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Study session, City of San José.

>> Mayor Reed: Good afternoon. I'd like to call the study session in the city's council to order. This is our economic strategy update, 2010 to 2015. And I want to thank everybody for joining us here for this very interesting discussion. I'd like to start first by thanking our Office of Economic Development, our redevelopment agency staff and our expert advisory board that have put a lot of effort into getting us here with this recommended strategy. I want to thank the focus group participants. There's a list of all of them on pages 36 and 37 of the materials on the focus groups. They all invested time and energy with us as well, and brought very important private sector perspective into the discussion. And I participated in some of those focus groups and I want to thank the people who accepted my invitation to join us for breakfast, commercial developers, the residential developers, large retailers and Monterey corridor businesses. Because their comments are very insightful and help us frame the work that we -- the staff needed to do. I was thinking back to my inauguration when I talked about the need to make sure that San José stays the capital of Silicon Valley, and Silicon Valley remains the innovation center of the world. And in trying to do that, I've met with more than 150 Silicon Valley CEOs since then to talk to them about what they think is important in the way of things the city needs to do to keep their business. So that they stay here and grow here. I agreed to co-chair joint venture Silicon Valley which is a group that looks broadly at what we need to do in the valley to ensure our competitiveness. And we have, I have more than a dozen success stories that I can point to over the last through years, that when you do a business-case analysis, there's some lessons learned. And I just wanted to share those lessons learned. From talking to all those CEOs and looking at the business cases, some of which you'll hear today. First thing I learned is that implementation is much more important than strategy. And even a great strategy will be ruined by poor implementation. The second thing is that growth in driving industry companies is what creates demand for commercial and residential real estate, generates jobs in all other sectors of the economy, at least our economy, and makes it possible for retailers to prosper. The other thing I learned is that driving industry companies are constantly considering where to make investment and where to add jobs. Within the week Cisco announced they're going to add 2,000 more jobs. The real question is where will they be? A thousand of them will be in the U.S., a thousand will be overseas, but they're going to put those jobs somewhere, and we hope that they will put at least a chunk of them here. The fourth thing is it's imperative in the short run and the long run for Silicon Valley that we catch the new wave of innovation in clean technology. Under any analysis, it's a huge opportunity for us and we really have to catch it. And our most important asset, this is the fifth and probably the most important thing I learned, that our most important asset in capturing investment and jobs that just sprout up here is being able to work at the speed of business when driving industry companies are ready to expand. Because when they're ready to move they are going to move somewhere. They may do it in San José, they may do it in California, they may do it in China, they may do it in Tennessee or in New Mexico, or Arizona, but if we're not ready when they are, we're not going to get the chance and it being ready when they're ready to go to work at their speed of business is critical. And then, finally, there's a little bit more of a tease. I can count more than a dozen companies today that are on the edge of making a decision to grow and expand. And they'd like to do it in San José. And I think we have great opportunities for this year for a lot of reasons to capture a lot of job growth. I'm really excited to be here to talk about this strategy and all the things we need to do and I want to congratulate the staff for their great work in getting us here and the work that they've done that I've seen over the last few years that have made a difference in capturing the jobs in our local companies, such as our special tenant improvements program, our industrial tools program, and the redevelopment agency's financial support for some of our clean tech companies have made a big difference. And I'm really pleased to see the names of some of the companies that have chosen to locate in San José. I think that's just the beginning. So with that, I would turn it over to the City Manager, to kick off the rest of this.

>> City Manager Figone: Thank you, Mr. Mayor, members of the council, good afternoon. I too have been looking forward to the study session for quite some time. First of all because of the importance of the City's and the agency's roles in creating a prosperous economy and also, because of the link between a prosperous economy and revenues that are critical to providing services to the community. So I'd like to open by sharing some important principles that have shaped our approach in implementing the economic strategy which is -- was adopted by council in 2003. And to the updated strategy that you're reviewing today. First of all, economic development is a citywide business. So while my Office of Economic Development plays a very critical citywide leadership role, it's also critical to acknowledge that many other city departments, the city attorney's office, and of course the redevelopment agency, all affect San José's economic success. Our department heads know that responsibility for economic development extends

beyond just OED and the agency and to the entire city organization. Next is economic development and quality of life are interdependent priorities. Clearly, the city's success in generating revenue related to economic development is an important factor in addressing our budget shortfall, and in supporting the services and staffing levels required for a high quality community. Another principle is employers are customers just like residents. This is one reason why we started several years ago recognizing outstanding companies at council meetings, in addition to outstanding individuals and civic organizations. Although they do not vote directly in our elections as residents do employers must always be included in our research, our outreach and our customer orientation. Each city staff member is an ambassador for the entire City of San José. Every interaction of our city employees have, with every interaction that our city employees have with business people, be they from large businesses or small, or self employed individuals, these interactions shape San José's reputation as a place to do business. Employees at all levels of the organization must be highly aware of this fact. Another principle, be in communication with San José employers for ongoing learning. Only by listening to employers as the mayor outlined during his comments will we learn how their word is changing and how San José needs to respond to support their success in our community. Another principle, be focused, aggressive in responses. Because we face serious competition and serious responsibility going forward we need to have a clear shared focus to our economic development effort. We need to be very aggressive in going after what we want. We need to be highly responsive to the inquiries and opportunities that come our way. This requires that we be flexible and adaptable in our economic development efforts within the directional framework that we've set. Look out for new opportunities that emerge aligned with San José's economic visions. The partnership between the mayor, council, administration and agency to develop the green vision, and go after clean tech, is a terrific example of being opportunistic within the framework of a longer-term strategy. This afternoon we have a lot of very interesting and important content to share. At this session we hope to receive feedback from the mayor and council that will help us to refine this strategy document and the implementation work plan, so that we can return to council for approval in the April time frame. I'm now pleased to turn the program over to Paul Krutko and Kim Walesh from the office of economic development and in doing so I would like to thank them and their OED team with particular thanks to John Lang for their tremendous leadership and expertise in getting us to today. I would also like to add my thanks to those individuals, experts, participating organizations, members of the public, as the mayor has also thanked, and also to the city and agency staffs for their significant contributions to this effort. Kim and Paul.

>> Paul Krutko: Thank you, again it's Paul Krutko, Chief Development Officer, I'm joined by my colleague, Kim Walesh, who is city's chief strategist. So let me set the stage before we start on the presentation so the city council understands the agenda and how we hope to interact with you today. For the next 40 to 45 minutes we're going to look back on what we've achieved since 2003, take a quick snapshot of where our economy is in terms of structure and performance, look at ten measures of change, the world we live in how it is affecting us and then finally share the recommended strategy with you. At about 2:30 then, we intend to have a full half an hour of dialogue with the council about that material. At 3:00, hopefully about that time, we will be joined by six experts and our -- six experts and our major stakeholders. They are going to comment on the strategy, what they think are the key issues involved in it, what the main takeaways are, and, again, council will have we believe about a full half an hour to engage with them. At 4:00 as the mayor pointed out a strategy is only as good as its implementation plan. And we have put forward a proposed implement plan the mayor and council has already commented on some aspects of that. And we also will be discussing with you some potential incentives to be used in implementing that plan. That will happen at 4:00 and we'll close with more council interaction and dialogue. So we're hoping for a good exchange moving forward. So let's get started and we'll try to be very crisp so we can get there. In terms of the achievements on the 2003 strategy, now just want to point out that we were able to assemble, and I appreciate the City Manager's comments, I think one of the finest economic development teams in the country to be your leaders and spokespeople in terms of this effort. When we put the first strategy together, we had 15 strategic goals. It included an economic vision, it had desired outcomes and an action plan. And as the City Manager pointed out, at that point it was pretty much of a sea change. We as a city recognized that economic development was a citywide development. I would argue before 2003 that wasn't the underlying philosophy within the administration. And so we shared this slide with you many times before. You're supposed to imagine animation of this slide of a funnel. So I'll explain that in a minute. But in showing this slide many times in many meetings, what we are always try to point out is that a vital economy is the most important tool for

ensuring a first rate quality of life for the people of San José and that economic development and quality of life are interdependent priorities. That is, if you don't have a vital community it's hard to retain talent and attract companies to your community and without talent and successful companies you can't build the kind of community that you're trying to achieve. So growing economy is an essential prerequisite to creating wide-ranging job opportunities and rising incomes. It's also essential for generating tax revenue to fund city services. One of the things we want to point out is this cycle in times economic downturn can actually turn into a vicious cycle. What we mean by that is if the economy is not growing, less jobs, less prosperity, people concerned about their own situations, not spending, we will have less revenues to be able to invest in that community that we all want to achieve. What the animation was supposed to illustrate was that while we talked many times about how a growing economy enables revenue growth for the city and increased prosperity, to the degree that we capture that revenue growth, to the degree that we convert that growing economy into revenues for the city, we will be able to achieve this vital cycle. So a key issue for us is how do we create a funnel, if you will, that's my metaphor for today, to capture that revenue growth so we can make the investments that we want to. We want to point out a few successes as we move forward but essentially there's two challenges. We need to really, on this diagram, is really the key stone for our strategy. Is how do we ensure a rising standard of living is experienced broadly, as possible, by all residents, and that economic growth translates as directly as possible into city revenue? Now, we did and we'll talk about as we move along, as we worked on the strategy over the last year, that we had a number of focus groups. And I think there's some really good news here. The residents and businesses that we interacted with have noticed real progress since 2003. They, as you can see, listed here on the slide, I'll just point out a few of them, that downtown has become more lively, attractive and metropolitan, that there are more shopping amenities, that our airport is being modernized, that there has been quality improvements to our neighborhoods and business districts and that we made some strides in permit processing. Now, in terms of the major elements of progress, in your document, out on tab 2, is the full strategy document. That document identifies for each of the strategies that were adopted in 2003, the top five achievements that were made. And some of the examples that we're taking a minute here to recognize is that we did undertake a major planning effort that required significant interdepartmental cooperation, work with the agency, work with the City Attorney, ultimately resolution of lawsuits to create a new San José jobs plan for north San José that would provide the opportunity for significant office R&D development as well as new housing. The airport was prioritized, in relationship with San José State, we worked very hard on the link we believe in terms of talent and attraction and retention between arts, culture and sports and economic development. We started communicating these accomplishments nationally, because as the mayor points out, talking about our special tenant improvement program, to clients elsewhere in the country, may make them want to locate here, if we can move at that time speed of business. We revised our level of service policy, and we really stepped up our regional and national advocacy. The strategy, basically did translate into very specific results. We talked already about the special tenant improvement program but that's a new idea that came out of the strategy. We then took that idea and extended it into the industrial tools installation program. The results are pretty stunning. 9.3 million square feet have been permitted since that program's been established, which were then filled with nearly 15,000 new jobs. In terms of new retail development we added three new shopping centers, plazaa de San José, the San José market center and the plant, more high tech generating stores resulting in 5 million plus in new sales tax revenue. And finally we identified a new way to reach out to small business. We can never hope with the staff that we have at the city to be able to provide services directly to the in excess of 50,000 small business licenses that we have in the city so we developed a web 2.0 platform which is a comprehensive network of 35 organizations that provide support services to entrepreneurs and small businesses. So as we moved forward in 2010 these are the basic principles that we used to be able to we think bring you the document that you're seeing today. It's grounded in facts, we've been listening and reaching out. We've listened about values and aspirations, tried to see where we are in our shared visions, developed leaderships, and make sure it's adaptable to the times we live in. This is basically the elements that went into the strategy. 14 focus groups meetings, 130 participants, we have an expert advisory group that I'll show you on the next slide, we conducted interviews, lots of interaction from all of the city staff. On this slide, the next slide -- uh oh. The next slide, I'll just keep going, we'll catch up, was really to share with you the focus groups that we did meet with. The mayor recounted a number of them. I want to particularly thank several of the other councilmembers who participated in those focus groups particularly we had Councilmember Kalra who was a key participant with us, with the Indian-American business leaders, as one example and there were

several others of that type. Okay, back on track. This is the members of our expert advisory group and I think you'll agree with me these are some of the most significant leaders and thinkers in our community as well as the region. And we were very pleased that they were willing to help us and support this effort. You're going to hear from a number of them in this.

>> City Attorney Doyle: 3:00 period. So finally, all that effort resulted in the document that you see at tab 2. The document includes our achievements in 2003, that outlines the forces of change, it looks at what our economic vision is, identifies 12 strategic goals moving forward, we've cut back from 15 to 12, and also then presents a series of work plan actions for the council's consideration today and as we move forward through the budget process. With that I'm going to turn it over to Kim.

>> Mayor Reed: Before you get going, on the section of the document that you just covered, the achievements section, I've got some comments and some suggestions for some changes. I'd like to take that up I think and see if anybody else is, since we've gone through this document, since you've gone through about half of it, and I'd just like to share those now before we get too far away and we forget what it is we were talking about earlier. First on the introductory section where you have the vital cycle of success and a discussion, somewhere in there we need to put the driving industry discussion that we had in 2003 plan section 3, I think, in 2003, because the explanation of why driving industries are so important is something that we kind of understand and take for granted. But anybody else that looks at the strategy may not make the connection. So I think it's really important to do that. And another point about the cycle of success, I look at that and think, okay, that's the engine that drives us in the valley. But where does the fuel come from? The fuel comes from those driving industries and it's venture capital, IPOs, overseas sales and profits that they bring back here into this economy and that really is the fuel for all the expansion. And if there would be some way to reflect that. I mean it goes back to the driving industry discussion. Because it's not a perpetual motion machine. It's does require fuel, and that's money coming from somewhere. On page 8, I'm looking at the review draft December 14th on how city government affects the economy. Number 7 we spend money on capital projects service delivery. Somewhere in that comment we need to make reference to infrastructure. Because just spending the money is not the point. It's the capital dollars we spend on infrastructure that makes it possible to have this opportunity for companies to grow. I know that there are other levels of government that just spend money, and that's not necessarily a bad thing. But spending it on infrastructure is a lot more important. On page 14, where we -- you talk about the support startup and growth of local businesses small and large in tech as well as nontech fields, there's a list there of some companies under the top accomplishments from 2004 and '09, I think we're underselling there a little too much. There's lots of companies that fit in there, I don't know if there's another way to present it. I'm just looking at my list that I can think of, the openings that I've been to, Ericsson, B.D. Bioscience, I.D.T., Stryker Endoscopy, Venus medical devices, Electrogas, Equinix, Nanosolar, Solar Power, SVTC, Stion, CTS, Solar Junction, Underwriter Laboratories, there's a long list, and I don't know if we could take a whole page for that. But I think that's -- people understand there was a strategy and it worked! Because we had great success. And so having a few examples is good but name-dropping I think is helpful. And on page 17, diversifying San José's economic base, and preserve or create middle income jobs. A couple of things that ought to be mentioned in there, on the top accomplishments, again, we're only talking about five local companies with targeted financial assistance, only four driving industries companies through CDBG. There's just a lot more and that, I think, hides our light a little bit too much. And we could say more in there. There's 3,000 clean tech jobs I think is our current count. And in 2004, I think if you go through the entire document you will not see clean tech mentioned not even once in the old document. So that ought to be highlighted. On page 18, we were talking about preparing residents to participate in economy trough education. We've launched the 2020 closing the achievement gap effort I think is noticeable to get in there and number 10 on developing new housing category, there's 8,000 housing units in North San José under that North San José plan which is mentioned elsewhere in the industrial part of it but I think that would be useful to include in there, the permitting of that was a pretty big deal. And then my final one on this section, on page 21 we're talking about the neighborhood business districts. I remember seeing some information I think the redevelopment agency put it together, of the increase in sales tax revenues coming from these NBDs. That was significant and substantial. And I think that's an important point. We mentioned sales tax in the other two sections but the percentage increase is something we should be proud of. And I think adding that in there. And then we mentioned Costco, Kohl's, and Lowe's, I'd like to add Target as well, since they do have a large one under construction. I've done several more. That's my comments on the text in those sections. Let's see if anyone else had comments on the text. Councilmember Pyle.

>> Councilmember Pyle: Thank you, mayor. I just wanted to congratulate you. The graphics, the way this is set up is just beautiful. It's easy to follow and it's really a joy to read, especially for those of us that are stats junkies. I did want to say too the only criticism I would make on the first page of this handout was economic strategy update, 2010. When you mention employers are customers, that was music to my heart. Everyone in this city should treat every resident like they're customer. That really does make a difference. And then when you said each city staff member is an ambassador, we're all ambassadors for the City of San José. And I think those two points are worth their weight in gold. That makes such a difference. And as ambassadors, I think we need to become more educated in reference to the facts about our city, and some of the good things that we're doing, and I don't know how we can maybe get little -- the top five things about San José, or something of that nature. But I think -- I think all of us could at least come up with five things. Thank you.

>> Mayor Reed: I think that's it on the comments for this section.

>> Kim Walesh: Great, thank you very much. That's really helpful. What we'd like to do next is the basis for talking about our strategy going forward, the next five years, is just put up some basic information about the structure of the San José economy and some key trends and performance indicators from the last five years. Mayor Reed, you totally stole my thunder here. Here's my picture about the importance of driving industries. He's absolutely right. The driving industries, because they're serving markets outside our region, they're bringing those dollars in, that fuel, the rest of the economy. So without healthy driving industries which tend to be much more foot loose than the rest of the industries we can't have strong business support industries and people-serving industries. And of course the driving industries go where there's specialized expertise and something special happening that's keeping them there. What's so interesting though is the driving industries employ about a quarter to a third of people in most cities and metro regions. The status is current for San José so in San José about a quarter of our people are employed in driving industries. But the majority of people work in the other two sectors, the business support and the people-serving industries. Now, it's interesting sometimes we get envious of the high wages those people in tech make. And that's chiefly a function of very high value-added, very high productivity in those driving industries. A company like Cisco will tell you their workers produce value on the order of \$800,000 and up per employee. So you can see the productivity levels in driving industries, you end up with much higher average pay per employee than in the other two sectors. But all three kinds of industries are important to this community, and they're clearly interdependent. Now, what's our role? I think we all know, there's so much about the economy that we can't control from here in San José. Big national and global forces at work. But the focus of our work is really those community success factors there. Those are the elements that local government with a lot of partnerships have a role in evolving over time. And page 8 of the full report which the mayor just referenced talks in more detailed way about how city government affects the economy. But it's chiefly by shaping these success factors and evolving them over time to support our industries. Now, this shows the structure of employment by where people work in terms of the size of the company. And I really want to emphasize the fact that in San José and in Silicon Valley generally about half the employment is actually in the medium size companies. This is the real strength of Silicon Valley. About a third of employment is in small firms and only 20% is in large firms. This is in marked contrast to the national economy. In the national economy, about 43% of people work in large firms. And here, only 21% do. I think that's the real asset because it means that we're more resilient in a sense than our large companies if they have problems we have a much broader base of companies that makes us more resilient and adaptable. Nationally about 30% of employment is in mid size firms and here it's nearly half. Now, the point I want to make is that small business is very important, you can see 30% of people employed there. But the vast majority of small businesses never hire more than five or ten people. As we know many of them go out of business and there's a lot of churn there. So our goal has got to be to move those companies who are growth oriented and have potential for growth from being small companies to being medium size businesses, and one of the strategies you'll see here is really recognizing that we are going to add jobs here from the startup and growth of young companies, rather than simply the expansion of mature companies or attracting firms from other places. So I think it's really important to understand, the strength of Silicon Valley in the mid size space. And just because it's interesting, there is a list of the 21 firms in San José that have over a thousand people each. And in addition to those firms, of course, the city, the university, the county, are also in that category. So though a lot of these firms, Cisco, Adobe, eBay, they get a lot of coverage in the media, only about a fifth of our people work in those firms. This is updated data which shows you the interdependence between San José and the rest of the region in terms of our people who live in San José. So of all the people who live

in San José, half of us also work in San José. Another 40% of us work elsewhere in the county, and actually only 10% of our people commute outside the county to work. So what's happened to our jobs the last several years? Well, as the mayor said, we've done a lot of things right with our economic development strategy. We have had a lot of wins with individual companies. Our residents have noticed a lot of projects, a lot of progress. Unfortunately, because of the whole experience we've had with the global recession, we, at the end of December, were right back in terms of total job count in the San José metro area, to where we were at the end of that full dot-com boom-bust cycle. So it's like kind of back to the future, in that we've got to now build up again. In the last year, in the last year not turning for some reason, can you help me please? In the last year, we lost 36,000 jobs, in the last year. And 18,000 jobs the year before that. So we were adding jobs and then we had loss. So our unemployment rate remains at 12.5% for the city, 11.5% for the county. And unfortunately, we expect future layoffs going forward the next couple months. When our folks at Work2Future got back from the holidays, unfortunately there were a few more of these warn notices which were given by employers who expected to lay off at least 50 people going forward. There you go, that's the warn notices. So the one thing that's interesting to look at is during the period the last five years which industries gained jobs and which lost jobs? Which grew their average real wages and which lost? So this is the first time we've shown this, a specialized snapshot for San José from 2003 to 2008, since that's the most current year available, what happened? So these are our top driving industries, and they're listed in order of size. So you notice, we actually had growth in computer and communications. Cisco's definitely in that category. And we had wage growth in software. The bioscience sticks out. That's a relatively small industry for us but one that we've really been working on. So I just want everybody to know, that is likely one of these reclassification issues, small sector but they move a company. But I wanted to show you some contraction clearly in bioscience but certainly not as much as up there. Let's look at he's other industries, these are all the other industries in the economy. Again, they're laid out from the largest employer to the top. And you notice through 2008, at least, retail and building construction real estate were adding jobs. Of course the recession hit us in 2009, so that's when the job loss started happening there. And you see with miscellaneous manufacturing, we've experienced losses in manufacturing just as the nation has. Nearly a 50% loss there. It's interesting notice the peach color from strong wage gains were happening in health care in particular and real estate, at least through 2008. So of course, we all know about our vacancy rate, about one fifth of the valley's office buildings are currently empty. That's 49 million square feet. Many people are comparing that to the empire state building. If you compare it to this building, San José City Hall, it's the equivalent of 83 City Halls being vacant throughout Silicon Valley. So it's a lot of space. And we're clearly going to need to see significant job growth before we stop the rise in vacancy and prevent rents from falling even further. The last thing we're always concerned about in San José is, are we increasing our strength as an employment place relative to the rest of the county? We know that that's a goal. So unfortunately, in the last six years we've actually gone, we were 42% of the county's job base and we've slipped a little to 40%. And we know this is an ongoing issue, we're all fully aware of it, just to point out again because it's interesting, when you compare San José to the 20 other large cities in the U.S. we continue to be the only one whose daytime population of workers is less than its nighttime population of residents. So this is sort of our ongoing challenge here. Of course, we're concerned about income because that's what affects our people here. Per capita income is a bottom line measure of competitiveness. And that was increasing, and obviously decreased in 2008, and slightly in 2009. But still remains among the highest in the country. We want our economy to grow, not just to provide opportunity for our residents to increase their economic well-being. So median household income which is the income in the middle, has been going up. And of course, we're also concerned about what's happening to those mid tier jobs and there's some evidence there's been contraction there and what's happening to the bottom 20%. Joint venture Silicon Valley is going to come out with some current data on that household income distribution later this week which will be interesting to look at. Now, of course, part of this as Paul said is getting those dollars from the economy into our city coffers. And the story here of San José is had a we remain about 20% underretailed in the sense that we have less retail than we should have given our population and our purchasing power. Which is generally because of long term patterns that we just have not developed retail as we've developed housing and our population has grown. We've moved the needle on that, as Paul said, we generated projects with 5 million more in sales tax coming into the city as a result of those efforts. The challenge is, population growth continued. So we ended up in this sort of treading water position that's a little more difficult to get out. But needs to be a priority because if we would have sales tax generating capacity equal to our purchasing power, we would have \$20 million in

our city coffers that we don't have currently. I'll end this section by saying, we've gone through a tremendously challenge and difficult period. But the bottom line is, when milken reissued their ranking of the top high-tech metro areas in the country last year, using 2007 data, we are still on top as a region, And we are twice as dominant in terms of our ability to support and grow high tech as driving industries as second place Seattle. That's good news at the end of all of this in terms of a globally competitive position we remain strong. So with your permission, I think we'll go, we have ten forces of change, we'll go quickly through. When we did the focus groups, over and over again, the business people said this. The economic environment facing us, the next five years, is going to be, you know, those words on the left. Highly uncertain, intense competition, slower growth, and we need our city government to be all those things that Deb talked about in the beginning. Flexible, focused, aggressive, opportunistic. We believe and McKinsey and others have done research, I didn't know that was going to be moving around. Thanks John. Also in the next five years we are going to start to be experiencing the effects of some major shifts that are going to play themselves out over the next 20 years. And I think we need to understand these. Some of these are huge opportunities for us. And some of these will really expose vulnerabilities we have. I need too move on. That's really distracting. The first one is to expect much more moderate job growth than we have in the past. Not just because of the economic recession. We're clearly going to be very slow coming out of that. But by the time we hit 2020 the baby boomer retirement age starts slowing down Nationally. So we need to recalibrate our historical expectations about job growth and also the real estate demand that comes from that with virtual work, and companies really focusing on real estate efficiency. And clearly, when the job growth comes back, it's going to come from different firms and different sectors. We're not just going to go back and work at all the different places we did before nationally. This more moderated job growth becomes an issue when we think of envision 2040 and how much job growth we can realistically expect and how much we should plan for.

>> Paul Krutko: So we're going to alternate on these. The number two, second force that we'd like to bring to the council attention the really steady pressure on manufacturing and other middle income jobs. So San José and Silicon Valley, like the nation as a whole, is losing middle income jobs that are paying between 30,000 and 80,000 a year at a faster rate than higher end and lower end jobs. All projections for the United States, California, San José Silicon Valley show a continued absolute decline in manufacturing jobs long term. Now although this has happened in a very significant way in this current recession, I'm going to point out to the council that we are still a manufacturing intensive economy here in San José. 17.4% of our job base is in manufacturing and that compares with the state of California which is at 9%. So let me say that again. We're about double the number of manufacturing jobs in San José, as the entire state of California's percentage. So companies that manufacture here locally are really a critical part of why we think driving industry companies are successful, because three can reach out and get prototyping services and other manufacturing services here in the valley. So we think we can differentiate ourselves by really working hard to retain and strengthen the areas of our city that have those types of jobs to minimize this bifurcation, where we have very high wage jobs and very low wage jobs and nothing in between. As a strategic opportunity I think the council from a staff perspective we want to give credit where credit is due. The holding of the line on industrial lands was a key policy decision. It's a key policy decision as I pointed out, that keeps 17% of our company in manufacturing. As we look at clean technology, that's a real opportunity for us. To see if we can capture some of those manufactures job that are going to result from these new product types. Not just the designing, not just the selling of them but the manufacturing of them.

>> Kim Welsh: This next one I don't need to say much about. Because we in San José we are writing the book about how the transition to low carbon economy can lead to economic development especially in clean tech. Many people believe this shift is totally fundamental, it's like the shift to the information economy, and it will be the next wave for Silicon Valley, because it's building fundamentally on capabilities that we have here. What's key to this is, this will require to bring it to scale just extraordinary partnerships between companies and education and research institutions and government at all levels. It is like the early days of Silicon Valley as we think about defense and semiconductors in terms of the importance of smart government working aggressively with business to make this happen.

>> Paul Krutko: The fourth shaping force is that we believe that over the near term, and over the long term, there will be new funding models for business startup and growth. There's significant consolidation going on in the venture capital industry and that's fundamentally transforming the relationship between Silicon Valley and Wall Street that funded the startup growth and going public the IPO phenomenon for decades. The valley has a shrinking number of publicly traded companies, our numbers show from over

400 to now about 260. So to sustain the entrepreneurial engine we need new models for funding entrepreneurs and rewarding innovation. We think that more young firms are going to be acquired rather than having that go-public event that we get so used to seeing, that large high tech companies are going to be more involved in pursuing innovation by funding and nurturing small economies than bringing the innovative pieces inside their companies and we think more entrepreneurial companies are going to grow through private equity. So we think a key element to strengthen our role as one of the most important entrepreneurial centers in the world is to really work hard on our relationships with venture capitalists and large high-tech companies and encourage the location of their affiliated startups in San José. We've had that kind of conversation very recently with some of the largest venture capital companies in the world. They are amenable to that notion and we think that is a key one.

>> Kim Walesh: I think we read all the time about the shifting orientation of the business world towards Asia. We did really interesting focus groups with Chinese American business leaders with Councilmember Chu and with Indo-American business leaders with Councilmember Kalra, and it's really clear this is a huge opportunity for San José. Given the cultural connections that we have and given the business connections that we all -- that we already have. What was also clear, though, is that especially with China, China is offering significant subsidies to our companies to set up operations there, and really, welcoming Chinese Americans with extensive experience in the valley to go back. So it's both a wakeup call for us in terms of strengthening our innovation habitat here but also it's a huge opportunity for us. And the focus group participants were so eloquent about how the fact that we have these natural cultural connections and how we have quite harmonious relationships of people of different backgrounds here who are very global people inherently that that provides a distinct and powerful advantage as the sort of center of world economic gravity shifts to Asia and probably stays there for the next century or two.

>> Paul Krutko: We believe one of the key forces that we're going to have to deal with is something the council has already been dealing with in a very real way over the last several years, and that's a growing disconnect between economic growth, the city tax base, and state investment. California, like other advanced economies has become a service based economy. 72% of all of California's output is in services. 86% of California's job base is in services, and 60% of consumer spending is on services, all nontaxable events. Given the shift towards services there is a growing disconnect, fiscal instability and government shortcoming at the state level, becoming a serious threat to the competitiveness of our state and of our region. Not only what they do to us, it's how it positions us to be able to compete and retain and grow businesses here in San José. This investment in education, transportation and infrastructure are just a few of the areas that cause concern. At the same time, that California is undermining our competitiveness of both our city and our region the governments of other stronger more aggressive countries and states are offering rich financial incentives to attract companies to their communities. Texas you've heard me say this many times, has a \$100 million close the deal fund, over other investment strategies that they have. So we're talking about millions of dollars being offered to companies not just a few little incentives around the edges. And so in this era we agree wholeheartedly with the mayor. We're going to compete, we're going to run as hard as we can, we're going to put our best foot forward but we really need to up our game as a region, at the state level. It is not enough for us to have a smart strategy and sound leadership. The state and the nation must also have housing and investments that enable the innovation center of the world to help drive the national and world economy. Now, we have to be an active force in fighting for secure local government revenue sources that grow with the local economy and prioritize investment in California's economic foundations. One of our focus groups participants summed it up very well, he said the biggest threat facing the economy of San José is the state of California.

>> Kim Walesh: In the past Silicon Valley has competed really just based on the extraordinary technical knowledge and engineering capability. But now there are many places around the world that have this technical expertise. So the next stage for Silicon Valley is going to be about sort of marrying that engineering expertise with the right side of the brain skills in marketing and branding and design and the consumer and user experience. You see this clearly with the rise of a company like apple, oriented towards consumers, it's not just the technology embodied in the product but it's the design and the marketing and all the intangibles that make us want to buy their products. Adobe is clearly in this space. So to stay ahead these creative artistic design right brain skills and people need to be able to be developed and then to work effectively with the technologists and the engineers. This is going to be the source of competitive advantage and increasingly Silicon Valley will focus on serving consumer markets, not just selling other businesses. So those were the economic trends and we have three key demographic shifts.

>> Paul Krutko: What we expect to happen over the next 15 years is substantial population growth in young adults and seniors. About 60% of the adult population growth in San José is going to be in the 55-plus category. Remaining 40% will be in the young adults, population very much the stark contrast to what we've experienced the last couple decades. So we have to really be prepared in terms of our strategy and how we're proceeding with investments to confront this demographic profile head-on. There's opportunity for us to try to retain wealth in this community by creating new quality environments, smaller adult-only -- for smaller adult-only households, located in settings that would also be attractive to young adults and seniors combined. So again, key factor is, we don't want that wealth leaving the community. So what do we do to make sure we're creating environments for it? And for young adults this is a really key demographic. We must continue to attract college educated young adults from other places, as well as better educate our own young people. Our businesses are telling us through the focus group that they remain concerned about our ability to compete with San Francisco for young creatives and entrepreneurs. So we really need to work hard to communicate our lifestyle assets to young professionals about what -- why San José would be a good place for them to live in the region.

>> Kim Walesh: This next one is a huge shift that I think we're just starting to think about the implications. The last 25 years, the growth in California's workforce came chiefly from foreign-born people moving here. You can see to the left, California added 8.1 million new workers and 67% of those were foreign born. As we go forward, not only are we going to add fewer workers, but the shift comes not surprisingly to the major factor shaping the growth of the future workforce becomes the children of the foreign born people who came here in the past 25 years. To children that have been -- so the children that have been born and raised in California public school system and now fighting to get into postsecondary education. Again, joint venture Silicon Valley is going to talk more about this. We all know how important it is to have international and domestic migration of highly talented educated people. Our education has gone up because of people moving here from other places, not because we've done such a fabulous job of educating our own and in the future our own will be driving workforce growth. It is time we need to view education as a critical economic development issue.

>> Paul Krutko: In the final and tenth force really plays off of that in a very strong way and that is as we described the nature of importing labor from abroad will be diminishing and at the same time the jobs that are being created here are going to have a higher and higher level requiring college education. So you can see what we have in 2005 and what we're projecting to 2025, so by 2025, 41% of jobs will require a college degree. But it's projected that only 33% of Californians will have a college degree. So this will be a limiting factor on economic growth, productivity and standard of living and the more that we can up our percentage makes us more competitive relative to the entire state. Key factor here is that there is direct relationships that have been proven many times through research that the single important factor in determining the community's long run economic success is its share of population with college degrees. Data that comes out of the CEOs for cities town dividend works says that for every 1% of college attainment in San José that would mean another \$1.4 billion flowing through our economy. So with that mayor, we're finished with the forces. What's left for us is just a brief overview of the strategy itself.

>> Mayor Reed: Okay, why don't you go ahead and do the strategies and the goals.

>> Paul Krutko: Okay, thank you. Key, let me start off that when we developed the strategy in 2003, we came up with this -- we came one a vision statement. What the key take away from this slide is, we've essentially validated that vision statement. We don't think that we were off, and we think it is still -- holds the right course for us as we move forward to be a global gateway and creative community and strong entrepreneurial environment and a place of opportunity, and the most livable big city. What we have added that is somewhat different, we had I think a notion of something about our tech savviness along that line. But what we think is more important now is that we think much as former Vice President Gore said when he was here, I think at a joint venture meeting, that this place in the world, because of the rule of law, because of the entrepreneurial environment, because of the intellectual assets we have and the ability to take ideas and turning them into businesses, we can be a value conscious contributor to addressing the world's pressing public challenges, both in environmental, economic, and urban affairs. So we have a two-part economic challenge. Just two, three slides here left. The first is as we develop this strategy, we felt that as the economy recovers, our main goal is to regain jobs for our growing population and regain revenues for city services and infrastructure investment. And our second challenge is how to create and continue to create an outstanding business and living environment that will let us compete with the other main centers of innovation in the world. So we came up with 12 strategic goals, next two

slides. And I'll just tick them off a little here for you. First, as the mayor's pointed out we need to do everything we can to encourage emerging companies and growth sectors that can drive our economy. Two, as we do that, we need to make sure that when they get a chance to spend some of that paycheck they're spending it in San José. Third, we talked about the very important component, that manufacturing represents here, double what the percentage is in the rest of the state, that we need to keep our eye on the ball, with ensuring that lands and buildings exist for those companies. Always, as Kim pointed out, we need to look for those opportunities that can move small business into medium size business. That's the engine of job growth and capital formation here in San José. We need because of the key, key effect that the decisions being made in Sacramento and Washington, D.C. have, on our ability to compete nationally and globally, we've got to really continue to increase our influence. Mayor pointed this out already. We think this we have great success that we pointed to but investments are important on making sure that we can have speed and be consistent and be predictable and really move quickly through a development permitting process. We talked a lot about this. This is a key thing. We really need to emphasize, moving forward, given those demographic challenges that we just talked about. On the infrastructure side, the next five years are going to give us a tremendous opportunity in the Diridon area with potentially major league baseball and away I would consider one of the -- what I would consider one of the most important transportation hubs in the state of California. We've built a world-class airport. We need to attract new air service. We need to fill that airport with planes and flights from the rest of the nation and around the world. The next two, I would argue, actually the next three, are really about creating the kind of environment that attracts talented companies and makes our kids as they grow up here since we need more of them now to serve our companies than ever, want to stay and live and have families here in San José. Mayor, that's the end of the first section. And we're right on time.

>> Mayor Reed: Okay, thank you. Had a couple of comments on the -- the goal section of the text. And you noted that our people that participate in focus groups said we need to be flexible focused aggressive and opportunistic. In the text under the goals each one of the goals has actions to achieve this goal. And I think we need to tag those as potential actions to achieve this goal. Because there's something like 125 of them. And that's way too many. We're going to have to prioritize, you're going to have to prioritize. We'll have some sort of a process to do that. I don't want people to pick this up and think we're going to immediately take off and do all of these. That's not going to be possible. And then along that line of trying to stay focused, I've got a memo that I put out on February that speaks to trying to prioritize the goals, the action items, and then the business and retention development issues that we'll talk about later. And I'm not going to go into this in great detail here but it is about trying to focus. And I went back and I got some information about 2003 when we adopted the economic development strategy. We had 140 projects, and we immediately set to work on, I think, all 140 of them. We had 120 people across 18 city departments and redevelopment agency working on 140 projects. I think we need to be more focused than that. Even though we had some great successes, I think we can do better if we stay more focused as our participants have advised us. What I did is go through goals, the action items and the initiatives and just look at those that we should do these now, because there are opportunities this year, trying to get to things that we really need to capitalize on immediately, as the highest priority, not to say that we're not going to do the other things or work on more things. But when I went through that I thought there were four goals that I've listed that were ones that demanded immediate action. And some priority items that demanded immediate action just because the opportunity's there and we can have an impact this year which is what we're trying to do is to get over the recession. And the need to be focused is really what's driving it. And what I'd like to ultimately see after we get done here is that we send you with some direction to come back with the top 10 for 2010. The 10 things we really need to do. There's not much left of 2010, right? We're already a few months into it. By the time we get it all done we'll be eight or nine months left in the year. And I'd like to see that kind of prioritizing to focus everybody's efforts on the immediate opportunities because as I said earlier, I think this is going to be a big year in the valley with a lot of companies hiring again like Cisco's announced and many other opportunities with a dozen companies that are looking to grow at least that I can count of today. And I know that if we prioritize and focus, that we can do that. Councilmember Kalra.

>> Councilmember Kalra: Thank you, mayor. And thank you for the presentation. It's obviously important issues. Couple of comments. One, I completely agree that we need to see education more as economic development issues than we do. I know that the mayor and those of us on the council are supportive of SJ 2020 which I think is an importantly part of that but just in general the change in the mentality I think is so important. And, you know, speaking to the point of, you know, looking at the other countries and what

other countries are doing, you know, over the course of this past weekend the Indian ambassador to the U.S. was here from D.C. for the weekend and had a chance to hear her speak. And I guess most of you can probably guess we actually -- I know that we have some very distinguished guests that will be speaking probably more on some of these issues but she indicated that India had 9% growth over four years and over the last couple of years with the global recession dropped down to about 6%. We would kill for that kind of growth and China is even higher percentage. And the -- however, there is not -- there is still great opportunities. First of all, to attract some of the companies that are going from India China and other parts of the world, Eastern Europe and so on, they are going to come to the United States for one reason or another. We want the jobs for our residents, we want the benefits to our residents certainly. The flip side, I know for certain because of the nature of the Indian market, there is certainly a great opportunity, with just an exploding middle class. And there's certainly a opportunity for our country, our companies, and even here as a city and here in Silicon Valley to really try to take advantage and try find out ways to get into those markets as well and increase our exports there. But I think that you know you've touched on some really important issues in terms of trying to really understand where we fit globally. And because we can't -- the old models don't work, we all know that and it's so important that whatever we can do to take advantage of some of the -- you know, the fact that we do have something here you know, we go to India, they know the Silicon Valley, they know Sunnyvale, they know San José, they know the names of these cities. They don't necessarily know the names of the cities in Texas. So that 100 million dollars will certainly go a long way but we have something here they can't buy and they can't create. So until they're able to do that we better take advantage of what we have now and continue to. And on the point of education -- over the past several years -- over the past five years and as part of the major plan, you know, India has either created or in the process of creating dozens of colleges and universities. We all know and was touched upon, that these focus groups kept going back to the point of how Sacramento and the state is making things more and more difficult for cities and companies to succeed. And over the past couple decades or two and a half decades at least we've built one university in this state and we've built over a dozen prisons, just goes to tell you that there's a lot we have to learn about how to stay competitive globally and where to put our emphasis and our priorities. And so I'm just really happy that that seems to have been incorporated in this report and I know that we have some speakers coming up that I'm sure can really help add value to our discussion going forward. Thank you.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Thanks mayor. Thanks for the presentation. It was really very informative, very helpful. I've heard part of it with the general plan task force but each time you hear it there's an interesting angle that I continue to learn from. I had a question about the factor number 4 and sort of the ten factors shaping our new economy and that was the new funding models for business startup and growth. Certainly we know we're no longer in the world of the IPO. That ended a couple of years ago and certainly we've been through a period where sort of the end strategy for an entrepreneur was to get to the M&A. To get acquired. What I'm hearing is that mergers and acquisitions itself can be too expensive as an end game strategy, that a lot of companies are simply through the sale and licensing of technology, that's sort of the exit strategy for the entrepreneur who wants to cash out. So really, that means there is no continued opportunity for employment among the employees of that startup and in fact there is actually no physical locus where the technology was, the technology was simply sold and pieced out. If that's true, if that becomes where we end up does that change dramatically how we approach our strategy as a city?

>> Kim Walesh: I think this is a huge, open question that a lot of people are wrestling with right now. What is going to be that model that's going to fund not just the cash-out for the entrepreneur, but the job growth. I mean once a company went IPO that's when all the job growth happened. So I think your point is a good one. Some of these other models may reap rewards for the investor but not leave a substantial company here and jobs that are going to grow. It's a huge open question and I know again Friday joint venture Silicon Valley is coming out with their index. And I think this is a key issue that affects the whole innovation habitat here that a lot of people are trying to figure out right now.

>> Councilmember Liccardo: Certainly has me concerned as we think about how we create opportunities for our residents to continue to stay employed by companies that provide good jobs. The question about how we partner regionally and so forth has come up and I've seen in the strategy section, I think it's goal number five, where we talk about increasing our influence in regional, state, and national forum. What I don't see a discussion of in there and I don't know if this is intentional or not, is much discussion about collaboration within Silicon Valley. And I know Kim, you actually started, as I understand it, a partnership with other people in sort of your position with various economic development offices in

other cities here to see how we could collaborate more. And I'm wondering to what extent can this collaboration help us if what we know internationally is that the label Silicon Valley sells much more than any one of the individual parts of Silicon Valley, that is, by trading, exchanging leads on companies that may be looking at the region, is that a real opportunity for us? And how are we really taking advantage of that?

>> Kim Walesh: I think economic development in Silicon Valley is like high tech in that it's the personal networks that make a difference. And there is a quite strong network of economic development professionals in different cities. And we do tend to sort of work with a company and if we can't fit it in our community we pick up the phone and try to make an appropriate handoff. So I think there can always be more collaboration. There's been talk on and off about the whole marketing of Silicon Valley and just for a variety of reasons that's been difficult to sort of get everybody together, get the resources and do that. But there have been some efforts with joint venture Silicon Valley especially moving in that direction.

>> Councilmember Liccardo: I know you've been working with Bay Area councils and they've been talking about doing similar things. I'm wondering, is there anything as a council we ought to be thinking about in terms of overcoming those hurdles? Because as we look at the future we hear so much about the rise in mega cities and regions, because as one city going it alone we're going to have an awfully difficult time getting through the din of marketing out there to be able to make our presence felt. So what obstacles do we need to overcome as a council in order to be able to better partner regionally?

>> Paul Krutko: I'll respond to the last but want to add something on to the first part. One of the things that works very well for us, those of us because we're like the sales force of the city that do the conversations along with Ru and the mayor's office, we always talk about how being the third largest city in the state of California, the 10th largest in the nation, gives us substantive capacity compared to other communities within the Bay Area. So one of the things we do sell is the notion that we do have highly trained, competent people who can really deliver on project delivery, so that speed to market has been real key. On the regional collaboration, there are, councilmember, there are very significant models around the country where people have worked to create the regional entity or a regional economic development as the front door. I think, what Kim said is probably right. We tend to function in Silicon Valley, in an informal way. I can't remember since I've been here where we've -- you know, we've had a lead that we can't serve that has not been able to be served by somebody else. I don't know we're losing opportunity that way.

>> Kim Walesh: I think the traditional international connection model has been city to city relationships. I think in the future we need to think more about working with the Silicon Valley and especially the Bay Area. You take the Shanghai region, it's 80 or 88 million people. I mean, it's very, very large. And so in a case like China especially it's very important for us to participate as part of the Bay Area relationship with Shanghai because there's a scale there that we have to ensure that, as companies are interacting with the Bay Area, we have the ability to pick them up and communicate with and land them here in San José. And we have a fair chance at that. So I think we can do that kind of experimentation, participating in those international relationships that are a bit bigger than San José on its own.

>> Councilmember Liccardo: Okay, I appreciate that. And the reason why I ask the question is that, you know, it appears to me as you look at the mega cities that are emerging that research triangles and other regions throughout the country, that the one thing they can't offer is an enormous amount of variety because of the geographic expanse. And certainly San José has great opportunity to offer any company. But you know as in the case of Tesla, it just happens to need a particular building that fits a particular description, being able to present ourselves as a region may really attract a lot more attention. That's why, you know, I'd really like to see how we can work together with other local cities more. The last thing I just wanted to say was, I really appreciated the emphasis that seems to be throughout this presentation that rather than simply trying to get companies to move here, the emphasis is on that they grow here. The studies that I've seen, I know CCIP put out something a year or two ago that really focused on where job growth comes from in California and it's really on companies that are growing, not on companies that are making decisions to move somewhere. And that's how regions grow most effectively. So I hope we continue that focus.

>> Mayor Reed: Councilmember Nguyen.

>> Councilmember Nguyen: Thank you. I also wanted to say my thanks to OED team and their staff for the presentation. I have a couple comments and some questions. First of all, I just think these are really innovative and yet very practical key strategies in terms of helping our city to achieve the level of economy that we wanted to. And that also in comparable with other large cities in the nation. When you

look at different goals and strategies and framework in the next five years, ten years, in 20 years, we tend to be very innovative and sort of lack the practicality of what we're trying to achieve. And I didn't really see that in this presentation which is a good thing, but I think that has a lot to do with the fact that city staff also incorporates a lot of the ideas and opinions and perspective from different leaders throughout the community. It is nice to see the different people that actually were involved in the focus groups. And I think that greatly contributed to the presentation and the report. So having said all that there is a couple of key areas that I wanted to make my remarks on. And that is the manufacturing jobs that we currently have here in our city. I think that I strongly agree with Mayor Reed's, one of his, I think it's number 1, the second part in his memo we're talking about the preservation and the strength of the manufacturing related activity in jobs. Paul, you stated earlier that 17.4% of a job base is still within the manufacturing industry and I think that we need to preserve the asset that we currently have. Obviously my biggest concern is with the industry in the Monterey corridor now is the truck traffic regulations. And I know that, you know, there's some tensions between the neighborhoods and the business out there. I was wondering if staff can talk to us moving forward, how can we alleviate some of these concerns among our neighbors, at the same time really going out there and let our business folks know that we're here to support them and we want to make sure that they continue to thrive, and that they can always lean on the city to help out in terms of reaching out to the neighborhood surrounding that area.

>> Paul Krutko: Well, councilmember, you've touched on one of the difficult public policy areas that staff has to work through and mediate. You're absolutely right that there is a balancing act between making sure we're responding to legitimate concerns from residents, but also making sure we're allowing the flow of goods and services to access the businesses. So I know that as a part of the envision plan, we are taking a good, hard look at, as we should, thinking about how we can preserve corridors for truck traffic. Perhaps we can enhance some corridors to be more truck friendly. Maybe the right phraseology to move traffic from certain -- certain locales which is sensitive. I think the thing I would share with you is it's going to be an ongoing piece of work for us over the life of the strategy and the plan. Because if you look at the numbers that we're looking at in the plan, the number of residents that are going to live more, people are going to live here, more jobs are going to be here, as we grow to be a bigger big city, those sort of rubs between uses are going to become key. And we're just going to have to borrow ideas from where we can find them and work to try to solve problems. But I can't -- I don't want to give the false -- say that it's a false hope that can you just resolve it once you know and then we're not going to have to be in there working on that all the time. Because I think each new business or each new residential development is going to create new tensions. But it's something that we're concerned about as you are and trying to work on it in a very balanced way with the community.

>> Councilmember Nguyen: And right -- I absolutely agree with you. I guess what I wanted us to focus on is if we can somehow send a message to the business community that the city is here to mediate, that we're trying to do everything we can to less enthe tensions between the neighborhood groups versus the business community, and not to take sides, but we're here to mediate, and if they need our help they should be able to talk to our staff about it. I think really that's all they need to hear moving forward because it's really difficult when you, you know, are trying to provide jobs for middle class people and at the same time, you are getting a lot of angry neighbors coming knocking on your doors. So as long as the city can somehow portray ourself as facilitator or mediators, I think that's the right method moving forward.

>> Paul Krutko: I think we can. And I have to give all due credit to the transportation staff, they are very creative, have developed a lot of skills with traffic calming and other kinds of issues. I think that we probably have one of the best transportation departments to kind of respond to that type of situation.

>> Councilmember Nguyen: Thank you. And then I just wanted to follow up on Councilmember Kalra's comments about attracting and typing the Chinese community, business community from abroad as well as the Indian community from abroad. I guess my question is besides having these focus groups maybe once, twice a year, or when you have a group of businessmen and women visiting from other parts of the world to our city, are there ongoing efforts in terms of outreach efforts, also communicating with the ethnic business communities?

>> Paul Krutko: Right, what one of the things that we've been doing within a small amount of resources that we have is, we've worked on and we think it's a really appropriate thing to do with key partners that we know are interested in the two-way exchange. One of the things I think the council sees all the time are the delegations that are in the building from someplace. And most of those conversations we find it's more about what we can do for them than what they can do for us. But I would point to the Dublin

relationship. We think Puna will have that kind of opportunity for us in India. So we're looking for those kinds of partnerships where we know that there's a two-way benefit. The other thing we've been doing that I think is paying off for us and we have some successes we can point to is, we have a small engagement with a company that actually goes and finds who's making investments around the world by company. And they make a San José proposition. They sell San José to respond to that need. And then, once they have what we call a qualified lead, then we work to try to close that lead. So we think that that will give us good opportunities for, much like the U.S. market access center works, we know that there are companies that are starting up all over the world who want to access the United States market. So to the degree we're in conversation with them when their making that choice, be very good. One anecdote. I met with a company in Madrid, it was a solar company. What I found out was they made a decision to locate 24 jobs in San Francisco just because it was San Francisco. And when I pointed out to them that the City of San Francisco has a payroll tax and we don't, they thought it might have been smarter for those 24 people to have located in San José. So part of the point, getting that word out and the differentiation in the world is recruiting these foreign companies.

>> Councilmember Nguyen: Thank you, Paul. Just one final question. I know that we're very enthusiastic about bringing BART into San José and investing in the Diridon station and our high speed rail plan. These are all positive things. At the same time, according to one of the slides earlier it indicates that 50% of our residents work here in the city. My question is how can we improve the quality of intercity travel? I'm probably lobbying Sam Liccardo here, because he chairs the VTA, but how can we establish a better, more effective partnership with VTA, as well as establishing private partnership with other private industry, because this is where -- this is what is needed in our city. I think earlier, maybe a month ago or so, we -- one of the surveys said that you know one of the comments that I got from the public survey was that you know public transportation.'s appalling. The fares are high, we have a lower ridership rate and you know we need to do something to change this -- the way we're going with this and I was just wondering what has staff been doing, maybe, you know, Hans can answer this question. But how can we improve the quality of our intercity travel?

>> Kim Walesh: As he's coming down, let me just point out we did an incredible focus group with young professionals that was organized by the chamber of commerce. They are most concerned about access to mass transit, and how we don't have connectiveness and most excited about cycling around the city as well.

>> Hans Larsen: Mr. Mayor, members of council, Hans Larsen, acting director of transportation. Challenging questions, in terms of improving the services that the VTA has, obviously the city works very closely with the VTA. The city council has five members on the VTA board. So we're very closely tied to their programs. I think you know the VTA is struggling right now in terms of providing bus transit services around the community because of the economy. But some of the things we can do relate to land use. As we provide more land uses around the transit corridors we can make it more viable to fund transportation services and put more people on the system. I think that's a big goal that we have as part of the general plan update and the GP task force is looking at the future of the city both from land use and transportation perspective and those are the kinds of issues that are being worked on. In fact we have a meeting tonight where we'll be talking about transportation. So kind of a general answer but it is something that we're aware of and we have a goal to improve transit service around the region and San José and we'll continue to do that.

>> Councilmember Nguyen: Thank you Hans. Thank you, mayor.

>> Mayor Reed: Councilmember Chu.

>> Councilmember Chu: Thank you, mayor. Thank you, Paul, for the wonderful presentation. Just a little -- a comment on one of the items in the economic vision for San José, we're talking about make San José a global gateway, and the number 9 of your strategic goal talking about developing a world class airport. And to attract new air services. I had the opportunity to talk to the general manager for from Evergreen airlines, Eva air as well as the China airlines. And I think the big disadvantage that the San José international airport has, the one of the biggest ones, is the curfew. Could you comment on the economic impact by lifting the curfew?

>> Paul Krutko: Councilmember, I'm not prepared to answer that question. What I would suggest is that we have scheduled coming up in March a specific study session relative to the airport's competitiveness. We were going to highlight a little bit about that in the last section. So that kind of question is something that we will be able to take up at that time.

>> Councilmember Chu: That's fair. Do you know of any world class airport that has a curfew?

>> Paul Krutko: I'm not the -- don't try dodge the question, I'm not the airport director.

>> Councilmember Chu: Bill Sherry just left the room.

>> Paul Krutko: I will capture that question and give it to Bill.

>> Councilmember Chu: That's fair. My request is to add that to the action items to achieve this goal. We should at least consider the lift -- do a thorough economic study on the impact of the lifting the curfew.

>> Paul Krutko: Yes.

>> Councilmember Chu: Thank you.

>> Paul Krutko: I will pass that on. The one thing I do know Councilmember Chu is that as I've worked with Bill in the past, one of the issues is when the planes leave here to be able to connect in China. So that's the key determinative factor.

>> Councilmember Chu: That's right. I'm glad you're aware of it, thank you.

>> Mayor Reed: Councilmember Campos.

>> Councilmember Campos: Thank you. First of all, this information was very informative. I want to focus I think on one of the things you brought up, Kim, on the slide that talks about how much sales tax we're losing through not having enough retail. And I know that in the documents that you gave us, and I think my colleague, Pyle, brought this up about how we are all ambassadors to this city, regarding attracting businesses. And I know that on the council for the past nine years, I have devoted a significant amount of time to economic development, as well as recruiting businesses to the Alum Rock and Story Road. And we've seen a dramatic change in sales tax there, in those two corridors. And I know when we look at what also has come to that area, we have three financial institutions in those corners. A new one coming, Bank of America soon, and new restaurants and retail, and in the latest report that I received from talks about Alum Rock avenue has increased about 744% since the inception of the business district there, which has happened I think in the last seven years, I believe. And the Alum Rock which is -- I mean the Story Road, that was the Alum Rock, excuse me. The Story Road is 438 since we started the business district there. One of the things that that, in looking at this report, it doesn't jump out at you and say that we're going to make that a priority within our business districts. So it's just not clear. It doesn't jump out and say we're going to focus on improving and helping to bring businesses to our neighborhood business districts. And we all know that there are quite a few in the city. I don't know if you wanted to respond to that.

>> Paul Krutko: No, that's a good -- a good point and we'll make sure that we cover that off. I think the one point we were trying to make, councilmember, was that without those very successful efforts, we would be even further behind. So we think, looking at the numbers, that we've been able from those kinds of projects and efforts, generating something north of \$5 million in new sales tax, what we were showing as a percentage is as the region continues to grow, that was sort of keeping us -- we were keeping pace. So we really, as you point out, we really need to redouble our efforts, as we can, with our partners in the agency who have had a significant role in the neighborhood business district development, given the challenges that the agency's having right now we're going to be very creative about how to maximize sales tax revenues. But we're working really hard on that with our friends.

>> Councilmember Campos: I think my point I wanted to make, I'm glad you heard it, is if we want to continue to create revenue for the city, we need to focus, and we need to be very bold and say that economic development in our neighborhood business districts is a priority, so that we can generate revenue there. The other thing that I wanted to bring to your attention is, a project that we know that has been an eyesore in a district, my district, and I'm sure that everybody has those types of projects in their neighborhood business district, is the Samet, which is across from the Mexican heritage plaza. And another thing that it is not clear what, in this particular plan, where we have an opportunity to be able to encourage those small businesses that want to locate in business districts. And I'll give you an example. The Samet has been sitting there for nine years. I know that the City Manager at one time had said that was an eyesore and it was blighted. And I know that my staff and myself have worked very, very hard to try to get a grocery store there. But there doesn't seem to be a mechanism that actually says, okay, we're going to focus our energy on this particular building in a business district that we already know has demonstrated that there is buying power there. So what are we losing by not focusing our efforts in areas that we know have a high buying power, so that people will actually be able to sever that, and what are we losing by not having those services there?

>> Paul Krutko: Excellent, excellent points. The challenge we've had in many of our older shopping centers, and I don't know that this is the case there, but more broadly across the city, is sort of the

ownership and the willingness of the ownership to make investment. Many times you've got to have a willing dance pattern. And we've had a number of instances in the city, I'm thinking about in Councilmember Constant's district as well, along Saratoga, you have shopping centers that are owned by family members who are very happy with the North Carolina they're making and when we have conversations with them about upgrade and taking on cost they say that's interesting but I'm happy with what I'm making. So sometimes we're successful when there's a generational shift or when there's someone buys them out. One of the things I would say councilmember is we have put up for your consideration in our package of incentive proposals the notion of a new tool that would look at if an investment that someone's going to make is going to generate new sales tax for the city that we would share a portion of that back to deal with some coast that is holding that project back. So we think that that new tool, while we want to encourage a certain investment level it would not just be for one store at a time but for an entire shopping center might be a very appropriate new tool. So if we could spur the investment we're willing to share the potential benefit of that investment with that property owner if they would make the investment. So we're looking at new tools to try to make moves, you know, make that decision happen.

>> Councilmember Campos: And then probably the last area that I wanted to talk about is, around when we as ambassadors, have developers that want to meet with us or have developers that come to us with a concept and I -- you and I talked about this I think more than once about a developer coming to my office to talk about the concept of a Mercado that would service Latino community as well as the Asian community. And I think plaza de San José is a great example of being able to change our shifting and thinking on where we're developing and type of services that we're developing in the San José towards the demographics that continue to grow in the city. And you had a slide that showed the pie and where we see our future workforce and what populations that that will continue to grow. So looking at that I think it's important for us to be able to have some mechanism that if that happens that there is a process that developers, or an investor can come to the city, and say okay, this is something that I want to do, and what are the mechanisms that I need to go through so we can flesh it out with city staff and either see it as a potential opportunity within the city or to say it's not something that will be feasible. But I think that people that come are excited about it because they really do see the City of San José as an opportunity to invest, be innovative. But are discouraged because it comes in my office and it goes somewhere and nothing happens. There's no feedback, no communication, and I think it's important for us to think about, in this plan, what does that look like? And I don't know if you've had an opportunity to think about that.

>> Paul Krutko: Councilmember, no. Certainly we want to make sure we're following up and making sure we're looking at all opportunities. I think one of the things that the that we will be talking about later this afternoon is resourcing this whole plan. The technical expertise we have in the city is essentially supported by cost recovery kind of framework. And so I agree with you wholeheartedly, that having resources that we can call on, that can work in that conceptual time frame, with people, when they're not sure that they're doing a project yet, and how we can work would be very, very important. And that's something that's very challenging for us. We tend to have to find, you know, the cost code number to cover expenses. And we're pretty stretched thin relative to the General Fund resources we have across an entire city. No excuse, we should respond to as many opportunities as quickly as we can. But that is an issue for us in terms of resources. So --

>> Councilmember Campos: So if someone does have a concept and it is something that is feasible, then you have the resources, and go to the top or it's just not clear to me. I understand if it's a concept but if someone comes to you and they have the finance and just maybe assistance to find a building within the city, does that mean that goes to the top of the priority? It wasn't clear to me what you were saying.

>> Paul Krutko: Well, what I was saying was that many times, we -- people come to us, with good ideas, but that require a lot more work. And so it's sort of how -- how much resources we have to engage with someone to help them shape their project. Project is well formed and is ready to move forward, we have the resources to be able to respond to that.

>> Councilmember Campos: And the reason I bring up, I'm focusing my questions around retail is, in your slides I think you were very clear that the small businesses to the medium businesses generate a lot of revenue to the city. And create a lot of jobs. And I know that when we think about what San José and what California will look like, five, ten, 20 years, it's changing. And to be able to change with it, as a city, in our development and the services that we provide, I think would benefit us as a whole. Thank you.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: Thank you, mayor. First of all I just really want to thank staff, the economic development staff for this presentation, for this-for all of the material here. And all of these stakeholders and folks in the community that participated, I -- it was very informative reading through all the comments through all the various groups to see how they viewed these various things. So I have a few comments. And just thoughts about some of our goals. And the first, I just want to start off with the -- our vital cycle of success, a graphic. And I think what occurs to me there is, how can we -- how can we jump start that engine or at least get out of the way in terms of what we do to allow business to move forward? And I think it's important that we acknowledge that government doesn't create business. We have to really make sure that we are not just enabling but not stopping businesses from moving into San José and from growing. So I think just the acknowledgment that it's the private sector that's creating these opportunities. And just anything that we can do, and I know we're going to be talking about the specific memo that I signed onto and Councilmember Liccardo, Councilmember Pyle and the mayor, we put together that, we'll talk about retaining business and really incenting local business, you know, to make it through this tough economy and continue to grow. So I think again, we need to think about how do we jump start that engine? The other thing I wanted to mention was, and this is not necessarily in order here, looking at -- I'm looking for the convention center, and I'll just talk about number 9 which is keeping a world class airport and attracting new air service. Our airport for anybody who hasn't gone out to see it, is just fabulous, \$1.5 billion project and I've been there in events and been able to participate with other councilmembers and groups in looking to bring more visitors and business travelers into our airport. But I think the thing that goes hand-in-hand with that, and it's been said before, is our convention center, and that has to be given our highest priority to finish that. That is one of those, how do we jump start the engine? We need to make sure that we move that project forward. I think that keeps faith with our hotel community who has you know so importantly made a stake in the ground with supporting this. So I just think we really need to move that one forward in terms of the focus that we need in terms of our economic strategy. And I really appreciate the mayor's comments on that and the memo he put out because there's so many different things that we can do. There's so many areas we can focus on. I think it's very important that we pick the most important ones that can move things forward and really put our emphasis there. I was-I'm very supportive of the comments that Councilmember Kalra made regarding the effect and the input and the importance of international business in talking to those communities. And I think that besides Silicon Valley, you know, the center of Silicon Valley, our tag line about we're the capital of Silicon Valley the other most important tag line we have I believe is our international gateway status. And I don't think we can minimize that. I think that really is as important, the fact that we are the crossroads and the gateway, that ties into our airport, that ties into the need to really make sure that we can access those countries, China and India, and really take advantage of our gateway status. I also want to add something to what Councilmember Nguyen talked about. It was on my list and I'm glad she brought it up and feel free to lobby VTA, there are several of us who are here that are on the board. I think in terms of number 2, the retail, developing retail to full potential, maximizing revenue impact and neighborhood livability, transportation I believe is an integral part of that in terms of making sure that it's convenient, it takes people to important retail centers. I think about the light rail that we have now in east San José that takes San José residents to go shop at that time great mall. And I wonder you know how that could change if we had a light rail project going to Eastridge and how that might bring shoppers into Eastridge and develop that economic center. I don't think we can minimize the nexus of transportation and retail in other job kinds of creating ventures that we're going to be moving into. I also think that relates to the fact that we're going to be seeing nor seniors and young people. We talked about those two demographics, both areas where I think transportation is going to play a key role. As I looked through the comments, as I read through the individual comments, there were younger groups talking and various sectors mentioned in the focus groups. Light rail was mentioned several times in those groups as something they liked and they wanted to see more of. So I just wanted to mention that, as well. In terms of the manufacturing sector, and that is I'm going back and forth here, number three, preserve and strengthen manufacturing related activities and jobs. I think we need to take advantage of areas in San José where there is industrial land that we preserve for jobs and really think about how that relates to that local area. How can we create jobs there where residents live near -- live near the jobs, where we have retail opportunities there, where we can get significant more benefit by putting the jobs there. And one of those areas happens to be in district 8. We have some industrial land that's available for manufacturing. And it would invigorate Eastridge. It would invigorate Evergreen village square, it would invigorate that whole area and would then cause more retail to locate there. I think we need to look at what we need to do to moving the

engine, starting the engine that would cause additional impacts in economic activity. And finally I want to say and I think other councilmembers have mentioned this. The folks up here are your biggest ambassadors. We are out there talking to businesses, we're talking to residents. We want to work with you as partners. I know I do and I already am. I met with the general manager of Eastridge this morning. We want to be out there and working closely with you to move the needle on this economic development strategy. If I could suggest, if you could provide, I don't know if we want to call it a quick reference guide you know, a cheat-sheet, something that has the benefits for businesses to come to the City of San José, a quick reference guide that we can look at and go to, when we're talking to companies, and I think Paul, you mentioned something that you pulled some data out you mentioned to a company, some benefit to be in San José. And those are the kinds of things if we have that on a list that we can look at, that would really, I think that would really help us. And last, there are companies and opportunities we see as we move through our day and the people we talk to where we want to, where I would like to see us initiate the focus group, initiate it based on some opportunities like I have seen in District 8 where maybe we're going to look -- maybe we can look at it, for example I've thought about an Evergreen Edenvale corridor of development there, looking at Evergreen and Edenvale as a corridor of opportunity for job creation. There are all kinds of I think opportunities to receive information and also I think bring opportunities to the table. And that's all for now, thank you.

>> Mayor Reed: Thank you. That concludes the council questions and comments for now. We'll be back later after you get through the rest of the presentation. It is now time to turn to our expert advisory panel and then we'll have the major stakeholders panel.

>> Kim Walesh: Thank you, Mr. Mayor. If we could have our experts come down and join me here. We have two sets of experts. The first is our outside economic experts and they're each prepared to make about five minutes of opening comments and then you get the opportunity to ask them questions and see if you can stump the experts here. I was just kidding. They're really not going to try to stump you. First we're going to have Doug Henton. What I'm going to ask them to do is, they're each going to go to the dais and stand so they can face you and then they've got the five minute timer on, they'll get their little warnings. Doug, are you prepared to go first? And the focus question we have for each of them is, what is most important for council to know about the economic environment San José will face in the next five years? And how do they think San José should respond to ensure our city's economic success. So Doug, I think many of you know in addition to being chairman, founder and CEO of collaborative economics, he is also if author of the index of Silicon Valley, has done it every year since its origination in I think it's 1993 and is a Silicon Valley guru. So he is going to address the Silicon Valley perspective on this section. Thanks Doug.

>> Great, appreciate the opportunity to be here, I know you've had the opportunity to hear the overall strategy so I'm going to focus on specific aspects, specific as they relate to the region and then you're going to hear of a somewhat broader perspective from the next two speakers. Just want to comment, just generally, I think it is an outstanding economic strategy that outlines an achievable vision with very specific goals and based on some, I think, realistic assumptions about the future. We work with cities and regions around the country and I think this is a national model and I think it should be noted. As I mentioned others on the panel are going to talk about some critical global and national as well as broader regional trends in the Bay Area that will affect the City of San José and I think it's important to understand those trends and to anticipate them as best as possible. And I think the document does talk about what may happen in the next five years. But in the end City of San José cannot really shape those external trends. All you can do is really try to understand them and try to anticipate them. So I think in this uncertain environment and we're clearly on a very uncertain environment and there's a lot of things happening the goal should be a resilient, a resilient city, how can you respond to these things and be as flexible and resilient as possible. I want to focus my remarks very specifically on something that I believe is important. And that is the underlying business dynamics that determine the growth of not only businesses and jobs and what the city can do to influence those dynamics, because in the final analysis, the city, the question is how the city policies create that right environment for business growth that generate the jobs and the revenues that are essential to sustain the quality of life, that vital cycle you saw when Kim put it up there. Now underneath the headline economic trends which you get every month in employment rate, the job gains or losses, we've seen a lot of losses lately of jobs. I just want to focus my remarks specifically on something that is known as the business churn, and that is the birth and death of firms. And what's going on at any moment is that some businesses are being created, and some are closing, some are moving, some are moving out. The key to a vital business environment is to have a

positive net between the birth and the expansion of firms and the loss of firms. But this is going on all the time. Now, Silicon Valley is characterized by very, very active business churn where we're actually driven more by both the birth and the death of firms than the moving in and out. And in fact from 2007 to 2008, over 15,000 new establishments were created in our region. And 5,000 went out of business. Not only a small portion of these businesses were either moving in and out of the region. So the net gain was about 10,000. Now, in fact, you may wonder how does this happen? Well back in 2001 and 2003 when we went through the dot-com implosion what tends to happen is that large firms when they shed employees, then they don't necessarily leave the area, many of them go out and actually create new establishments. And so what you want, I just want to make three points which I think relates to the overall strategy. The first point is, the city can and does I think but must understand its underlying business dynamic and the policies that you have will have a big impact on those firms that want to start up and expand and succeed in this region. For example, your specific goals are about the speed of the permitting process. It's extremely important and I think the speed issue is very important to help people get through all the things they need to be successful. Also, the goals around nurturing small business. Very, very important, how do you grow and support these enterprises as they want to start and expand. But I want to make a second point that some of the startup enterprises become fast growth and they will focus in on what the mayor started with in these driving sectors. Not all small businesses are the same. For example, some as I think in the prior discussion, we talked about some were family owned retail, that may not be interested in adding a lot of employees. They're important, they're important obviously for the community and the stability of the community. But there are other enterprises that of these enterprises that are getting started that will grow from being small enterprises to medium enterprises and will reach out to export markets particularly in some emerging fast growth sectors. Example, the clean energy area which is now starting to grow in this region. Now Kim Welsh put some interesting statistics up there in her presentation that I think are worth noting. When you think of the overall employment of San José I think about 20% are in these driving industries, there are these companies that we know, the 21 companies that everyone knows but 28% are in these supporting industries that are absolutely essentially for the success of these driving industries. These might be medium size and small size industries. The second statistic she put up there which I thought was interesting was 41% of medium and 31% in small. That totals to about in my way of calculating 79% of employment in the medium to small. What you want to do is move from medium to small. So the point of your policies are how do you support that movement from small to medium and that's your goals related to incubating those driving industries, encouraging the growth of emerging companies. The final point I want to make in the time I have available is this: We have a fundamental shift in the structure of industry and companies here in the valley, and in San José. And what we're seeing is that this is a hard one to get your head around but we've had a 25% increase in establishments without any employees. These would be proprietorships. These would be extremely tiny companies that actually don't have a lot of employees but these are the ones that are growing. We have 124,000 of these establishments. Sometimes we call them free agents. Sometimes they're called freelancers. These companies are extremely important. These are the companies that operate on a contract basis that provide the services to the larger companies. So when we talk about the larger companies Thayer using these smaller companies. Like Hollywood when we come together with producers actors and support teams and they reassemble. The support activities provided by the city is so important for the free agent. And in some ways, your creative downtown and the vital neighborhood centers around the downtown are conducive to this. How do you attract and grow these free agents, and how will they be retained here? So in conclusion, I just want to focus on this particular piece. The city can in fact continue to shape this business dynamic. We can grow a resilient and innovative economy, but we need to understand this changing economic structure that's underneath that, of these network microenterprises to sustain this long term economic, if you will, the long term economic infrastructure is really a microcosm of what's happening in the underlying economy. So it's the driving industries, the medium industries, and the support industries all make up the nature of this economy. So I think the strategy makes -- creates a support for this, but I think it is important to understand these dynamics. So I'll stop there and let her go over to the other.

>> Kim Welsh: Great, thank you very much, Doug. Our next speaker is Dr. Sean Randolph. Sean is president and CEO of the Bay Area Council Economic Institute, and although I've asked Sean to talk about the Bay Area perspective, know that he is quite an international guy. He just returned from Hong Kong. He's heading off to a dinner about India tonight, and he thinks a lot about the Bay Area connecting globally, so thank you, Sean.

>> Thanks, Kim. Thanks, Mayor Reed and members of the council, for the chance to be here. There is a lot we could say about the Bay Area economy and how San José fits in, but I'll focus my remarks on three related topics. One is innovation, second is talent, in other words education, and the third is cost. When you look at the Bay Area as a whole what's the one thing that you think of, whether you're sitting here or New York or L.A. or Tokyo when you think about the Bay Area? It's innovation. We're really innovation central. Most of our growth in the economy has come from the growth and establishment of new technology based companies. A lot of the foreign investment coming into the Bay Area is related to innovation both in new business models, companies like Google and Yahoo and lots of others that didn't exist 15 or 20 years or even less and it's about the technology that gets shipped around the world. A lot of our economy here, in the region and especially in the valley they get 60% or more of their revenue from sales outside the U.S. How they connect to the rest of the world is extremely important. And so how we fare as an innovation led economy is absolutely critical to our competitiveness down the road. So what goes into that? Well, of course it's our scientific base, it is our R&D, a lot of the foreign companies that do come here as well as our own companies, they're coming to open up R&D labs to tap into the innovation pipeline we have here. And there is a whole ecosystem that supports that supports that. And so really as we fare as an economy here in the Bay Area in this general area of innovation, ground breaking business models, new companies starting up, new technologies being commercialized, that's how we're going to fare. So what goes into that? Well, there's at least two major factors that I'll mention. One is we have to have world class infrastructure. We can have innovation without that but it sure helps a lot. The kinds of things in the plan is by the way a well thought out very practical strategy are the things of course like high speed rail, Mineta airport, BART to San José, those kinds of things that make us more and more connected and more and more efficient in terms of how we move our workforce around and relate to the rest of the world. But the most important part of the infrastructure I think is said, education. If you go to any company around the world and it's an American company or it's a foreign company, it doesn't matter anymore. If you ask them what's driving their location decision, where will they open their headquarters, where will they open their subsidiary, where will they open their next factory, even if they're not moving headquarters, they'll probably tell you it's talent. It's not primarily cost. Cost is a force, but it's more talent. These companies can go anywhere around the U.S. or anywhere around the world and as often as not, they're looking to where they can access the best talent pool of qualified workers to meet what they need whether it's a scientific lab or it's a manufacturing facility with a lot of technical components to it. So how we fare in developing our workforce is absolutely critical and it's not just of course the Ph.D.s coming out of Stanford and Berkeley, it is the engineers coming out of San José State, it is all the people coming out of the community college system to support this ecosystem in the Silicon Valley and the Bay Area. So how we fare in supporting the flow from the bottom to the top into our workforce and the quality of that workforce will have a lot to say about what our industry profile is going to look like three or five years down the road. Would I mention cost because I do think education workforce quality is the most important factor but cost is not insignificant. And I think manufacturing is in the strategy, I think it's a very important thing. A lot of people tend to write off manufacturing here in the Bay Area, we have a lot of it, it's very important. And it's important because it's a critical rung in the value chain of a company from R&D right up through sales. If you lose the manufacturing part you lose the critical part right in the middle and it goes away and goes away permanently, the bottom or the top are at risk and those are a lot of middle class jobs. I think San José in contrast to some other parts of the Bay Area does have the land and the capacity to attract manufacturing, but that gets us to cost. Cost does matter for manufacturing. You need the land, you need affordable cost. And I would just mention one sector, clean tech. So in all of our technology innovation I think there's a lot of enthusiasm about the opportunity for clean tech. Here in the Bay Area we probably have the best opportunity anywhere in the U.S. to develop this as a major tool, stool of our technology stool or major leg. So we've gotten everything in I.T., we've got biotech, we've got nanotech, and more and more clean tech is the convergence of those different disciplines into completely new technologies. We can do that better than anywhere in the world, and we have the venture capital here to do it better than anywhere in the world. And so we're getting there in the labs. The question for us here in the Bay Area is how can we commercialize that and how can we capture as many of the jobs that that groundbreaking research produces here in the region. And there I've really subscribed strongly to what Doug said, that we really need to be concerned about capturing the benefit of the research that we do here. And if we can't grow the entrepreneur, can't get their small company started and grow, and the companies that employ a lot of people, then we're losing a lot of that benefit. So cost is important, and my final word on clean tech is that because clean tech often has to do with energy, energy is a

commodity. It's driven by cost. So you can do your research in the lab but when you've got to make the product you've got to make it somewhere and you're selling it into a market which is a commodity market so it has to be extremely sensitive about the cost factors as they drive manufacturing, but especially if they drive clean tech. And I think we have a huge huge opportunity, again the best in the world, but we really have to pay attention to the cost open that. And the -- on that. And the last is that flashing red light.

>> Kim Walesh: Go ahead.

>> The last thing I think is really important is all this happens in a global context. We are the most globalized economy in the United States. Either maybe New York, you see it in our population, you see it in where our revenues come from a lot of our companies, especially here in the valley. We see it in the kind of investment that comes into the valley and entire Bay Area from all around the world. And more and more when you look at like the war for talent, the competition for talent is not just with the next city. It's not San Francisco, it's not Sacramento or L.A. or Phoenix. It's with Shanghai and it's with Singapore and all these other places. And so we have another advantage here that makes us several legs up the ladder. Higher than a lot of other people. We have a phenomenally successful Indian American community here, really the largest most wealthiest in the country. Likewise we have the largest wealthiest and most successful Chinese community here in the Bay Area, highly organized, you go through all the business communities in the world, we have appliance into all the major markets of the world. How we leverage that for our advantage to attract companies here, let them use those appliance to develop opportunities in other countries, primarily China and India but really all around the world, that's going to be more and more the context for everything we do in the economy. Thank you.

>> Kim Walesh: Great. Thank you very much, Sean. Now I'm pleased to introduce Dr. Jana Reems. Jana is based in San Francisco. She's a senior fellow with the McKinsey Global Institute, and she directs their global public policy research. She is going to say a little bit about what we can expect in the national and global economies going forward.

>> Thank you. Good afternoon and thank you for the opportunity to share our perspective with you. Today we are coming out of the first truly global recession since the second world war. The global economy declined for almost a percentage point last year and in the U.S. we saw four straight quarters of declining GDP starting in mid 2008. Today we have 5% fewer jobs in the private sector in the U.S. than we had two years ago. This is a sobering environment for any kind of economic development efforts, and more than even usually, it pays to ground any decisions on a solid fact base as you can. And our work at McKinsey suggests three things to keep in mind. First, don't expect a quick recovery. Even though we have had some good news recently, we know emerging markets, China, India Brazil and other countries have continued to grow and we had a very strong last quarter 2009 in the U.S. but this means that we are not seeing a drop any longer. The worst is over. It doesn't mean we are back to the rapid growth as fast. Simply returning to the income levels to the GDP per capita levels we had before the crisis is expected to take anywhere from two to eight years from today in the U.S. So this is simply the boundary conditions that any realistic economic development and goals and aspirations should keep in mind. There's a lot of uncertainty. We don't know what the actual numbers are, but being realistic about the aspirations is important. Second, be prepared for faster not slower speed of change in the global economy. We have heard for a while about the rise in Asian economies, about the increasing role of sovereign wealth funds, about the changes in global manufacturing job changes. The crisis is not slowing down for these processes, it is speeding them up. The debt crisis hits high income economies the hardest and many companies are seeking to optimize and reduce costs on their value chains. So in these kinds of environment economic efforts that sometimes are tempted to protect status core are particularly risky because in a way you are not only focusing on something that is probably going to go away faster, but you're losing opportunities on the upside. This is something your economic strategy doesn't do as all, it is really focused on forward ended change and I think that is a very good thing. Third, expect increasing regional, national, and international competition for any business location decisions. Governments at all levels are really focusing their efforts and being smarter about how they attract business to their jurisdictions. The Dutch innovation platform has brought together the government, business and civil leaders to develop a detailed plan to bring in 50 significant international businesses into Holland. In France the ambassador for international investment reports every year about the jobs created. And I don't think I need to tell you about the efforts in other U.S. states, of attracting businesses from California and the Bay Area. This competition is particularly fierce for the new emerging sectors like clean tech. Simply the amount of stimulus-related funding announced for clean tech has exceeded \$100 million globally. So in this environment, what is really valuable is to have a good understanding of where you stand and how

people view you as a location to do business. What are your strengths, what are your weaknesses, what can you improve and at what cost? And this is again one of the things that I really liked about your economic development strategy. The lots of -- lots of detail from the interviews, and facts on how San José's viewed by the people who are considering it as a location. And it is only with that kind of detailed intelligence that you can make sure that you focus your efforts on the highest priority issues and avoid unnecessary incentives or actual real costly mistakes which are very common in this field, as you know. So in conclusion, in an environment like this you will need to have all of the different sectors of the economy pull their weight. The driving industries that are going to bring a lot of wealth and income, but also the 75% of the economy that particularly for the jobs that will continue to be very important. When you look at globally of the job creation in high income economies, it is services where the net job growth has come from. In all of them including industrial powerhouses like Korea and Finland so in a way, having a balanced view of how do you attract the driver industries as well as how do you maintain the local services and make sure they continue to grow their job creation and growth momentum is very important. Thank you.

>> Kim Walesh: So we have time now for about ten minutes worth of questions and then we'll have a second three-person panel.

>> Mayor Reed: Okay, I had a question, others have questions. Let's start with Vice Mayor Chirco.

>> Councilmember Chirco: Thank you very much, for your presentation. (inaudible) where are our strengths, where do we put our resources, how do we grow businesses and spin them off and I couldn't help but think we have our business cluster, we have the bioscience incubator and talking about what are our strengths, which are our diverse educational resources and looking at green technology and the emergence of that and the amount of money that's being put toward it in the stimulus plan. Has there ever been any conversation about kind of like a research and development center for green tech? I know that's something that, you know, as a struggle to find a battery that will last longer or smaller solar panels that -- I know that that's being done by our green tech businesses, but to look at something collaboratively, that might be something that would attract that type of business here, with an additional resource.

>> There actually is an amazing infrastructure here in the Bay Area, second to none in the U.S., perhaps in the world, that is based on fundamental research, often of a collaborative nature. When you look at a lot of the funding that's coming out of clean tech in the Bay Area, some of course is coming to support private companies like Solyndra. But by far the greater amount of funding is coming into our five national laboratories and the leading universities. So there is a tremendous amount of funding coming into basic and applied research but more basic research at Lawrence Berkeley national laboratory, Lawrence Livermore national laboratory, NASA Aames, and there are major blocks of funding now coming into all of the U.C.s as well as Stanford. There are also some extremely interesting and innovative undertakings, there is one that's located in Emeryville that's called J BED, the joint bioenergy institute, that's really a crossover between biotech and solar generation, sort of it's really largely the application of biotech to fuels. But that's a collaboration, if I remember it right, Berkeley, Stanford, U.C. Davis, Lawrence Berkeley, national laboratory and Sandia, in a building not in a campus that's actually set up for partnerships in industry aimed at commercialization. So we have some absolutely unique and amazing resources here that are laboratories looking for the application of fundamental research to practical problems, a lot with federal support, I think the trick for places like San José and anyplace else in the Bay Area is how to participate and tap into that. There's a lot of industry funding, joint product or project development with industry, but there's more and more a drive especially with the federal money coming at commercialization. How do you get a product out of this that's going to make a difference. So I think there's a need and an opportunity to engage with and tap into those institutions to try to get the businesses developed out of that that can try start to develop the jobs.

>> I would agree with that. I agree with what Sean said. We have all of the building blocks in terms of federal research. We do have the national labs, we have the universities, and many of our companies have moved into the space. For instance in the solar area we've seen the semiconductor industry want to move here into the solar area. The challenge is commercialization. It's not enough to do the research. You really have to move it into commercialization and we have to move it into scale. Some of these companies are small. Again how do you move them to a higher level. I notice in the strategy the notion of a clean tech commercialization center, trying to develop some type of ability to move from pilot to demonstration. Very important to have a partnership between the city, the region, and the federal government. The federal stimulus money, just within the Department of Energy, is \$30 billion, it's being targeted to a number of regions. So far this region has not really benefited as much as it could I think in

that area. There have been some national competitions for instance like battery technology, smart grid. We have not really done as well as we probably should in being able to pull those dollars together from the federal government to move towards commercialization. We need to be as aggressive as possible to make that happen. And I think we are really at that critical moment. There are a lot of regions in the United States and around the world particular in Asia that want to be dominant in that area. We need to take all our assets and push them together in terms of commercialization. That is a critical moment, in the next couple of years in terms of strategy.

>> Councilmember Chirco: That brings me to my second question, I think you all touched on some part of it which I believe Dr. Randolph talked about green technology being commercial. Another thing we've done with the bioscience is to move them into kind of a pilot manufacturing site so they can actually begin to produce, begin to market begin to build something that will expand. And I know we've talked about a demonstration site. And I think based on the conversations I've heard here, that could be an exciting element that we could add to quite honestly make us as attractive as we can be to those smaller companies that want to grow to the next stage in this environment where we have the rich educational resources, the critical research that's going on here that they could develop, get to market, and grow.

>> Kim Walesh: I mean you're absolutely right. Our niche here in San José is commercialization. We have the ability to do that in clean tech and more in bioscience also.

>> Councilmember Chirco: Thank you. Sounds like that would be a very attractive thing to a market that is really dynamic and will be part of our future and hopefully in 2010. Thank you.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Thank you, mayor. I had a very focused question, and then a broader question. I was hoping I could just ask both and anyone who wants to respond I'm very interested in the answer. Doug you mentioned that we've seen a 25% increase in sole proprietorships. Those are folks unemployed going at it on their own, I imagine but we've also seen emerging over time sort of this trend towards greater numbers of freelancers, folks armed with a laptop and a blackberry and in Peet's coffee and doing their own thing. I know in cities like Santa Cruz we see some firms like Next Base and other sort of shared office type organizations that seem to be enticing these freelancers at a high rate. My question is as we think about the general plan update and so forth to what extent should we be thinking of this kind of model as a significant driver of the workforce in the future? Is this an aberration, is this a significant driver? And the broader question goes to I guess what Sean noted about innovation, you know, where is innovation happening, of the kind that we expect to commercialize in the next three to five years? Is it happening all across the spectrum of different business sizes? Or, you know, should we be focusing on driving industries of a particular size?

>> Well, let me start and then turn it over to Sean on the broader question of innovation. But I really believe that there has been this fundamental shift. You have the big organizations which are still very, very important and we are fortunate to have large companies in large national labs. But in the end it is really the talent and the ideas that are generated and sometimes people do that in large organizations and sometimes they go off and do it as individuals. That is part of what we've been successful at. We do have a large number of these small in some case individual sole proprietors or contractors out there. We probably, there are two implications of that. How do you connect them? How do you make them know what's going on, maybe through networks, some people have suggested even getting back to the guild model of entrepreneurial guilds, helping people come together so they can work together. Some of this is happening naturally. I mean, people hang out at different locations, at coffee shops, they do this. That could be facilitated, in terms of the, as you mentioned, the physical design, and it may have major implications for commercial real estate in terms of how buildings are designed in the future. We might want to have it possible for people to gather and do innovative things and then move on, rather than assume everybody's going to be one single space. And I think that is an important point about this valley. And I think that something -- it also has a major implications for how people deal with some fundamental issues like where do they get their health insurance, where do they get their support services, where they're not necessarily going to get that from their employer anymore. So we have got a very different employment model that is emerging here as an implication for innovation.

>> I would agree with everything that Doug said. I think here in the Bay Area we have more than many other parts of the country a business profile with a rather heavy weighting at the small company size and again lots of individuals, individual entrepreneurs, the trend has been more that direction. Even before the recession came. But that's where a lot of the innovation is coming from. And I think it's worth noting that we think of innovation as being technology and that's where we hold a lot of cards. But there is such a

thing as service innovation. Starbucks is the technology company and they make gazillions and it was a service innovation. It was not just about technology. But all of those companies started small. And when we look at job creation, there is not that much job creation coming out of big companies. It's coming out of small companies, scaling up to be medium size companies, so I think that's really where the opportunity is to focus.

>> Councilmember Liccardo: Thank you.

>> Mayor Reed: Councilmember Pyle.

>> Councilmember Pyle: Thank you, mayor. I was really very interested to hear you stress the are word regional. I think all of you have mentioned that word. When I was about a year and a half ago at a -- let's see where was I? I was in Dublin at one of the chamber of commerce meetings and that was stressed as well. And people from all over Europe were at that particular meeting and they were saying that they had to struggle between trying to get their own act together and then think in terms of how much more strength they would have if they worked as a region for obvious reasons. So the question still remains. At what point do you say, we have our act together well enough to connect with, in our case, the rest of the Bay Area, in order to make a stronger case for dominance in our marketplace?

>> Well, I think you're preaching to the choir here, with Sean and his work. And that's certainly been some of the work that some of the people that I've been involved with joint venture Silicon Valley since its beginning. All things are important but by working together in a region you can compete on a broader basis with other regions around the world. And we do benefit in this region from having major institutions like the universities and other regional assets. So the degree we can work together as a region not only to market ourselves but to be able to collaborate to take advantage of opportunities like clean tech and bio, I think it's extremely important. And I think it's an economic opportunity more than just a political issue of how to organize political institutions. And I really do believe that it's important to think regionally because the rest of the world is doing it. I mean, we are not going to compete with -- you mentioned Dublin. Think about Shanghai, think about all the rest of the world. They are organizing to compete globally on a regional basis. So I think it's the right approach, and I think Sean does this too, I mean, that's what he does a living, so I'm sure you want to mention it.

>> Obviously, there is the city perspective and also, the regional one, and in the end of the day you have to good have good governance at a city level and I got to say I think San José has that. It really has been very, very practical and very focused. But it takes place in a regional context. And as Doug mentioned all around the world it's not just cities, it's regions that are coming together as competitive units. So I got back last night from the Po river delta. So 65 million people in the Po river delta, between Hong Kong and Shen Zen (phonetic) and Guong Jo (phonetic) and they're all pretty tightly linked. And the units, or becoming a unit. You have the services and the financial capital in one part and you go across the line and 40 miles and you've got massive manufacturing and they're all being linked together by infrastructure. They're building I think a 40 mile bridge from Hong Kong across the delta to Ju Hai (phonetic) and they're building a high speed train up to the border. And you go to Shanghai and other regions around Beijing, they're building high speed rail specifically to link regions within themselves. So they're thinking regionally very much. We haven't got a plan as a region but we can work together. The advantage of regional solutions is scale. The more scale we have, the more impact we have, the more attractive we are in terms of say our workforce, the quality of our infrastructure, you know it's BART and high speed rail and Mineta and all these things. The shared infrastructure, the education infrastructure that we all share together in the region. And so how we package that and support that and present it will support all of our cities.

>> Mayor Reed: We're going to run out of time if we don't keep the questions and answers a little bit shorter because we still got another panel.

>> Councilmember Pyle: I know that Jana wanted to say something.

>> Mayor Reed: Go ahead and finish up, but try to be shorter and --

>> There is a response, think about experiences from elsewhere where we can learn about how to do that. The conflicts between the clear economic case for close integration versus the individual incentives.

European Union, for example, if they would have started with a vision of let's all integrate it would have never probably prospered. It studied from a very tangible free trade agreement. In a way having a tangible goal where it's clear that there's a benefit for everybody might be a way to get over that and I think whether it's clean tech whether it's other topics I think there are other cases where the Bay Area can make that case and starting with a strong successful example may be the best way.

>> Councilmember Pyle: Thank you.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: Thank you, mayor I'll try to keep this brief. You talked about Doug I think it was you that talked about talent being incredibly important in one of the key ingredients in bringing companies here. San José as many other areas struggles with how to help our home grown talent succeed and get through high school and college and be prepared for these job opportunities. Can you talk about any examples or ideas about engaging junior colleges and maybe even high school level and engaging our institutions of learning with some of the front end projects in clean tech and projects in which you've discussed earlier in terms of how can we work with those to create opportunities for our future employees?

>> Well, let me just say you mentioned community colleges, junior colleges, I think they are extremely important in the way of looking through education today. K-12 is absolutely essential, and we've got a tremendous amount of work to do, and we do see dropout rates and improving student performance. But I think we focused a lot on the higher ed, UC-CSU public institutions, private institutions, but I believe that the two-year community colleges play such a critical role, not only for the transcript function of people who want to go to community college and then go on to a higher level, but to be able to have that as an ability for adult retraining for people to be able to go back to community college and learn a skill particularly as skills are changing on a rapid basis. We are fortunate here that we have excellent community colleges. They are under stress, a tremendous amount of stress financially from the state and also from local resources. So I think they're a real hinge point for flexible training going forward and we need a workforce strategy that builds the community colleges into everything we're doing but our workforce investment boards and all the rest. I think there is a lot of work going on in that area but I think it's absolutely critical, I think that would be my mind-put.

>> Councilmember Herrera: I thought of that as you were talking about tapping into NASA and Livermore and all of the places where this is going on and how can we bring the educational component in this for workforce development.

>> Mayor Reed: Councilmember Kalra.

>> Councilmember Kalra: In the interest of time I'll just thank the panelists. Thank you.

>> Mayor Reed: I think in the interest of time we're done here with questions on this particular segment so I think it's time to switch to the other panel.

>> Kim Walesh: Can we give them a round of applause.

>> Mayor Reed: Thank you very much. [applause]

>> Kim Walesh: Our next panel is our panel of stakeholder experts who are also involved on the advisory group and if they could come on down please. And the question we gave them was, from your perspective, what are the two most critical issues that San José must address to succeed economically, the next five years. And then how should San José respond. So we've asked them to zero in on two most critical issues from their perspective. And I'll just kill time while Bob is walking down. Bob if you wouldn't mind going first. The same drill, five minutes of comments and then an opportunity to take some questions. So I think I think you all know Bob, Bob account public policy director for working partnerships U.S.A.

>> Bob Brownstein: Mayor Reed and members of the council, thank you for inviting working partnerships to be part of the advisory group for the update of the economic development strategy. I and my research team are always pleased to share our findings and perspectives with the city. Let me begin by emphasizing the wisdom of the economic system model which city staff titles the vital cycle of success. This is a model that illustrates a classic feedback loop, economic growth leads to prosperity and tax revenue which help create a vital community which, in turn, helps strengthen the economy. The model is important not only because it shows that economic growth and community vitality are connected, it's also important because it calls our attention to the different kinds of impacts that different patterns of economic growth will generate. All economic growth is not the same from the perspective of the San José. Some kinds of growth will generate more tax revenue, broader prosperity and a healthy community and other kinds will produce less of all of these elements, which as the cycle continues, will return less positive feedback, to the economy, and induce less growth. And this feedback relationship is pivotal as we consider the two critical issues I want to identify. The first issue concerns goals. Will we endeavor to keep San José a middle class city? Will we? I consider that an absolutely essential question for our economic future. The recognition that the middle class is at best at risk has now become widespread. Last week CNN asked its viewers whether the definition of middle class Americans had changed and the results, the responses they got were astonishing. Typical of the responses was the following: "in my

world, there is no middle class. Only the very rich, the rich, the poor, and the very poor. Most of us are hanging on, being poor by our finger nails and hoping we won't join the every growing, very poor, class." Now, fortunately that comment didn't come from San José. And San José is not there yet. But the trends are extremely disturbing. Large numbers of workers in Silicon Valley are already trapped in low-wage, no-benefit, service jobs about a third of Silicon Valley workers earn \$15 or less, which puts them at risk of being able to meet any kind of self sufficiency standard, eight of the 20 largest opposition in Silicon Valley pay less than San José's living wage standard. And as the economy is changing, jobs in the growth sectors are often paying significantly less than jobs in the declining employment sectors. That is, the jobs we're losing were paying more than the jobs we're gaining, even if we're gaining in the aggregate more jobs. And the vulnerability of households in Silicon Valley to economic dislocation is extremely serious. Fewer and fewer families have employer sponsored health insurance. Less than half of the unemployed are eligible for unemployment insurance. Households are literally buried in debt if they haven't gone under altogether and the public safety net is under extreme stress as you all know very well. Churning, which has been described earlier, may be a very effective mechanism for growing innovative companies, but churning may not be a good way to grow stable middle class families without intervention from the public sector. Now, I believe that, while these trends are troubling, we can resist them, and strive to continue as a middle class city if we make it a priority. I think the most important thing to say today is to emphasize, we cannot assume San José will stay a middle class city all by itself. That goal requires persistent conscious attention just like we persistently and consciously strive to be one of the safest cities in the United States. Which leads to the second critical issue that I would like to address. Particularly in these challenging times when resources are scarce, we have to target our efforts. I very much agree with the mayor's perspective in this regard. We simply cannot throw programs and money and rhetoric at the economy and expect maximum results. Now, to a great extent the economic strategy before us does target particular sectors, but even within these sectors, more targeting will be helpful. All retail and small businesses are not of equal value to the economy. They don't generate the same numbers of jobs. They don't generate the same numbers of quality jobs. Everything we do downtown or at Diridon station is not of equal value, and although we should focus on driving indicators and driving industries, some guys drive faster than others. And we need to be focusing our efforts at the ones that have the pedal to the metal in terms of economic growth. And when I look at some of the ideas that are in the memos that are before you today, I think you'll be getting them today, some of those proposals meet that desire for intensive targeting, and some don't. The idea of going after driving industries that generate business to business sales tax in the February 4th memo is precisely the kind of targeting that we should be talking about. But in one of the earlier memos, the targeting is much more general and the notion is, well, if we don't make major incentives, we'll simply stay at zero. That is, we'll be getting the same percentage of no economic development at all. That logic implies that we're the only player in town. That the private sector development doesn't exist anymore. That's not true. Actually, the private sector is the biggest part of the economy. The city is a relatively small part, and we don't gain very much by giving incentives to enterprises that were planning on growing on their own anyway. We want to target our incentives for the critical decision point, for the industry that's considering growing, but not certain to make the investment, where our resources can really put it over the line. So let me conclude on this theme by reciting what is an old military maxim which is the general who tries to attack everywhere usually ends up successfully attacking nowhere. Let's try and successfully attack in a few areas where we can make a difference. Thank you.

>> Kim Walesh: Thank you very much Bob. That was great. Next I will introduce who needs no introduction either, Carl Guardino. Carl is president of the Silicon Valley leadership group and Carl will be providing a driving industry perspective. Just to the arrow to the right, just -- yes.

>> I assume the five minutes doesn't start until my mouth starts. So I will start now. Mayor and members of the council, I'm honored to be here today to answer the question, what are the two most critical issues San José must address to succeed economically in the next five years. And I'd like to look at this holistically. First that we recognize and grow our strengths. And second, that we identify and partner on our challenges. The strengths of a valley with 2 much 4 million people, a million jobs and more than 7,000 driving industry high tech and biotech firms is clear and I'm going to review them very quickly. The challenge of course is partly that we have over an 11.5% unemployment rate in how we define Silicon Valley. The strengths, these six. Treasure, training, talent, technology, teamwork and temperament. And no, it was not easy to come up with all of them to start with a T. I don't have time to go over all of them with a T. I would mention treasure. Venture capitalists continue to put their wallets where their words

are? In directing over half of venture capital dollars, into Silicon Valley, a tremendous strength. Second, training. Three of the top 15 universities in the world, according to the economist magazine's annual survey, are here in the Silicon Valley and the Bay Area. Huge strength for skills and talent. Oop, it flipped on its own. That was training. Third is talent. The diversity of this valley is a tremendous core competency. When 53% of engineers in our companies here are foreign-born and more than 50% of CEOs founding or running technology companies starting today are foreign-born. And technology, Joseph Shumpeter was right, the waves of technology that has come here are tremendous. The 50s and 60s, the 90s personal computers, Internet at the turn of the century, today green tech, clean tech, smart phones, et cetera. So what do C.O.O.s need to be successful here? Last year and I have extra copies for each of you, we conducted our sixth annual CEO business climate survey. Bless you, that doesn't come out of my five minutes though. 140 CEO respondents combined global revenue exceeding \$1.5 trillion, key concerns, housing that their workers could afford, recruitment and retention from a cost perspective. Traffic congestion and transportation, health care and taxes. Mark your calendars. Please. Join us March 3rd. We will have our seventh annual business climate survey. We've already had 153 CEO respondents. Even in this economy, 1.7 trillion in annual global revenue with a special section that I know you care about. Venture back, high tech CEO startups. What do they need? So the second question. How do we identify in partner on our challenges? Well, first we need to partner on federal initiatives. Local city council, needs to care, with local business leaders, competing globally, about national and international tax policy around deferral and repatriation. Almost any CEO you approach in Silicon Valley today, this will be their top issue. Second immigration reform. We talked about our strength in our diversity. I look at this council and you are that example in our companies. We have to make sure we have sound immigration policy. Finally, that regional transit network that we've heard about from others. I'm not sure what BART is but I hear it's important and high speed rail is, as well. At the state level, we need to partner. We need to unlock legislators who are well meaning but trapped by caucuses and special interest with the open primary in June. We need comprehensive and specific reform that businesses like specifics around initiatives like California forwards. And we need sales tax policies that make us competitive not with other nations, just 42 other states around single sales apportionment. And then finally, regional imperative. The first six years of this survey, every year, top issue to CEOs, housing. Top issue to their workers, housing. There's a message. We have to get it, we have to address it. Second, education, as Sean Randolph mentioned schools for our kids. The math initiative, the mayor's work on San José 2020 and then healthy families. My hat is off to your work Bob Brownstein on that last initiative. Why is this important? To your tax dollars and to our jobs for families, semiconductor manufacturing get this perspective. One new job in that industry creates four more jobs, direct and induced, six jobs total, more than 475,000 in wages and benefits, more than 70,000 paid in state and local taxes and fees. We get the link. Electronic computer manufacturing, even better. One new job creates eight more, nine jobs total, over 800,000, nearly 115,000 in state, local taxes, and fees. Pharmaceutical preparation manufacturing, similar. One job creates seven more, eight jobs, more than 700,000, more than \$100,000 taxes and fees. It is the link that Bob was just talking about, and that circle benefits families, benefits employers and competitiveness, benefits revenues and fees for all levels of government. And it makes Silicon Valley special. My friend Ross Duval with the Milken Institute jotted this out on a napkin on an airport several years ago, he calls it the siliconia in the United States. It's all the regions just in this country, let alone abroad, who want the capture the imagination and magic that we have crystallized here in Silicon Valley. I would leave with you this thought. Who were the -- who was the brain trust though in southern Florida who actually thought it would attract entrepreneurs and engineers if they called themselves the silicon swamp? Mayor, council, thank you for your time. We're ready to partner and I'll leave you with an invitation. I mentioned D.C., May 4th through 6th. We're hoping that the mayor and at least a delegation can come with us, with 60 CEOs with individual strategic meetings with the administration and both houses, April 20th and 21st, similar in Sacramento, strategic visits with the authorizers and appropriators of the committees that tackle those issues of importance to you and us to grow the innovation economy. Thank you.

>> Kim Walesh: Thank you very much Carl. And then our next speaker and last for right now is Pat Saucedo who is the vice president for public policy and communications with the San José Silicon Valley chamber of commerce, and she's here to offer a general business perspective.

>> Good afternoon, mayor and council it is a pleasure to be here and working with you hand in hand on economic development and economic strategies in the times that we're all struggling with these days. I've been listening for last hour or so of some of your former speakers and a lot of very good qualified

information has come forward. Much for you to contemplate but also, I think those of us in the audience as well. I want today to talk specifically in regards to the chamber's core mission and we represent over 2,000 local businesses here in the San José-Silicon Valley region. Included in our members are our driving industries, but we also really represent a vast majority of small and medium sized businesses here in the San José region. And I think as I've looked through some of the materials that I had on hand prior to coming in today, and has been demonstrated today, clearly your small and medium sized businesses employ a very large majority of the people working within your local community. And they also are those businesses that are struggling to stay afloat as we work through this economy. I wanted to comment on some specifics. And some of the specifics that I wanted to share with you are that there are several programs that are out there that I think the mayor and council and your staff need to continue looking at, as far as providing programs to help our local economy. There's a program called jobs now. It is a federal stimulus program, and it may be that the city is looking into that or has gun to employ that. I think it's one that the city should definitely look at about the City of San Francisco has embraced the jobs now program and has been able through their private employers and use of the jobs now program to employ over 700 people during this downward economy. You know small and medium business and main street businesses are critical to the overall operation of the city. They support the driving industries. They employ many of the folks that Bob talked about earlier and I think it's really critical that we pay attention. The chamber fully supports the efforts of the council to continue to grow green jobs, driving industry jobs, and major employer jobs. We think that's absolutely critical. But as I read through the memos that came out from the mayor, from the mayor and councilmembers Herrera, Liccardo and Pyle, I wanted to say that the recommendations you've made are very good and very appreciated. The waving of employee business license for new startups for eight employees or less, it's not a lot of money, but it says something. It says San José wants you here, we want you to grow your business. The parking lot fee waiver particularly in the commercial real estate and the professional office that could be a real boon here in the downtown and other redevelopment areas. The shared new net net tax, again, it is a carrot. It is telling people we are concerned, we want to help you, we want to partner with you. I also want to say that the deferral of fees is one that as you know the chamber has spoken to extensively and we do think that the businesses that want to move ahead that by deferral of fees it will begin to churn the economy, it will put people back to work and it will get people back at the counter wanting to do business with San José. In the small and medium businesses what I found in the recommendations is there was very little specific language about how to deal with our small and medium sized businesses. And that's not a criticism, it's something we need to think about and I think we need to develop some specific language on how we are going to address our small and medium sized businesses. I know all of you are very aware whether you're walking around downtown whether you're walk down Lincoln avenue, Evergreen village, out in Alum Rock, or in Almaden, we see more and more for lease signs going up in our small businesses, in our professional office space. And that has a drastic effect not only financially for everybody but it's a psychological impact. Because as you walk down you're going oh, my God, another place is shut down. That means somebody else is laid off. That means somebody else suspect making a living today. And it creates a very negative psychology for everybody. Well, maybe I shouldn't invest. Maybe I shouldn't improve my bathroom or redo my kitchen because I might be next. So I think we really need to think about our small and medium sized businesses. We need to put a specific plan together and we need to do that in order to make them feel important and that we're there to help them. One of the things as we were researching some of our efforts in the last couple of weeks through the chamber is, we came across a program that was called business walks. And this is where the city whether it be -- it would be the city staff potentially, maybe some of the electeds would literally walk around the streets of your commercial corridors. You take a couple of blocks in downtown, you might do Lincoln avenue, you might do village square, you might go out in Almaden. And you literally walk in with your staff, your code enforcement, your planning, and so forth, and talk to the people running those small businesses. What's happening with them? How's business going? Is there anything they feel we could do right now to help them, keep them open, keep them operational, so they don't have to shut down? You take all that information and sometimes, actually, the person out in the street actually comes up with something the city can do that would make it good for the business community and able for them to stay open. And it's something that we might want to employ here in the City of San José. We also feel that fees, and you know with the chamber and business, fees are a huge issue during this economy. We certainly understand that fees are also dependent with the city, because that's how you fund the city. But we really urge the city and the council to defer any kind of fee increases during this difficult economy. We

need to keep our medium and small businesses feeling it's not going to cost them more to do business. Best case is, they might even see a decrease in some way, shape or form. We also believe that looking at the business license tax, we know that green jobs are important. We want to grow technology. Small businesses become medium businesses and sometimes a driving economy. I think the city has to think very seriously, again it might be a minor thing but waive economic business license fees for any green business that wants to come to San José. At least through 2011. Anything that will keep that going. You have heard from the chamber, we are competition with everybody today. And San José is going to be in serious competition with your surrounding cities because they all have an extensive amount of vacant industrial, R&D, and office space. So you're in competition right next door as well as worldwide. And I think you have some excellent staff, excellent staff, to help put packages together to keep you competitive. I know in Fremont, they are waiving 25% of their environmental processing fees, if they want to proceed with the development proposal in the City of Fremont. If you are bio, or green, they are waiving certain fees if they can see if they can get to you come to Fremont and not to San José. So I think just doing some reconnaissance on some of our local cities and what they're doing to beat you out of that next job is worth the time to take a look at that and see what we can do about that. The number two thing I really wanted to talk about is timeliness. And whatever you do, you need to do it and get it done and get it implemented. Because if we don't have this up and operational, whatever it is you're going to do within the next 60 to 90 days, it's not going to help the people that are out there. I mean, there are people literally hoping they can stay open through the rest of this month from the medium and small businesses. So whatever you do, timeliness, timeliness, timeliness, because it is really life and death for a lot of your small businesses out there. The chamber and its membership we're seeing many of them. Do I join the chamber and renew my membership or do I pay my staff person? That's how serious it is today. So timeliness, I really encourage you whatever you put in place, work with the attorney, work with your staff, and get it implemented quickly. Thank you for allowing me to be part of this program this afternoon.

>> Kim Walesh: All right and thank you Pat.

>> Mayor Reed: That concludes the presentation. I know that councilmembers have a lot of comments and questions, and interest in the work plan part of this which is the next part of the presentation. Because we're all anxious to get the work, we've heard it, we get the message, we want to do some of the things. But there are some questions for our stakeholder experts that I think we can take up. If we can keep the questions short and the answers short we can get them in before we lose our quorum. Councilmember Oliverio.

>> Councilmember Oliverio: I'll make comments and be as brief as possible. I just want to thank Councilmember Herrera's comment for admitting we don't create jobs, we provide the infrastructure to enable it so that's always a key thing to keep in touch. Paul Krutko, you got a nail in the head, San Francisco every time, if they have an income tax on salaries, you know, so I think that was a good point. Thing brought up on truck routes, we can't always rely on city staff to make it work. We have to realize that certain people buy homes next to a truck route and that's just the way it is. If there's been a business that's been there for 40 years it ain't going to change because we want that business to stay there. To the group here Bob could you speak more on the targeted because I like the narrow and specific versus the broad general. Like some ideas on targeting.

>> Bob Brownstein: The kinds of targeting that I think the city should look at is, the firms or categories of firm that are likely to generate higher job growth, that is more job growth. The quality of jobs, the firms with more multipliers which we call driving industry but it's the same thing that as Carl Guardino indicated where the one job generates the eight or nine jobs down the cycle, jobs that also contribute to some of the vital community components that are important to the overall system, when there are jobs that help education, or jobs that help health care, they also help the social infrastructure of the community, and the system to go forward. And then, there's also the other side of targeting. Do we really need to subsidize another junk food outlet right across the street from school? Probably not even though it might otherwise meet the size category of the kind of business that we're interested in. So at least that would be a sample of the ones that I would think would be worth thinking about.

>> Councilmember Oliverio: I appreciate that. So are you Bob picturing these mid size companies that are already successful at starting to commercialize their product, there might be 50 to 60 employees?

>> Bob Brownstein: Certainly we should look at that category. I actually believe in giving our staff discretion in trying to find what kind of opportunities they can find out there for putting resources into the economy, rather than general categories. I think you know we have good people, give them a chance to

hook at what's out there and make recommendations on what are the -- give them some criteria, give them a chance to come back with recommendations on what will be most productive and you know we can always reject their recommendations and if we think they're doing a bad job reject them. But I think we won't do either of those things. I think we'll get a better output than if we used more general categories.

>> Councilmember Oliverio: Thank you very much and to Patricia Saucedo's comments, I think city has often raised fees instead of taxes because it was just politically easier put inevitably we've raised them to a level that's discouraged business in some capacity, I don't have statistics, but I know that's the fact. When Joe Horwedel comes back into the room we can talk about what is it the city can do to drop a certain policy. I've experienced things where I'm sure each councilperson has had, experienced a retail business and it takes so long and Fred said something in one day and then Tom comes in something, two weeks, and tells them to move the pipes and moving the pipes cost \$12,000, and these are the things that drive people to lunacy, so perhaps we can talk about the memo. And then finally Carl, always a pleasure. And I know the housing group, the CEO survey always says housing, and I think San José has done that job and provided an incredible amount of it. And I guess the question is two things. One to provide housing for just the sake of housing and not providing parks or housing that pays property tax to continue revenue to bring a great quality of life to residents because I think these folks that are working at these driving industries want a quality of life. They want a place that's going to be attractive to live so where's that about a balance of providing housing and do you really see the folks that are due in the driving industries, the engineers, et cetera, that they're moving into the affordable housing that we built and been so successful as a city or are they moving into the single family home town house market rate element?

>> You've asked Councilmember Oliverio you've asked several good questions about housing. First your comment, and question about CEOs always mentioning housing. They mention it because it's still an issue. When it's no longer an issue and it's been addressed or less of an issue that's when it will stop coming up as the top issue each year of this survey and a very statistically valid one with that many CEOs all across our driving industries, high tech, biotech all size companies responding. Quality of life absolutely matters as we all agree no matter which community we live in but what they want to make sure that quality of life is here in Silicon Valley, and not in the central valley, because a nice home in Manteca or Modesto even next to a park is a two to two and a half hour each way each day commute so we have to have those homes here. And I think this city does a fine job in making sure that, as you build homes, you're also building better communities in the process which captures those issues. Third, the type of home really depends on the individual worker. The last time that we did an in depth statistically valid survey of several hundred engineers as you mentioned it was only tech company workers, what we found was, an overwhelming majority would trade a shorter commute and a home of all types, single family as you mentioned, condos, town homes, a small portion who even want to be renters rather than home ownership, they want it here in Santa Clara County, in closer proximity to their jobs and shorter commutes than they want longer commutes and a bigger home.

>> Councilmember Oliverio: Okay, thank you.

>> Thank you very much.

>> Councilmember Oliverio: And I would make one comment on I know we actually last week at council we approved the -- we accepted the report for the feedback from the community on how they like the city and for many years housing was number one. And now it's dropped to the last in place because of the affordability that the recession has created but I'll look forward to this year's results on March 3rd from the CEO survey.

>> So will we because I haven't seen the new numbers yet and I hope you'll join us and again March 3rd, thanks for your interest.

>> Mayor Reed: Councilmember Pyle.

>> Councilmember Pyle: March 3rd sounds good to me. I will be there. But I want to tell you I will also be in Sacramento on Wednesday with three other councilmembers and we will be letting Sacramento know about the effects that have happened in San José. So I was going to ask you if I could take copies of this but since you're going you'll probably want to present it yourself. So we will keep you posted on our results. Thank you.

>> Thank you very much.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Thanks mayor. Pat I wanted to thank you for your suggestion on the business walks. It's actually something Abi Magamfar and I have been doing downtown for I guess a couple of years now, and we find it's very, very helpful, actually just hearing directly from business owners, and it's resulted in some changes to our sign ordinance and other things and I appreciate the suggestion. The -- Bob, I want to thank you for your work with I believe it's the healthy families medical insurance program, health insurance program you're out there offering to small businesses because I know that's critically important to small businesses being able to provide that insurance. I wanted to challenge you a little bit, though, on the issue about how we categorize, whether we categorize or not these incentives. Because I know inevitably lawyers will get involved and tell us that we cannot offer an incentive to one company if it's not being offered to another company unless there is some valid justification, on and on and on. We have to -- we're somewhat restricted really of being in the position of being a public entity that has to be treating companies and entities fairly fairly. And when you define the category that you wanted to see the incentives go to most which were driving industries with high job growth with high wage jobs, certainly none of us would disagree that that should be a top priority for a long term strategy here.

But the challenge that we face is, as councilmembers, is that doesn't define to businesses that fill the store fronts of our neighborhood business districts or downtown No. retail areas where, as Pat alluded to there's such enormous psychological impact and I think it's more than psychological, it's very real on a streetscape on the safety that people feel on the willingness of another business to want to move in, on the decision of a family to even want to live in the area. And so being able to start to change that psychology means that we have to start to pay attention to the small businesses that don't fit in that category of being in driving industries with high wages and so forth and those businesses are failing by enormous margin, I mean just between San Carlos I should say Santa Clara and San Fernando on south first street I've got three businesses that have gone out of business in a matter of a month and a half. Now that creates enormous dead zone for any pedestrian who's walking by and it says -- speaks volumes about San José. And so my concern is, about those businesses that don't fit in that category.

>> Well, let me respond to both your points. First in terms of a public entity trying to make these decisions, you can establish criteria and weights and rank different kinds of enterprises and it can be done in a very fair and objective way. I personally like to give your staff some discretion but if you're more comfortable in having it be more formulaic, you can do it in a more formulaic way and take these factors into consideration. Your second point on the down side of certain visible small businesses going under I think is a very valid one. And I see no reason why you can't add, when I gave my list of criteria, I wasn't suggesting that, you know, it's like the ten commandments, you can't have an 11th. You know you can have more and just I mean that sounds like a good one, add it to the list and have as one of the criteria, that you're asking your staff to look at whether there's a cumulative impact or a highly visible impact or some kind of impact that is damaging, a small shopping center or shopping street, or some other aspect of the community that's being unusually negatively impacted because small businesses are vulnerable in that area. I don't see any reason to not add that to the list.

>> Councilmember Liccardo: Thanks Bob.

>> Mayor Reed: I think it's time to move into our work plan. We should thank our three panelists for joining us. [applause]

>> Mayor Reed: Let's give them a hand. [applause]

>> Paul Krutko: Thank you, mayor. We have just a few slides on this topic so that we can get right into council conversation. In terms of where we stand right now, we did believe as we brought the strategy forward that it was incumbent upon us to bring forward an implementation plan. So staff did propose as part of the package a 40-action work plan, I understand that's a lot of actions but we felt these were actions that were appropriate. The mayor has put out a memo on Friday in which he targeted ten of the priority actions for 2010. And we're looking to get input today relative to both our recommendation and what the mayor's put forward. Additionally the staff proposed an incentive program as a part of this package, as has been already mentioned, the council and several councilmembers proposed some additional incentives. So we want to clarify considerations about the types of incentives that would be brought forward. We would follow up on this, if necessary, with further analysis depending upon the direction we get and then we would bring the items forward where they represent budget action as a part of the budget process. We also believe some of the incentives we're suggesting would lend them cells to being brought forward as individual transactions, as we are doing them so the final slide, is just to go over a bit very quickly what the staff put forward, that is found at tab 3 in your -- in tab 4, excuse me, tab 4 is

the incentive proposals from the staff. And they've been touched on already. In some, there are in parallel or go so far relative to what the mayor and council proposed, but nonetheless I think there's a -- we're very, very close in terms of what we thought were good ideas. The main one we thought would be breaking new ground we think is this notion of expanding the project reimbursement approach. This is -- we know that there are certain costs that occur on individual projects. Whether they be fees for review, whether they be traffic mitigation, whether they be a particular piece of equipment that the company would like us to help them with. This approach would allow us to structure a package with each individual proposal based on the merits of the proposal and what the project really needs. We've offered some proposals relative to downtown parking, we really want to try to offer a simple program that can be marketed easily. There are some concerns about where that revenue goes. Particularly in light of the fact that the parking fund is now as a part of working through the issues that the redevelopment agency is having, is being asked to take on debt service for the parking -- one of the parking garages that creates a draw on that fund so there's some concern there. But what we've offered is free park, if you're entering into a new lease for a minimum of two years free if you have a minimum four year lease. And similar incentive relative to a renewal. We are also proposing a one year hold on park land in lieu. We think that it's -- we should have additional study relative to how to proceed with the traffic impact fees in north San José. We think that that may lend itself to be used in tandem with the project reimbursement approach. And finally the last one while technical is kind of important. We have been treating large retailers like an industrial use under our code. Because they had similar traffic generation. A number of our new projects that the council has seen that have come online, the Lowe's in particular had benefited from that, that particular construction related tax had an expiration date on it so now new projects are receiving a much larger construction tax than the prior buildings that they just completed within the city. So we want to try to regularize that. So mayor, that's it. We are sensitive to time, we could go into a lot more detail and we'll stop there, we're ready to answer questions on our proposals, on any other proposals that are before the council.

>> Mayor Reed: Thank you. A couple things before we get into that, that were I think left over from comments earlier. One of those has to do with the airport.

>> Paul Krutko: Yes, sir.

>> Mayor Reed: And strategy number 9 which the airport is absolutely essential to the economic future and I think we had some big challenges looking at the action things there, things we clearly need to do.

>> Paul Krutko: Yeah, if I could, mayor, if we could ask Bill Sherry to come to the dais. It is a critical strategy for us, we have done yeoman's work, we are very pleased at how ahead of schedule we are in building the new airport, but operating the airport is another challenge..

>> Bill Sherry: Thank you, Paul, thank you, mayor. Bill Sherry, aviation director for the city of San José. Thank you, members of city council. This is a very pivotal point for the airport. We have made great, great progress in building new facilities that will be coming on -- well, have come on line and will continue to come on line this year. But it is also a time with the airport that we have many, many, many challenges. Probably more so than any other city department, we compete directly with competition to our north, San Francisco and Oakland but then you can also say we compete with 450 commercial airports throughout the nation and over 2,000 around the world. If you're an airline CEO you have one principal asset that's an airplane. And you are not a charitable organization. You're an organization that has stockholders that expects to you drive a profit. So when you have that one principal asset where are you going to put it? You're going to put it where it drives the largest profit. The airlines have been talking to us for the last three years. We've lost almost 30% of our traffic. So I think we have some very real challenges but we also have some very real possibilities. So Mr. Mayor, what I would like to propose given the fact that we're going to be opening our new terminal in June that perhaps the council give thought to holding a special study session, we happen to have a free date March 8th on the airport and at that time I'd like to lay out for you and the council some of the challenges and some of the opportunities and have some thoughtful discussion on how we can make this economic engine even more powerful than it is. We employ at the airport 5,000 people and I would pitch to you that we could easily double or triple that number. We would be on Paul's list of 21 if the airport were listed there. So it's a great economic engine, it's a large number of opportunities, but I think we need to hash those opportunities out, the challenges out, discuss them thoroughly and determine how we can better position the airport for good growth.

>> Mayor Reed: Thank you. I think that's really importantly to do that and I'd certainly be supportive of doing that of study session because there's a lot to cover and clearly you can't do it today but it is a very important strategy with several important actions. And would I just suggest that we focus at least part of

the study session on competition, you know, looking over the last couple of years the impact of the recession is that airlines have choices and they make those choices, and they have chosen to move service from San José and Oakland into San Francisco for their reasons. And we want to make sure that we're competitive as we go into the future. We certainly have a great physical facility to compete with so we've got that, but I think talking about that in a study session is probably an important follow-on to the economic strategy.

>> Bill Sherry: Okay.

>> Mayor Reed: There was a couple other questions about the airport that people had that we'll get back to them on, maybe you, I don't know if you were in the room when a couple of them got asked but that can be part of that study session, make sure we collect those and get those to you.

>> Bill Sherry: Okay.

>> Mayor Reed: Back to the implementation plan nor specifically and more short term than the airport. I just want to talk about why I'm recommending that we focus, I think that's already been explained today by several of the presenters that we have to focus our efforts and I think 18 months is too long for a work plan or implementation plan. I feel a great sense of urgency, and I think we ought to create this sense of urgency by focusing on this year and that's why I've said we ought to get a top ten for 2010. My list of top ten actually has 15 on it because it's hard to make choices. But I think if we give the staff the assignment to try to narrow this down to the top ten most impactful maybe we'll end up with 12, maybe we'll end up with 16, maybe we'll end up with some other number but it would be good to go through that exercise to really focus our efforts on both the goals and the implementation items. But I just wanted to explain why, I think, there is such a sense of urgency and why these items I think at this time are so important. And I'll use the brocade example. Brocade is under construction on North First Street. 800,000 square feet, \$400 million private investment, a \$4 million investment of redevelopment agency funds, 3000 construction jobs, 2000, nearly 2000 direct jobs, probably almost 3 times that many of indirect jobs, \$7 million paid in city fees, and \$4 million annually in tax increment, more or less. The reason brocade is in San José is because they had one foot out the door, headed to another city, when I talked to the CEO back in I think 2007. And convinced them that we could do it. And we put together a team of people to meet with them across multiple departments, none of this silo stuff that you hear about, across multiple departments working together convinced them that we could deliver, work with them to deliver a project on time and on their schedule. And that was the easy part. Actually delivering was quite a bit harder. So the kind of work that goes into making it happen goes all across lots of departments. The building plan review for architectural structural and accessibility took 41 days. The mechanical took 11 days, the plumbing took four days, the electrical took one day, that's just for the permits. That's on one floor in one building and that got repeated for multiple buildings and sometimes multiple floors. Probably over 50 inspections had to be done before this project was over. And we're not done with it yet. But each and every one of those events was time sensitive. Both for us and for brocade. And we made the promises and the staff have delivered it and some of them are here today, and we have to be able to repeat that. Because there are a dozen other companies out there like brocade that are thinking right today about where their next move is going to be and some of them are dependent upon things that are out of our control. But when they call, we have to be able to do it. And I think it's going to be happening a lot. I know that our staff was pretty busy in January, probably at maximum capacity to respond to these kinds of things in January. But I can count more than a dozen companies that are on the edge of making that call to us to say okay, we're ready, let's go and deliver and we need to be able to do that. And that's why I feel such a sense of urgency knowing that the federal government is going to spend somewhere between 60 and \$100 billion on clean technology and most of that is going to hit the economy this year. We have companies that are waiting for that call from the federal government to say they got a deal, loan guarantee, and a lot of things could happen very quickly. One more example, Solo Power. Joe Horwedel came into my office one day and we called the CEO of solo power. He had a company, he needed a place but he had a very tight schedule. Joe said well, a conditional use permit which you need will usually take 90 days. He said that's too long, I can't do it. So Joe did a little bit of calculation said, we can do it in 45 days. And the CEO said okay. Deal. So today, we have solo power producing solar panels in Edenvale because the staff was able to do it not in 45 days, actually 41 days to deliver that conditional use permit. But the CEO would have gone someplace else if we hadn't been able to do that. And of course when we promise that we got to deliver it or else the bad news travels very fast and very far. Now, that was just a couple of examples of really companies that we had the opportunity, they're growing, they're going to grow somewhere and it might as well be here and that's why I'm trying to create this sense of urgency, focus our energies on that,

huge sense of urgency this year and I think we can do it. I've got lots and lots of examples if anybody wants to use the case studies, happy to share it. That's why I've suggested we focus our attention for the reasons outlined in my memo and you've heard from a lot of others who say we have to focus. And I'd certainly like to give the staff a chance to do that. Make the modifications to the economic development strategy. It's 99% there and really think about how we implement, because we have to do that very quickly. So with that I'll share the time with a few other people. Councilmember Liccardo.

>> Councilmember Liccardo: Thanks mayor. I'd like to make a motion but before I do that I'd like to ask a very quick question here, one is with regard to the mayor's memo and the list of the 15 items to prioritize, item 3B I know I've had a conversation with the mayor about this and I know with Nancy Kline as well. Item 3B, protect and improve trucking and freight transportation access to the city's key employment areas. I understand obviously it's an important priority for us economically, but also understand there's additional staff work to be done in both follow-up meetings in community as well as business data collection is that fair to say Nancy? Okay so we're getting there. What I'd like to do is, to take this off the urgent list until we actually get something that comes to committee or council that reflects that additional work.

>> Mayor Reed: I think it's my top ten down to 14.

>> Councilmember Liccardo: It does. Knowing obviously it's within the larger list and we'll move it as soon as it's ready to go but at this point I know there's still a little bit of outreach to be done. So with that what I'd like to do is to move the mayor's memo, and the recommendations contained in the mayor's memo, along with the recommendations in the staff memorandum, dated January 27th, to move forward for further refinement, and with specific reference, I know that there's a lot of similarities between some of the proposals we see in the staff memo on January 27th and the memo signed by the four of us, Mayor Reed and myself and councilmembers Pyle and Herrera, I was hoping that we could return with some analysis about the distinctions and specifically, if you'll look at for instance at the parking incentive, what's recommended is 100% of parking favor for new or renewed releases. Staff recommendation is 100% for new, 50% for renewed. The important question of course would be what's the impact on our parking fund, what do we expect the impacts to be. I understand we're not going to go into all those details today. But I'm hoping we can, when staff returns, you can highlight the differences for us, and that way we can make a good decision based on that data. And then looking at paragraph 1 related to small business license fees I know there's been a lot of talk about narrowing and focusing and specifically, some conversation we've had about focusing on new or renewed leases again trying to get space leased up again in our neighborhood business districts and downtown and so forth how we might narrow that incentive in an appropriate way that doesn't break the bank. What I was hoping was that staff could return with some of that additional analysis if we move these two memos forward with the proviso that the differences between councilmembers' memo and the staff memo be highlighted and distinguished in terms of data.

>> Second.

>> Mayor Reed: This is referral to staff for additional staff work, presumably we'd like to have this as part of the redevelopment agency budget discussion because a lot of these have price tags on them so that would be February 23rd is the date for that.

>> Councilmember Liccardo: Right. So that would be my motion.

>> Mayor Reed: City Attorney.

>> City Attorney Doyle: Councilmember, I just want to give us the flexibility there, there may be some other tweaks that we need to do, such as we don't recommend waiving taxes, we suspended taxes because you run into a 218 issue of having to reenact it.

>> Councilmember Liccardo: I'll take your language over mine.

>> City Attorney Doyle: The other thing is on the park incentives staff has identified some issues but there may be one garage specifically the fourth street garage that there's a problem so we'll have to get back to you on that.

>> Councilmember Liccardo: Thanks.

>> Mayor Reed: That would be part of the analysis. This referral of staff you're going to get to point out all the problems et cetera. Okay, so we have a motion to refer those to staff as outlined by Councilmember Liccardo. Councilmember Constant.

>> Councilmember Constant: Thank you. Sam, would you consider along with this analysis that the section that you have on the suspension of license fees, that there's a staff analysis on where the appropriate breaking point for that is. My own feeling is that eight employees is a little bit too small. And

perhaps with a breakdown of the different categories they can give us some feedback on where the appropriate spot for that is.

>> Councilmember Liccardo: I agree, I think that would be helpful.

>> Councilmember Constant: Thank you.

>> Councilmember Liccardo: Seconders?

>> Councilmember Constant: Okay. I know we're running late so I don't want to be talking too much other than I agree with most of what we've heard today. I just would like to emphasize I love what we're doing when we move at the speed of business for the big companies and we get things going. I think we need to find a way to get that same speed and consistency for our smaller businesses. We have tens of thousands of business necessary our city, who struggle to get through the planning or permit process. And it seems when they only have a small square footage or a handful of employees they don't get the attention that we get for the big companies, and while the big companies might have a nice big immediate impact, the collective power of these smaller businesses is a much larger impact. And I know I hear fairly regularly from businesses that just struggle with the process. For example I spoke to a business owner recently who was frustrated because going through the permit process for their tenant improvements they couldn't do their sign permit through same process and it took two separate processes when it was one project. And if we could look for ways like that where we could minimize the number of times they have to come in and different processes, because we know most people who are going to do tenant improvements in a retail space are going to do a sign, too. If there is some way we can integrate those or overlap them so they have less time involved in the process, I think we would also save money from our end, which means we could lower our fees as well. And anything we can do in that to make it more predictable, and especially time, if people could really count on the amount of time that it would take so they would know they could get in there and get going in business. And I'll save all my other comments for another time when we aren't five minutes behind our closing time.

>> Mayor Reed: Councilmember Chu.

>> Councilmember Chu: Thank you, mayor. I want to echo Councilmember Constant's concern about streamlining the process for the smaller businesses as well. Question, mayor's memo, the item 2A, we're talk about the sales tax sharing. Does that only on the RDA area or does this stayed State wide or I mean citywide?

>> Mayor Reed: I think that remains to be seen how we can do that. I don't think we are intending just to restrict it to one area.

>> Councilmember Chu: Okay.

>> Mayor Reed: It depends on how it can work. The opportunities that have come up happen to be in redevelopment areas.

>> Councilmember Chu: And because district 4 Berryessa area is not a redevelopment area, I'd like to see some equity there so whatever we come out for these programs should apply to nonRDA area as well.

>> Paul Krutko: We'll reconcile than that on sort of the net new program, our intent is to bring those back to you one at a time. Transaction by transaction. So that the council can approve that on an individualized basis. The staff recommendation is citywide inapplicability.

>> Mayor Reed: Any other comments? I have a couple of shout-outs and thank yous that I want to share but some of the case studies that I've mentioned earlier and I didn't have time to explain them all. Let me give you another example. Katy Allen is here and I want to thank her for Tim Borden's work. We have a major corporate company that's going to have about 400 jobs in San José they're going to sign the deal on a Friday, this is about three weeks ago. The deal was going to be signed to lease the property on Friday, before they sign the deal they find out there was a problem. This happens on almost every deal. There was a big problem, had to do with flood zones. It's a problem, we can't sign this deal until we got this resolved. Tim Borden got on the phone, they did it in real time, they resolved the problem, they're coming to San José, 400 jobs. Thank you Katy, thank you Tim. That kind of things happens all over if place. I don't even know who to thank for this one, but when I went to biofuel box, biofuel box thought they would never had a chance to stay in California. Their regulations are such, their time frame is such that their process with biofuels would be impossible to get permitted in a timely manner. Somebody, I don't know who it is but I'm going to track them down, managed to talk to the CEO, we collectively got the permits issue in a couple of weeks instead of six months that they thought it would take and they're San José today. They were expecting to have to move out of the state. These companies want to stay here. They really will go out of their way to stay here but sometimes it takes extra work by somebody

who's -- these are not even people who are in the room. Who make it happen and so it happens at all levels. We see the compartment heads and they of course get credit for it but there are people doing the job, they also have to be very, very important so speaking with one voice or working together, I don't know how you were going to call this but I do know that it happens but it happens on a regular basis so I want to thank all of the people and all of the departments that get involved, even the lawyers occasionally get involved. In 2001, brocade was going to move out of San José. They needed a lot line adjustment in order to buy the building they were in. They needed it in like a weekly. It's not a big deal but a week is very tight. I talked to Rick, put the lawyers on it, somebody from planning got on it, I don't know if it was Joe, probably Joe, we got the lot line adjustment done, they're still in San José and now they're building a corporate campus. I want to thank all the people that we haven't been able to thank because I know it takes a team effort to make these things happen. We appreciate it and with that I think we're done except for public comments. Nope, we have a motion. That's right, forgot about that important fact. On the motion, all in favor opposed, none opposed, so we'll refer that to staff. Staff, congratulations thank you for this great piece of work. And we have a couple of people who want to speak during this the open forum. Mr. Wall, Jerry de Young, Stan Gould, Aaron Barger.

>> David Wall: Of all the presenters today, there was nothing mentioned about the potential collapse of the European financial system. And the effects that will have across the United States. Specifically, here in the City of San José. I think you should be considered creating a variation of the works projects administration here in thity. This addresses, Mr. Mayor, your sense of urgency, for the thousands, tens of thousands of people that will be unemployed and converging upon the Bay Area. Your next trip to Washington Mr. Mayor, you should ask the president for at least one battalion of United States military police personnel stockade infrastructure, logistical support, approximately 300,000 rations. This also would go hand in glove with stimulating the economy on the WPA side of it and the farm services administration, back in the old days. What I have heard today is a pathetic group of people who stood before you with plans upon plans to only serve their own interest. None of it will bear fruit in the near future or foreseeable future. Economic collapse is almost certain for this city. And bankruptcy discussions should be a matter of routine public discussion. Thank you.

>> Mayor Reed: Jerry de Young, Stan Gould and Aaron Barger.

>> Mr. Mayor, members of the council, Jerry de Young as the recently appointed chair of the chamber of commerce, it's fun to stand before you in that capacity today. I however am feeling like I'm keeping you from other things this evening so I'll be very brief. Time is of the essence. 18 months is too long. Work at the speed of business. You're right, small businesses need to be treated in some respects the same way as large businesses. I think that's extremely important. I tend to agree that we need to focus our efforts on this. On the other hand we need to make sure that we're doing enough things for enough businesses for enough people to make this successful. It is unfortunate however that it took a great recession to make this happen. I would encourage you as leaders in your community to think of things you can do for your community for the business community and not necessarily to wait for the next thing to happen that brings this to the forefront and says oh my gosh we have to do something now. I think we need to be as a community we need to be as proactive and I ask for all of you to be as proactive as you possibly can in all of your efforts. We certainly encourage this today. Work at the speed of business Thank you.

>> Mayor Reed: Stan Gould and then Aaron Barger.

>> Thank you Mr. Mayor and councilmembers for allowing me to speak. I'd like to address some comments relating to your comments Mr. Mayor about processing projects and Councilmember Constant. We know that the process is lengthy and onerous and very costly not only for the applicants and the city but at this time projects even that have a chance of going ahead by property owners or developers in most cases have to stop because of the enormous cost and time delays. I think that something that should be looked at or you may want to look at in the process is that to adjust the procedures for general plan amendment, PD rezoning, PD permit, to be more consistent with what is really required, and at the moment, when -- for a PD rezoning, the amount of documentation, engineering, city fees, et cetera, and time, is beyond what is really necessary to determine if a project is conforming with the zoning, or within the general plan. And the documentation should be tailored just for that particular issue. We don't need full drawings, we don't need civil engineering, which is at most cases at the rezoning stage is wasted because when you get to the PD stage you have to do it all over again. When the project has been reevaluated. My point is that look at the procedures and the documentation, and only require what is absolutely necessary to be in conformance with the general plan

and the city policies. I think you can save a huge A money for both the city and private owners and developers. Thank you.

>> Mayor Reed: Our last speaker is Aaron barger.

>> Thank you mayor and councilmembers for this time. I -- my name is Aaron Barger, I'm a project manager with Barry Swenson builder. I learned of this memo last week and it comes at a great time. I think the discussion today was terrific. I liked the testimony that was begin by the panels. And their comments that were made by the councilmembers. I do agree with the mayor and other members that this does need to occur quickly and should not -- there shouldn't be any hesitation to move it forward. Obviously there's going to be changes to how the memo is drafted or how the program is drafted. But I think it's going to bear a lot of good fruit. I think it's a good way to form some good public-private partnerships to get construction and job creation going. And it couldn't happen at a better time. Obviously, the recession has hit everybody pretty hard but at the same time there are some economic factors that do work well for getting this process started now. I think interest rates are low. Construction pricing is downed an landlords need tenants and I think if we can all work together we can really start moving the city in the right direction. Thank you.

>> Mayor Reed: Thank you, that concludes the open forum, that concludes our meeting, we're adjourned.