtown was like in those days and what North San José was like in those days and what Edenvale was like in those days and what our neighborhoods were, the agency and staff have done great work throughout the city, vastly improved our city, greatly strengthened our economy and that's one of the reasons those tax revenues, tax increment revenues have continued to grow and have grown dramatically in some of those years. But again we're trying to predict the future, it's a pretty touch thing to do. But I think the future is still bright for Silicon Valley, still bright for San José and that means it's a bright future for redevelopment agency, as well. I don't know how many economic down turns I've been here in the valley, a few cycles, it will get better and what I'm hoping for is one of those dramatic recoveries, not only you get assessment value on existing stock but you get pipeline values that do give you increases of 8, 9 and 10%. It could happen and it could also be flat for a while. We'll just be cautious and hope for the best. With that unless other councilmembers have more comments I think we'll adjourn at this point. We're done with the agenda for today, again the executive director will release his proposed budget ten days from today, on the 17th. Thank you all for being here. That's it, we are adjourned.