

San Jose



CAPITAL
OF
SILICON VALLEY

Economic Development Strategy

Economic Strategy Update 2010

February 8, 2010

APPROACH TO ECONOMIC DEVELOPMENT

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

I. Achievements Since 2003 Economic Strategy

FIRST ECONOMIC STRATEGY IN 2003

San Jose



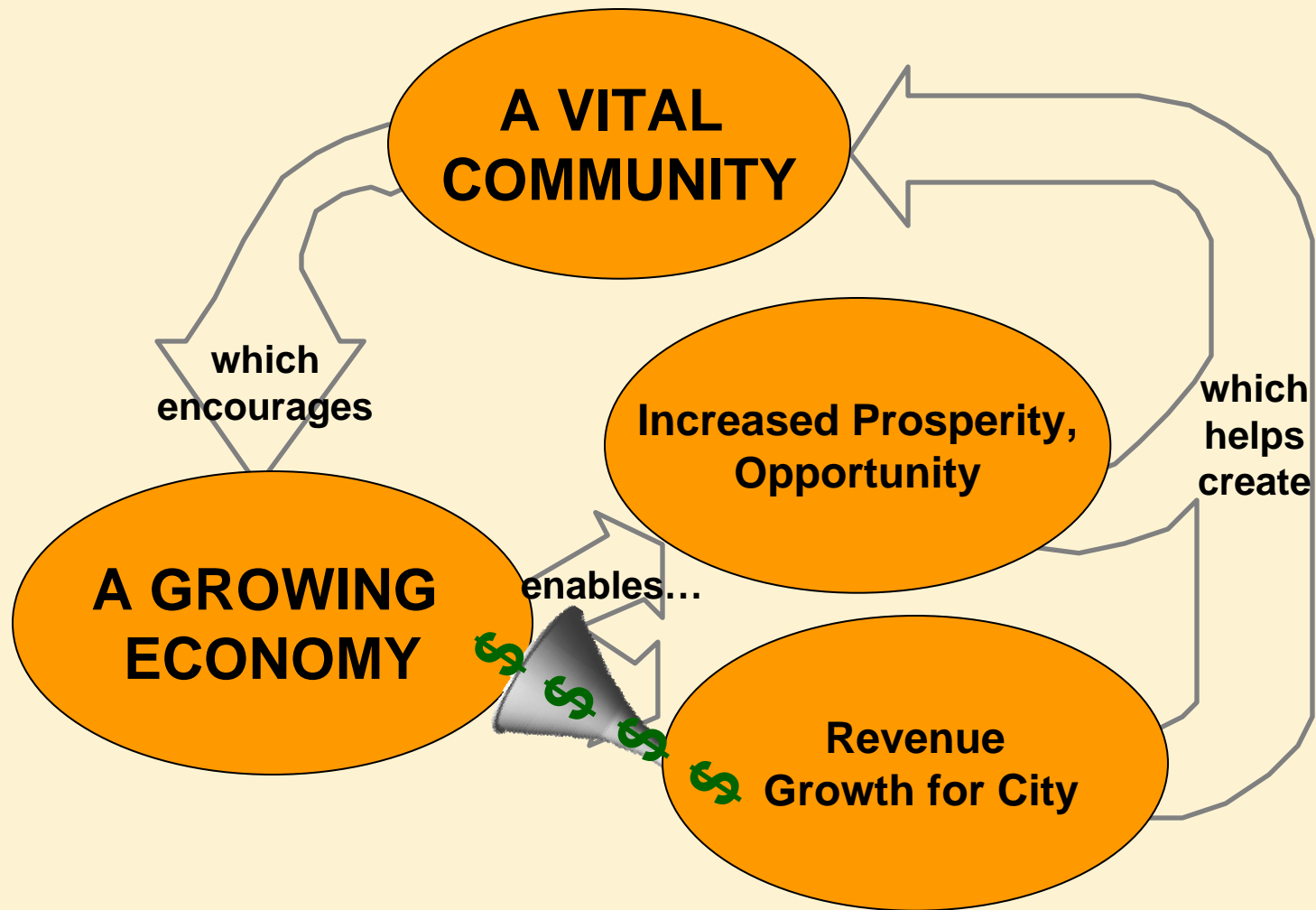
CAPITAL
OF
SILICON VALLEY

Economic Development Strategy

- ✓ **Desired Outcomes**
- ✓ **Economic Vision**
- ✓ **15 Strategic Goals**
- ✓ **Action Plan**

Economic Development is a Citywide Business!

VITAL CYCLE OF SUCCESS



FOCUS GROUP PARTICIPANTS NOTICE PROGRESS SINCE 2003

Residents and Businesses Notice Progress....

Downtown becoming more lively, attractive, and metropolitan	More shopping amenities
Modernized airport	Positive momentum at SJSU
San Jose's Green Vision, and emphasis on clean technology	Pursuit of major league sports
Quality improvements to neighborhoods and business districts	Successful models of transit-oriented development
Improved transportation infrastructure	Strides in permit processing

MAJOR PROGRESS IMPLEMENTING 2003 STRATEGY

The 2010 Strategy Update identifies the **Top 5 Achievements** in each of the 15 Strategic Goals from 2003. Some examples of actions taken:

- ✓ **North San Jose Plan Initiated and Adopted**
- ✓ **Airport Prioritized**
- ✓ **SJSU Relationship Revitalized**
- ✓ **Linked Arts, Culture, Sports with Economic Development**
- ✓ **Started Communicating San Jose's Accomplishments/Assets Nationally**
- ✓ **Revised Transportation LOS Policy**
- ✓ **Stepped Up Regional and National Advocacy**

“It has been very powerful to align ourselves around a clear set of priorities for economic development.”

STRATEGY TRANSLATES INTO SPECIFIC RESULTS

New Special Tenant Improvement Program/ Industrial Tools Installation Program

- ✓ **Permitted over 9.3 million square feet, enabling 14,400 jobs**

New Retail Development

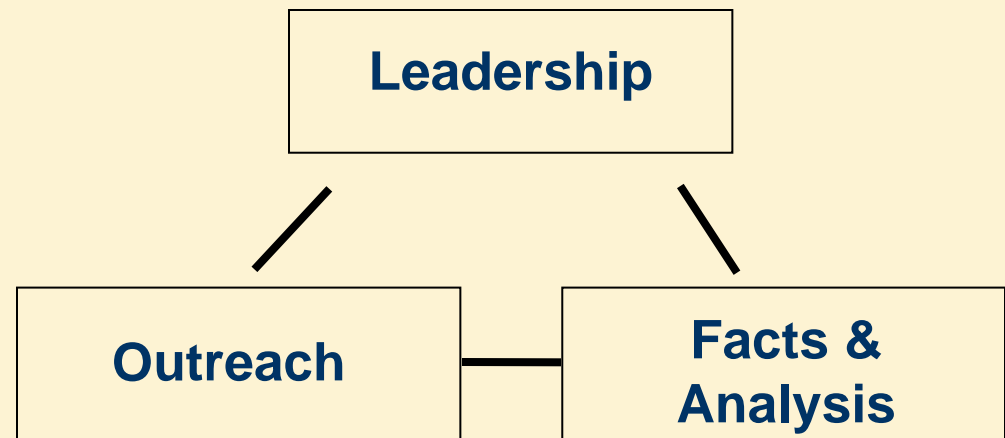
- ✓ **Added three shopping centers and more high-sales-tax generating stores, generating \$5+ million in new City revenue**

New Small Business Support Network

- ✓ **“Business Owner Space” service network and website served 70,000 small business owners since October 2007**

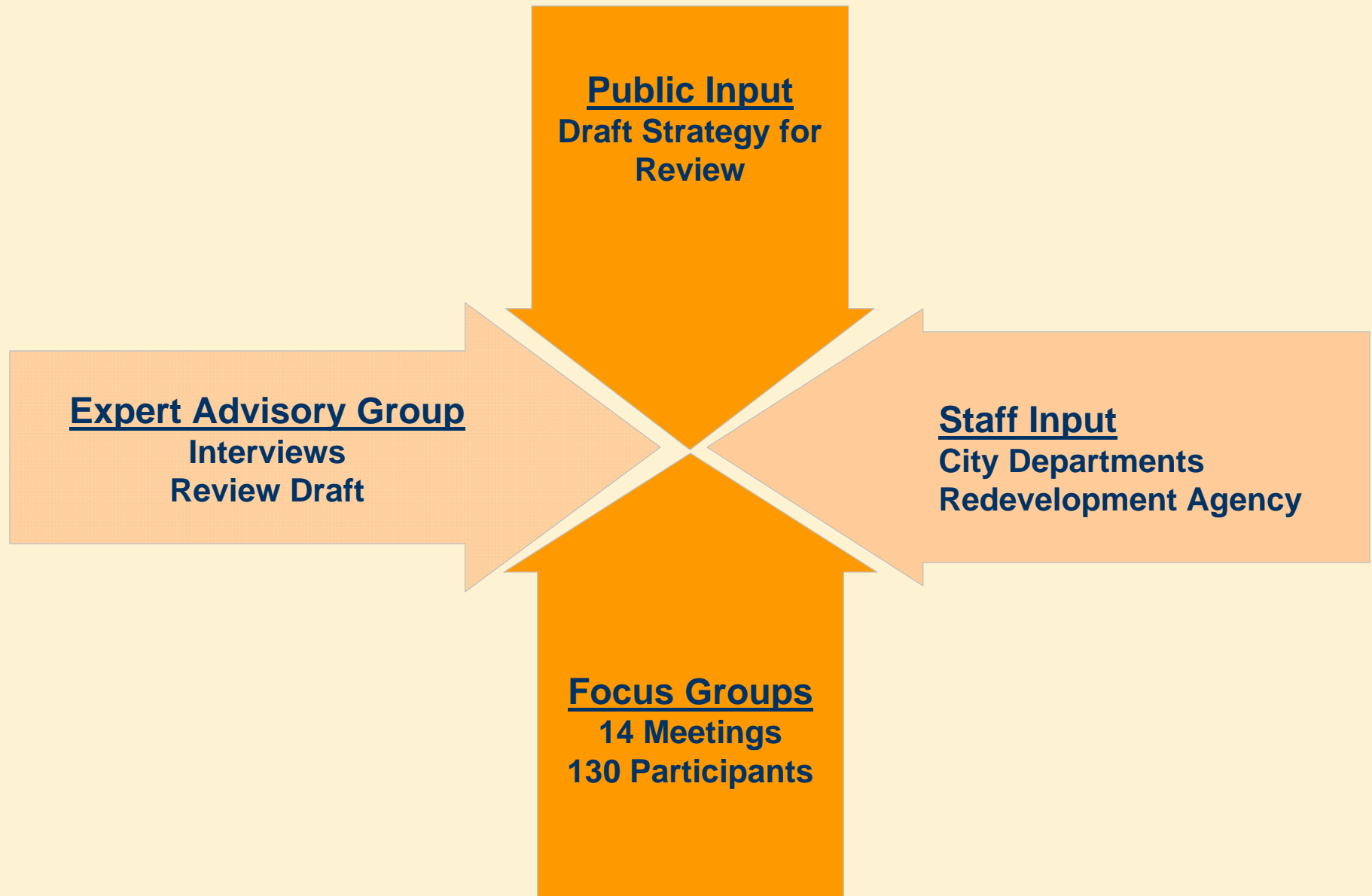
THE 2010 UPDATE: SUCCESSFUL STRATEGY PROCESSES...

- ✓ **Are grounded in facts and reality**
- ✓ **Reach out and listen**
- ✓ **Tap into values and aspirations**
- ✓ **Build shared vision**
- ✓ **Develop leadership**
- ✓ **Are fluid and ongoing**



OUTREACH FOR 2010 ECONOMIC STRATEGY

FEBRUARY-DECEMBER 2009



FOCUS GROUPS

Indo-American Business Leaders	February 25	Large Retailers	August 21
Commercial Developers	April 10	Expert Advisory Team	August 21
Residential Developers	May 8	Latino Business Leaders	September 1
Workforce Leaders/work2future Board	June 18	Chinese-American Business Leaders	September 1
Young Professionals	June 23	Multi-Sector Businesses	October 7
Small Business Experts/BOS Network	July 15	Monterey Corridor/ Industrial Businesses	October 28
Food/Commercial Workers Local 428 (UFCWU)	July 15	Facilities Directors	November, 2008

EXPERT ADVISORY GROUP

Dr. Anuradha Basu, San Jose State University

Bob Brownstein, Working Partnerships USA

Pat Dando, San Jose Silicon Valley Chamber of Commerce

Carl Guardino, Silicon Valley Leadership Group

Virginia Hamilton, California Workforce Association

Russ Hancock, Joint Venture Silicon Valley Network

Doug Henton, Collaborative Economics

Dr. Steve Levy, Center for Continuing Study of the California Economy

Lenny Mendonca, McKinsey & Company

Dr. Sean Randolph, Bay Area Council Economic Institute

2010: ECONOMIC STRATEGY UPDATE

San Jose

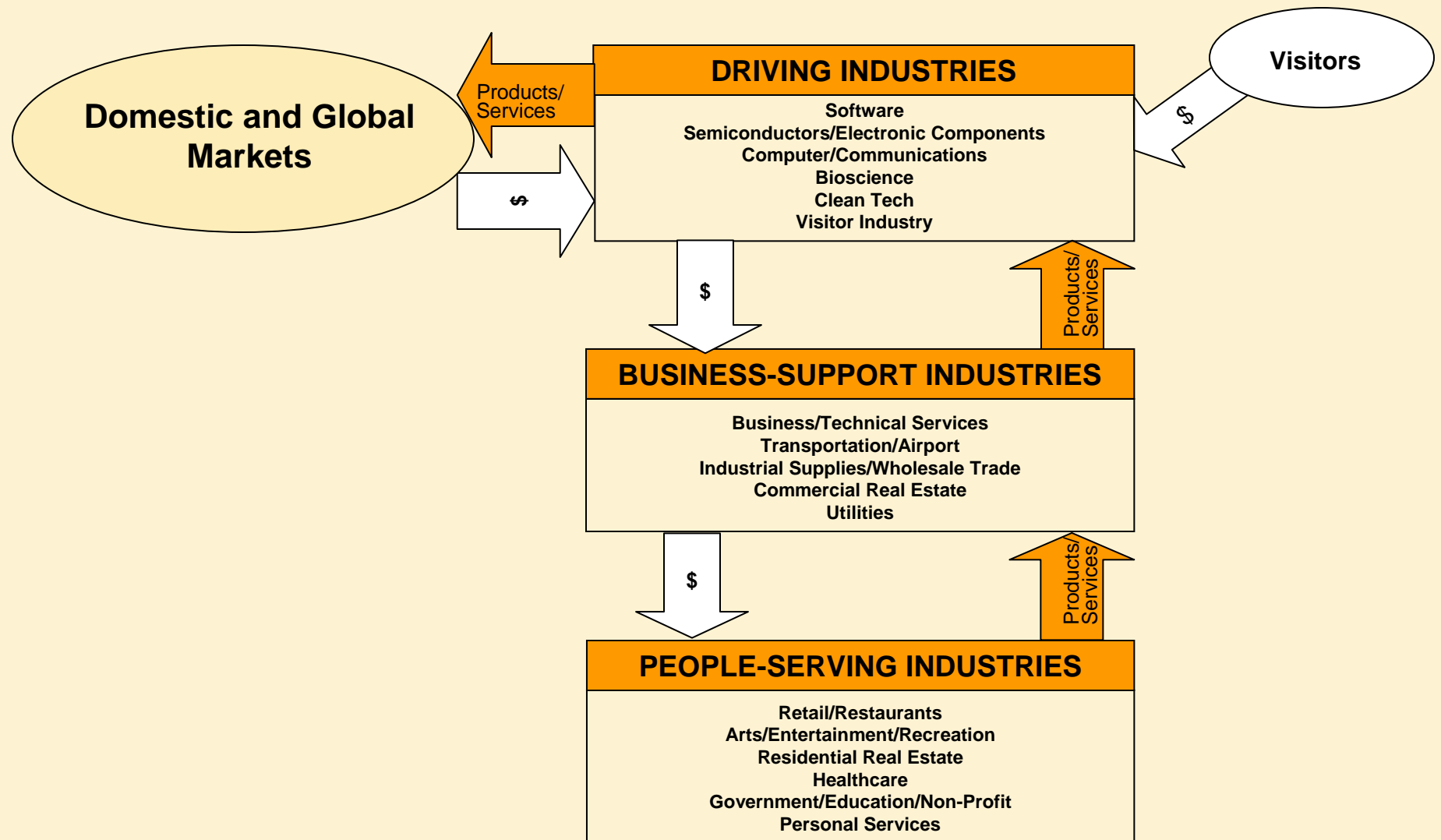


Economic Strategy 2010
Executive Summary

- ✓ **Achievements Since 2003**
- ✓ **Forces of Change**
- ✓ **Economic Vision**
- ✓ **12 Strategic Goals**
- ✓ **Workplan Actions**

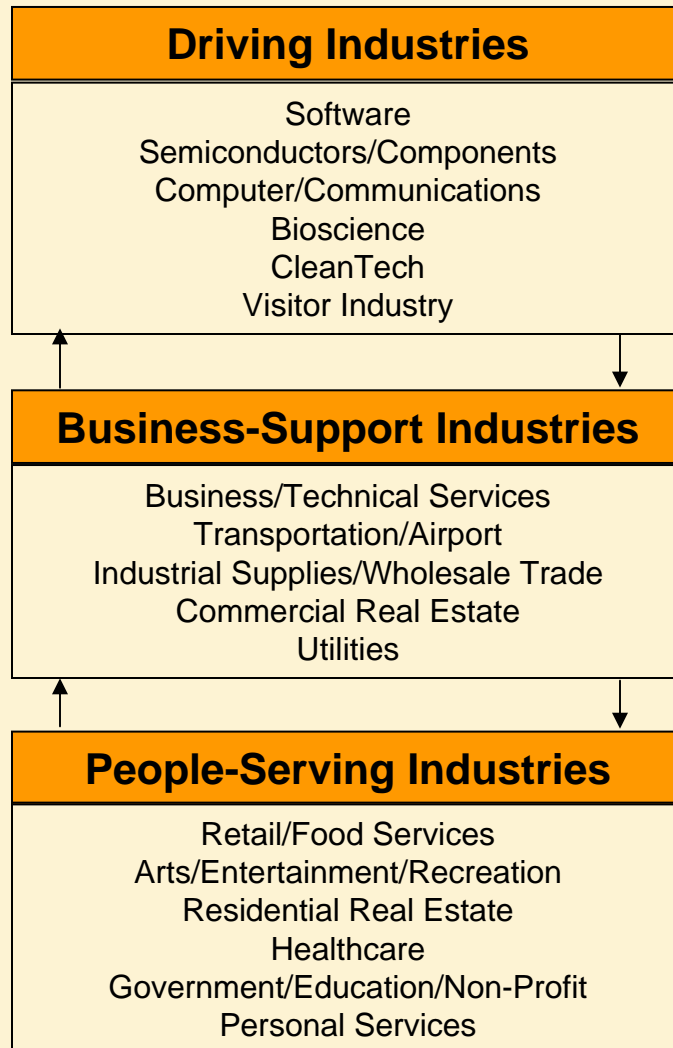
II. Performance of San Jose Economy: 2004-2009

OUTWARD-ORIENTED INDUSTRIES DRIVE REST OF THE ECONOMY



Because they bring outside dollars into the community, driving industries are the engines of the economy. Without healthy driving industries, the rest of the economy cannot prosper.

THREE PARTS OF SAN JOSE'S ECONOMY ARE INTERDEPENDENT



Share of Jobs: 24%
Productivity: Relatively High
Avg. Pay/Employee: \$122,900

Share of Jobs: 28%
Productivity: Relatively Moderate
Avg. Pay/Employee: \$55,400

Share of Jobs: 47%
Productivity: Relatively Low
Avg. Pay/Employee: \$45,500

COMMUNITY SUCCESS FACTORS ARE SHAPED BY LOCAL GOVERNMENT

Driving Industries

\$

Products/Services

Business-Support Industries

\$

Products/Services

People-Serving Industries

COMMUNITY SUCCESS FACTORS

Exceptional Workforce

World-Class Place

Habitat for Innovation

Efficient Business Environment

Collaborative Leadership

31% OF EMPLOYMENT IS IN SMALL FIRMS; 48% IN MEDIUM FIRMS; 21% IN LARGE FIRMS

	Small		Medium		Large
	<10	10-35	36-99	100-999	1000+
Share of Workers	13%	18%	18%	30%	21%
Share of Companies	81%	13%	3%	2%	1%
Number of Workers	46,400	66,800	66,400	109,900	77,800
Number of Companies	23,100	3,700	1,100	500	21

Distribution of Employment and Business by Company Size, San Jose

Source: EDD

ONLY 21 FIRMS HAVE 1,000+ EMPLOYEES IN SAN JOSE

Adobe Systems

Altera

Brocade

Cadence

Cisco Systems

Cupertino Electric

eBay

Fry's Electronics

Good Samaritan

Hitachi

IBM

Kaiser Permanente

KLA Tencor

Novellus

O'Connor Hospital

PriceWaterhouseCoopers

Rosendin Electric

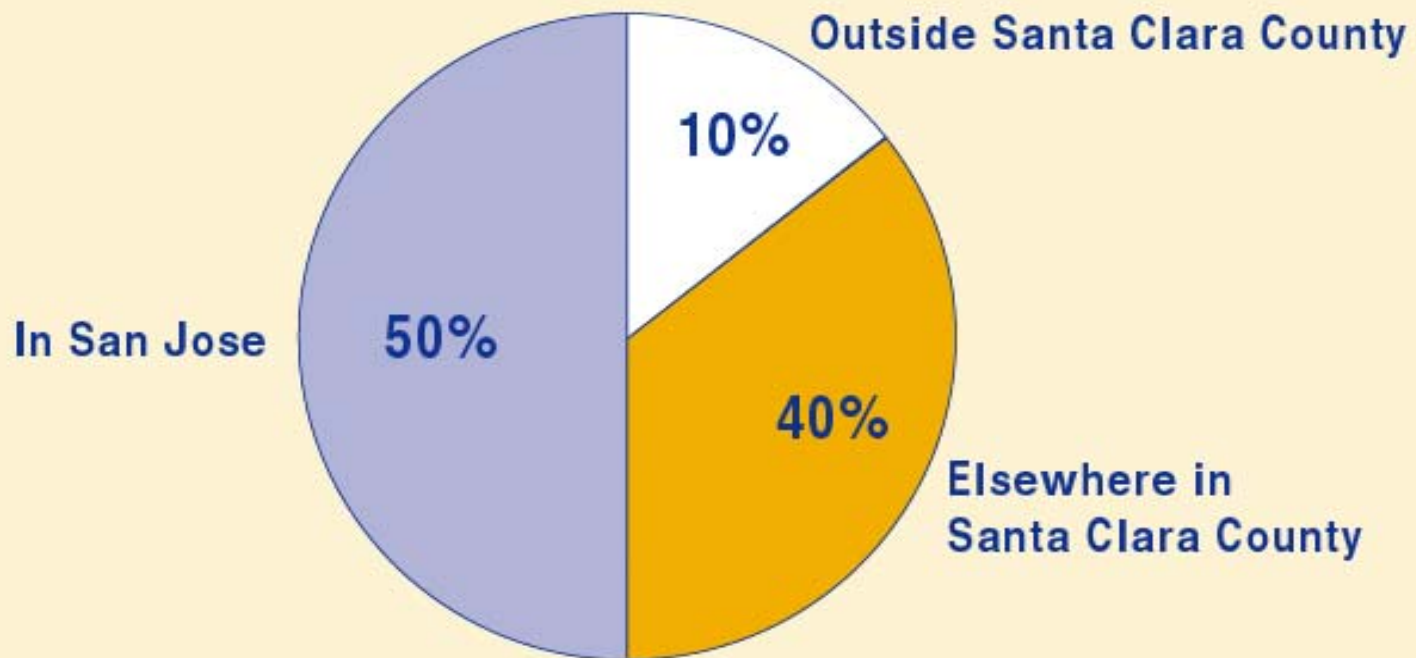
Safeway

Sanmina-SCI

Savemart

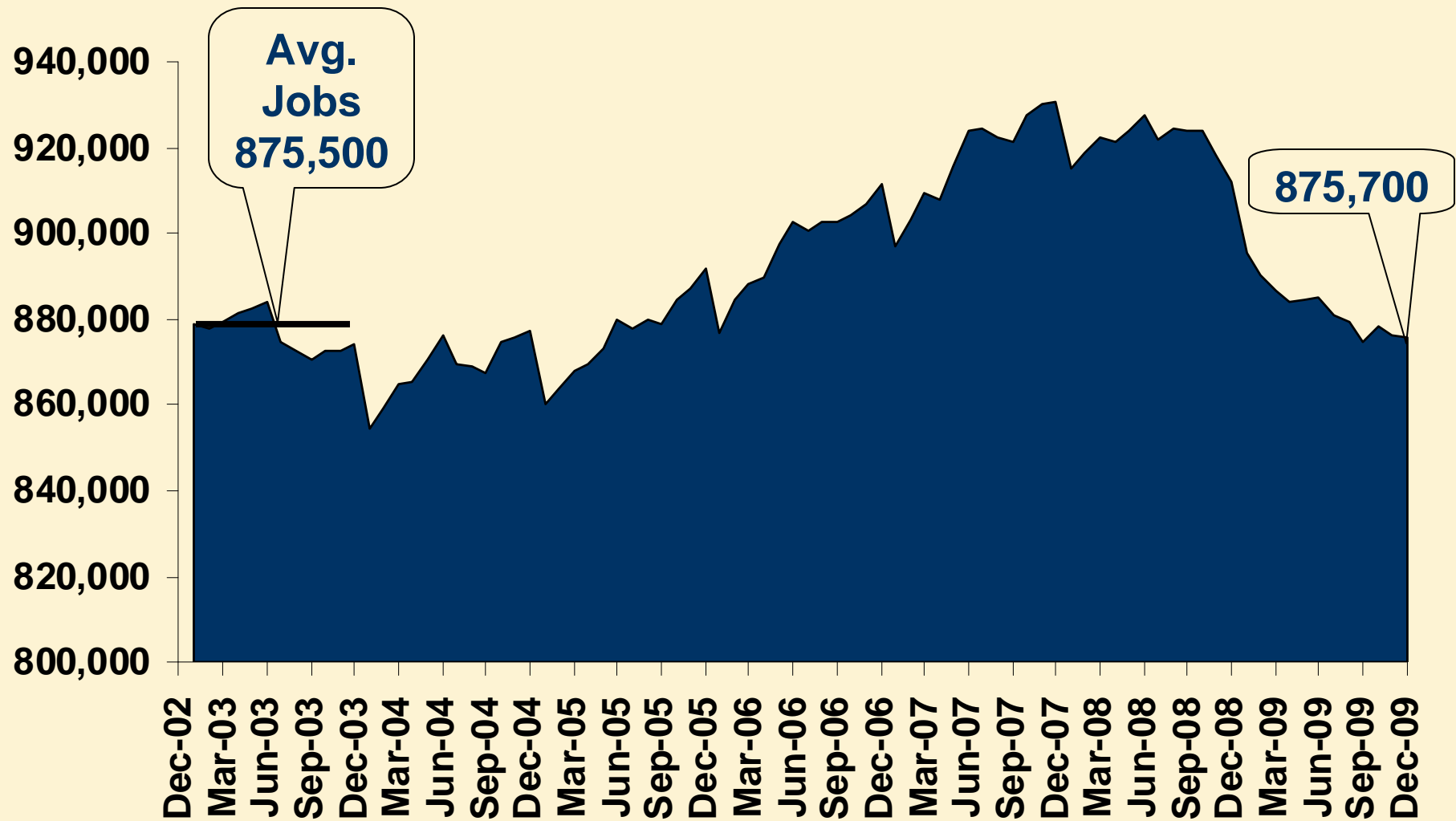
Xilinx

HALF OF SAN JOSE RESIDENTS WORK IN SAN JOSE; 90% WORK IN COUNTY



Source: Census Bureau, American Community Survey 2008

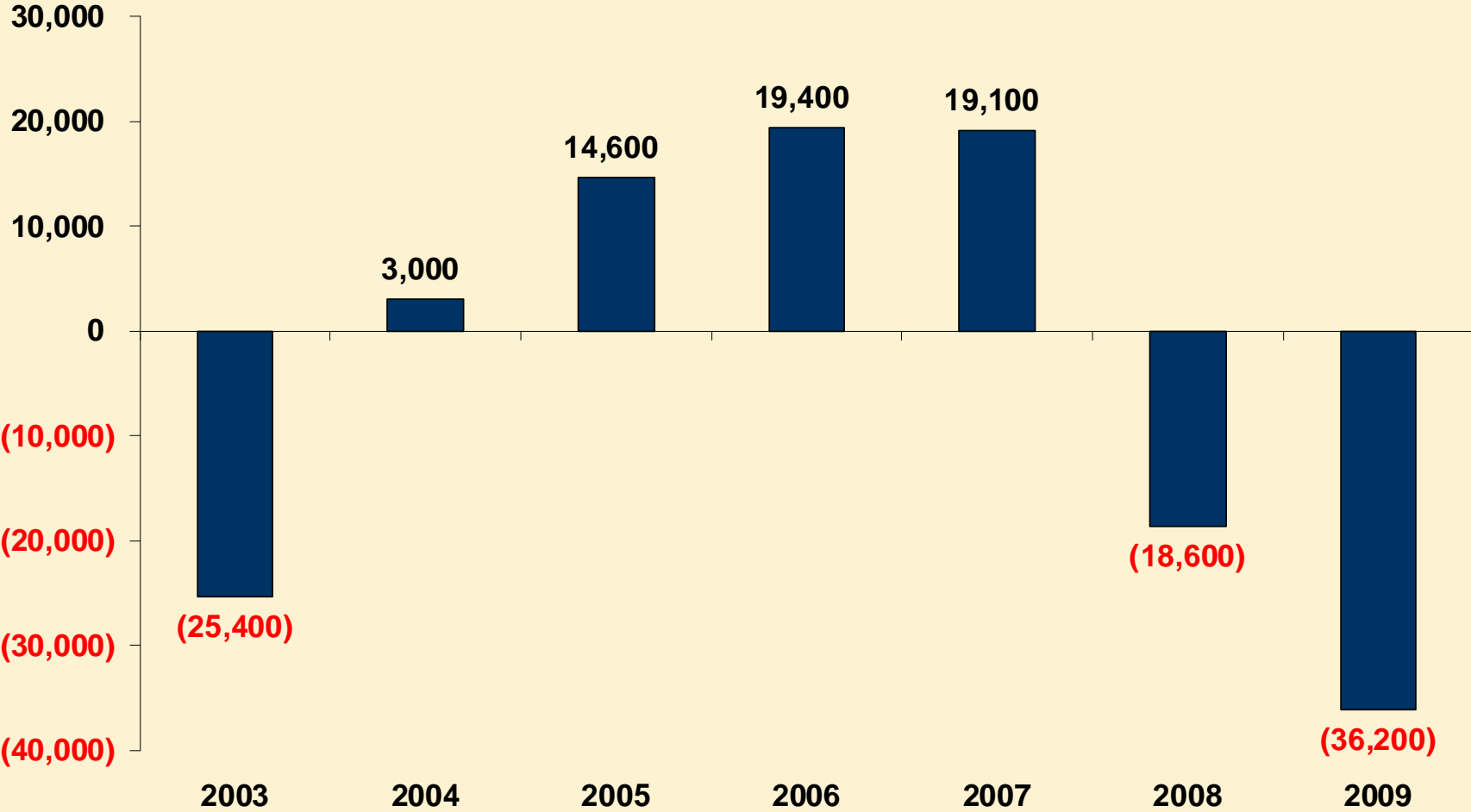
JOBS BACK AT 2003 LEVELS



San Jose MSA

Source: EDD

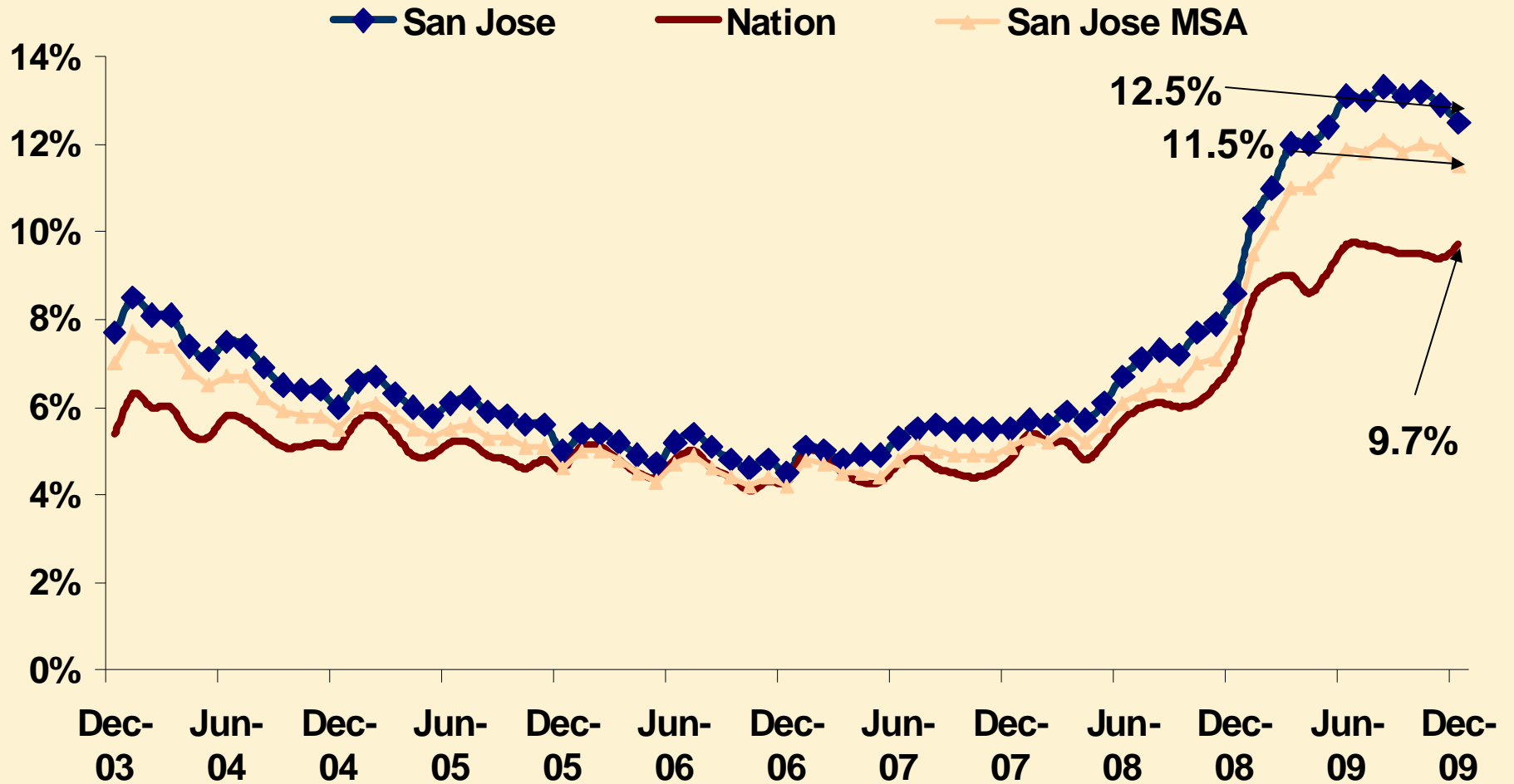
36,200 JOBS LOST LAST YEAR



Job Growth (Loss), San Jose MSA

Source: EDD

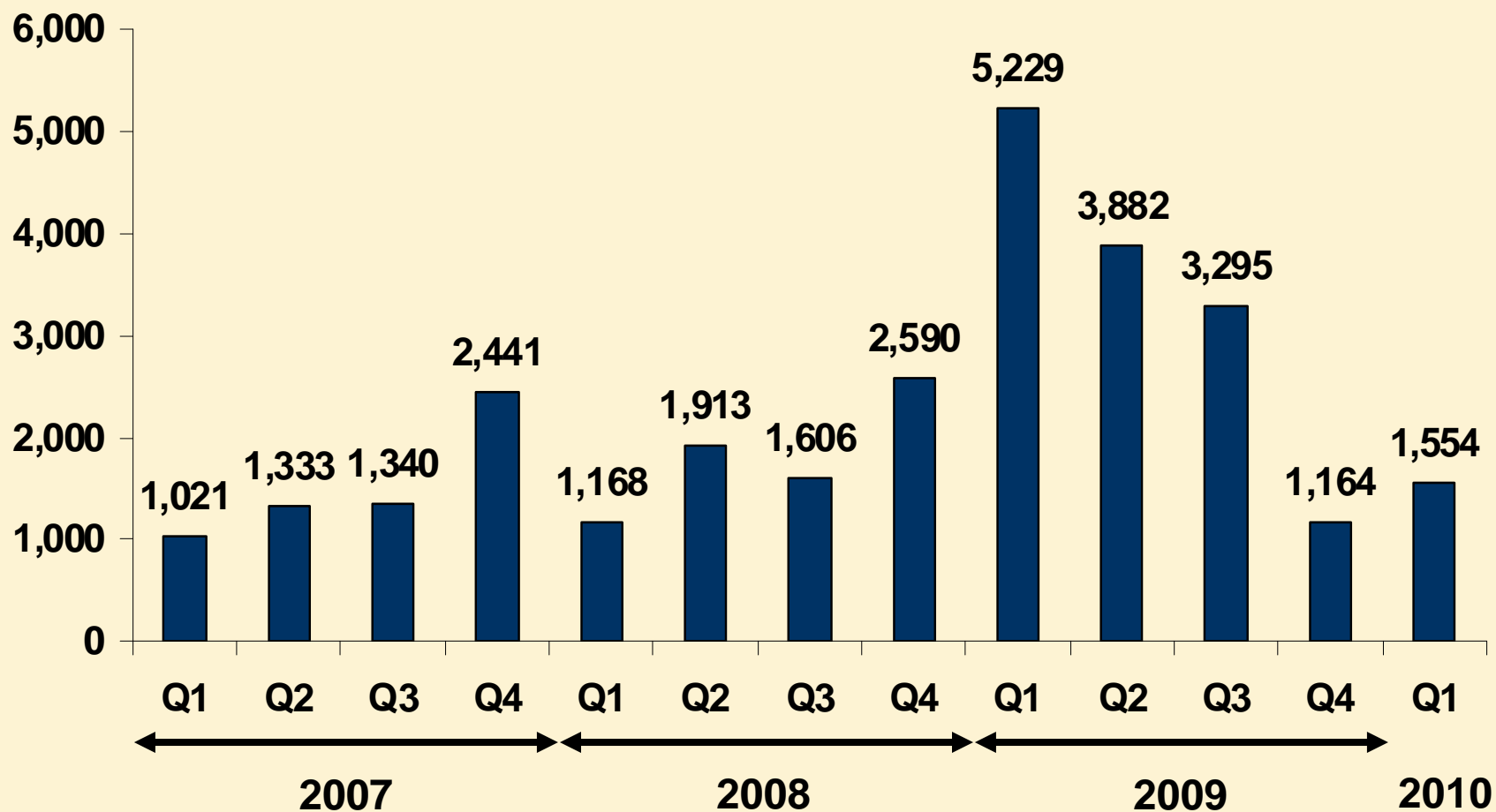
SJ UNEMPLOYMENT STEADIES AT 12.5%...



57,400 San Jose Residents Are “Officially” Unemployed

Source: EDD

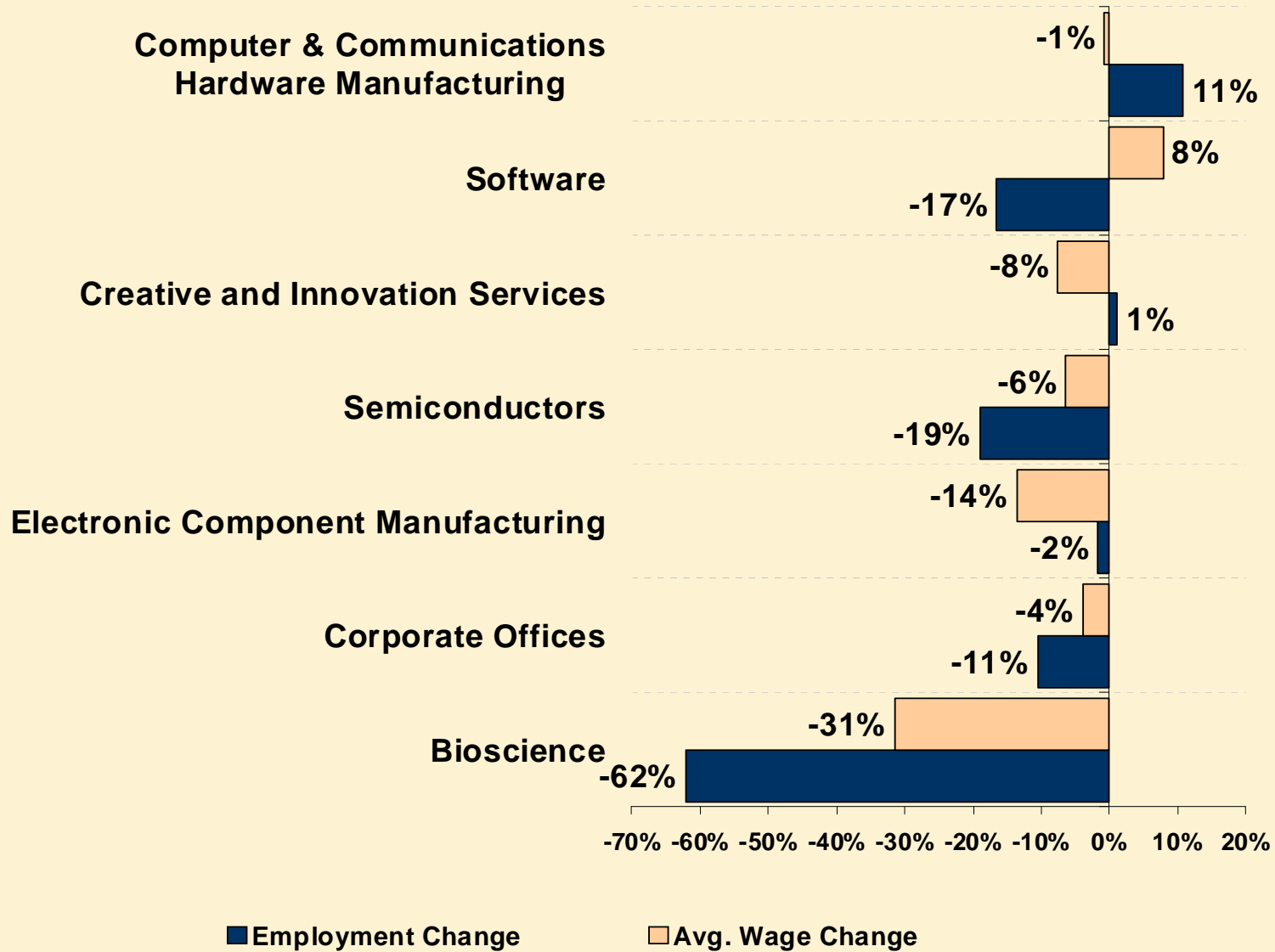
BUT, NOTICES FOR FUTURE LAYOFFS CONTINUE



Number of Employees Affected by WARN Notices, Santa Clara County

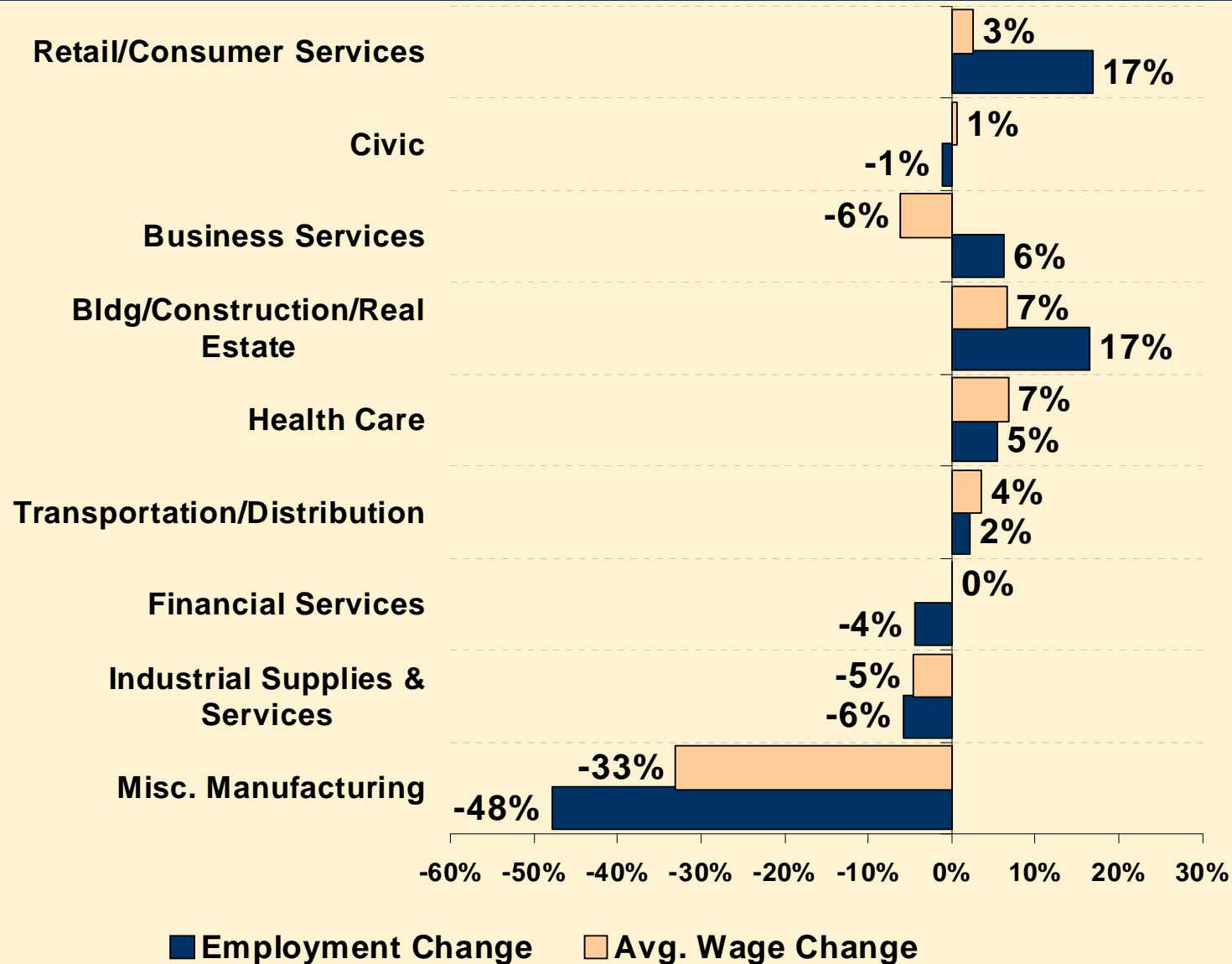
Source: California Employment Development Department

ONLY 2 DRIVING INDUSTRIES ADDED JOBS; ONLY 1 INCREASED REAL WAGES



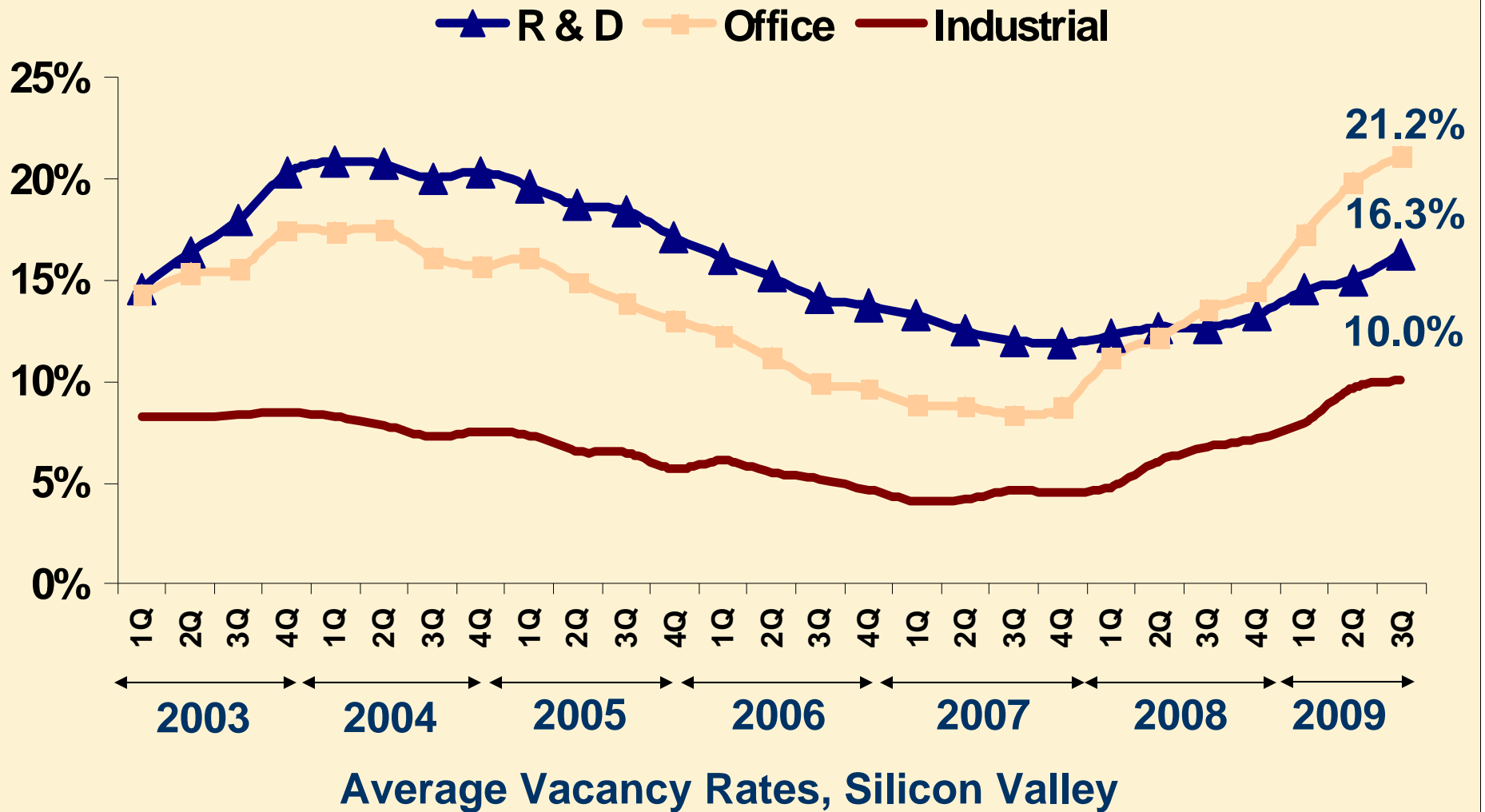
Source: EDD 2003-2008, Salary Adjusted for Inflation

MORE GROWTH IN SUPPORT INDUSTRIES; GENERAL MANUFACTURING DROPS 50%



Source: EDD 2003-2008, Salary Adjusted for Inflation

OFFICE VACANCY RATE NEARING 20-YEAR HIGH



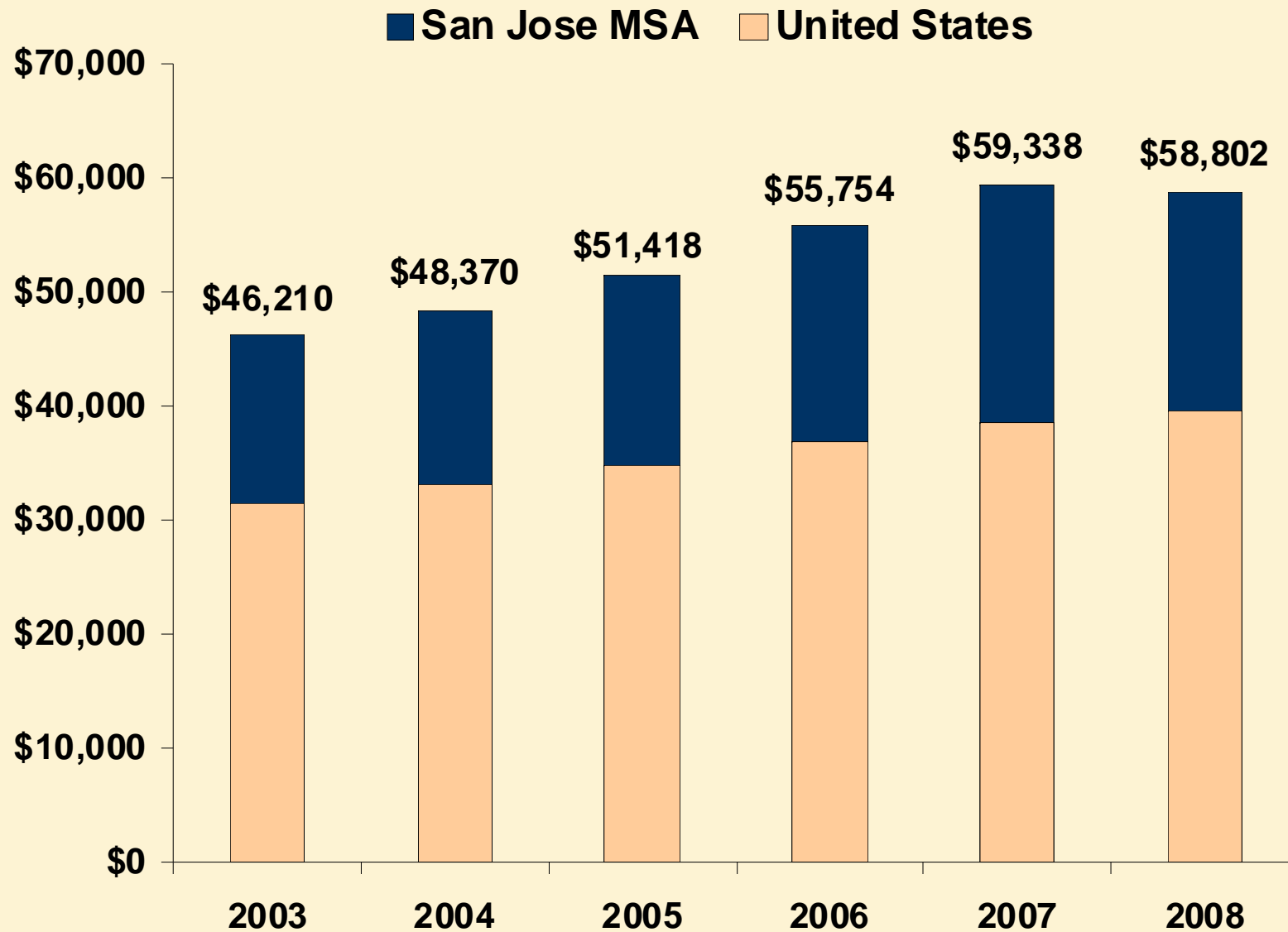
Source: Colliers International

OUR SHARE OF JOBS IN COUNTY DECLINED

Today, San Jose makes up **40%** of the County job base. In 2003, San Jose made up **42%**.

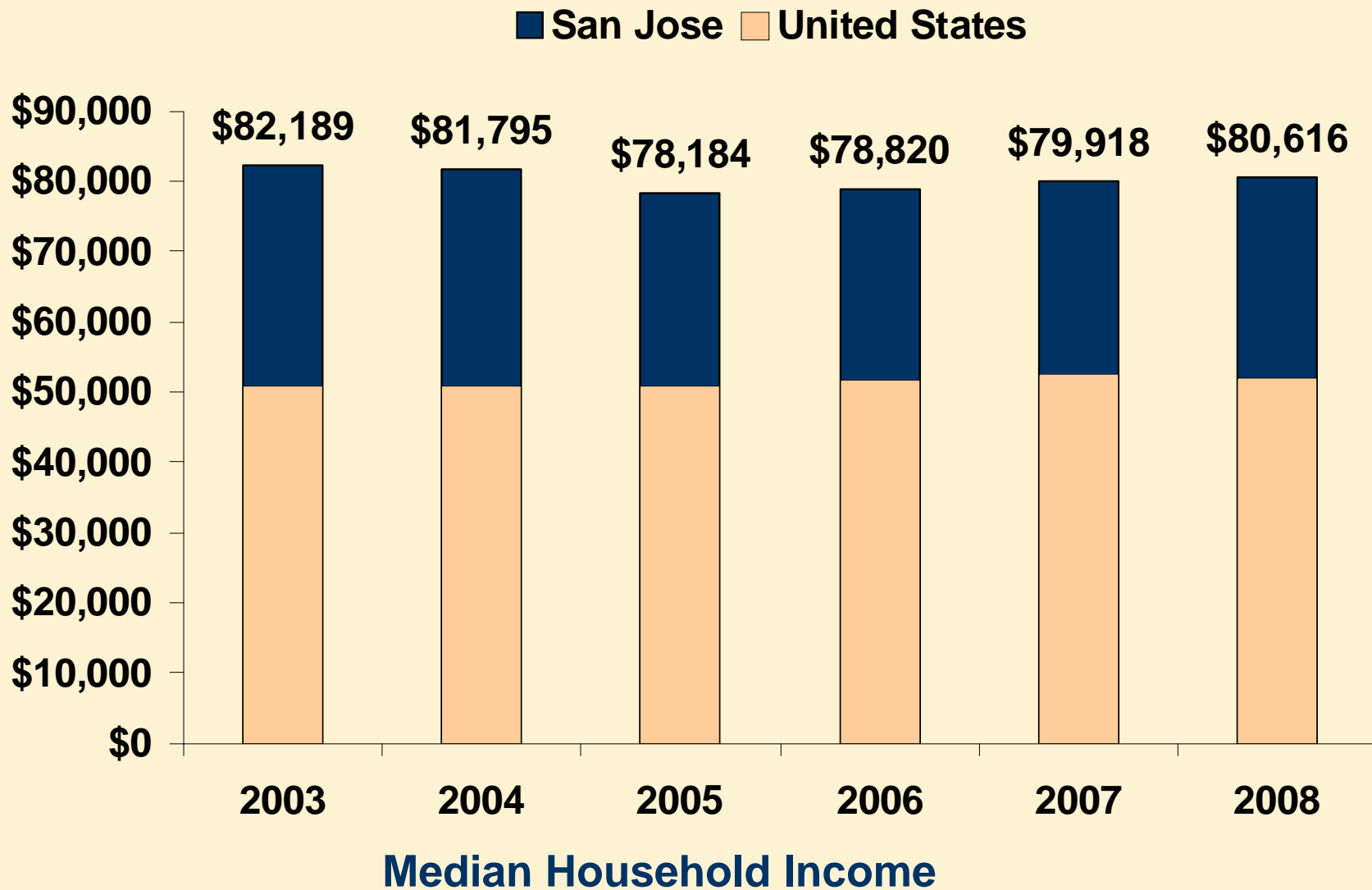
San Jose makes up **54%** of the County population. In 2003, San Jose made up **53%**.

SAN JOSE'S REAL INCOME PER CAPITA INCOME GREW STEADILY, THEN FELL SLIGHTLY



Source: Bureau of Economic Analysis (BEA)

MEDIAN HOUSEHOLD INCOME GROWS



Source: Census Bureau, American Community Survey 2008\$

SAN JOSE STILL UNDER-RETAILED; ECONOMY COULD GENERATE MORE CITY REVENUE

<u>Year</u>	<u>% Under-Retailed</u>	<u>Sales Tax “Lost”</u>
2008	21%	\$24.2 million
2007	21%	\$23.5 million
2006	19%	\$21.3 million
2005	19%	\$20.1 million
2004	19%	\$18.3 million
2001	24%	\$15.9 million

San Jose residents take their purchasing power to adjacent cities due to low local capacity

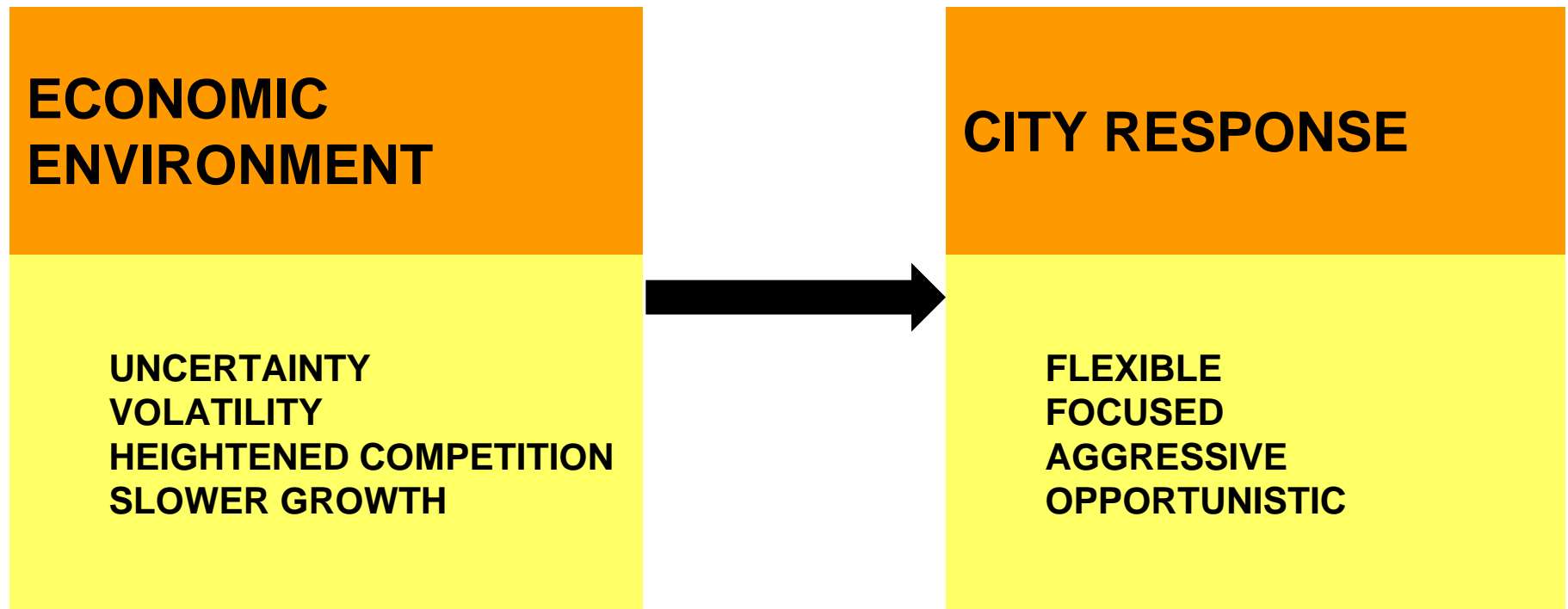
REMAIN LARGEST AND MOST INFLUENTIAL HIGH-TECH CENTER

2007 Rank	2003 Rank	Metro Area	Total High Tech Score
1	1	San Jose - Sunnyvale-Santa Clara, CA	100.0
2	3	Seattle-Bellevue-Everett, WA	46.4
3	2	Cambridge-Newton-Framingham, MA	45.2
4	5	Washington-Arlington-Alexandria, DC-VA-MD-WV	41.8
5	4	Los Angeles-Long Beach-Glendale, CA	40.2
6	6	Dallas-Plano-Irving, TX	21.8
7	7	San Diego-Carlsbad-San Marcos, CA	19.3
8	11	Santa Ana-Anaheim-Irvine, CA	17.7
9	9	New York-White Plains-Wayne, NY-NJ	16.8
10	8	San Francisco-San Mateo-Redwood City, CA	16.1

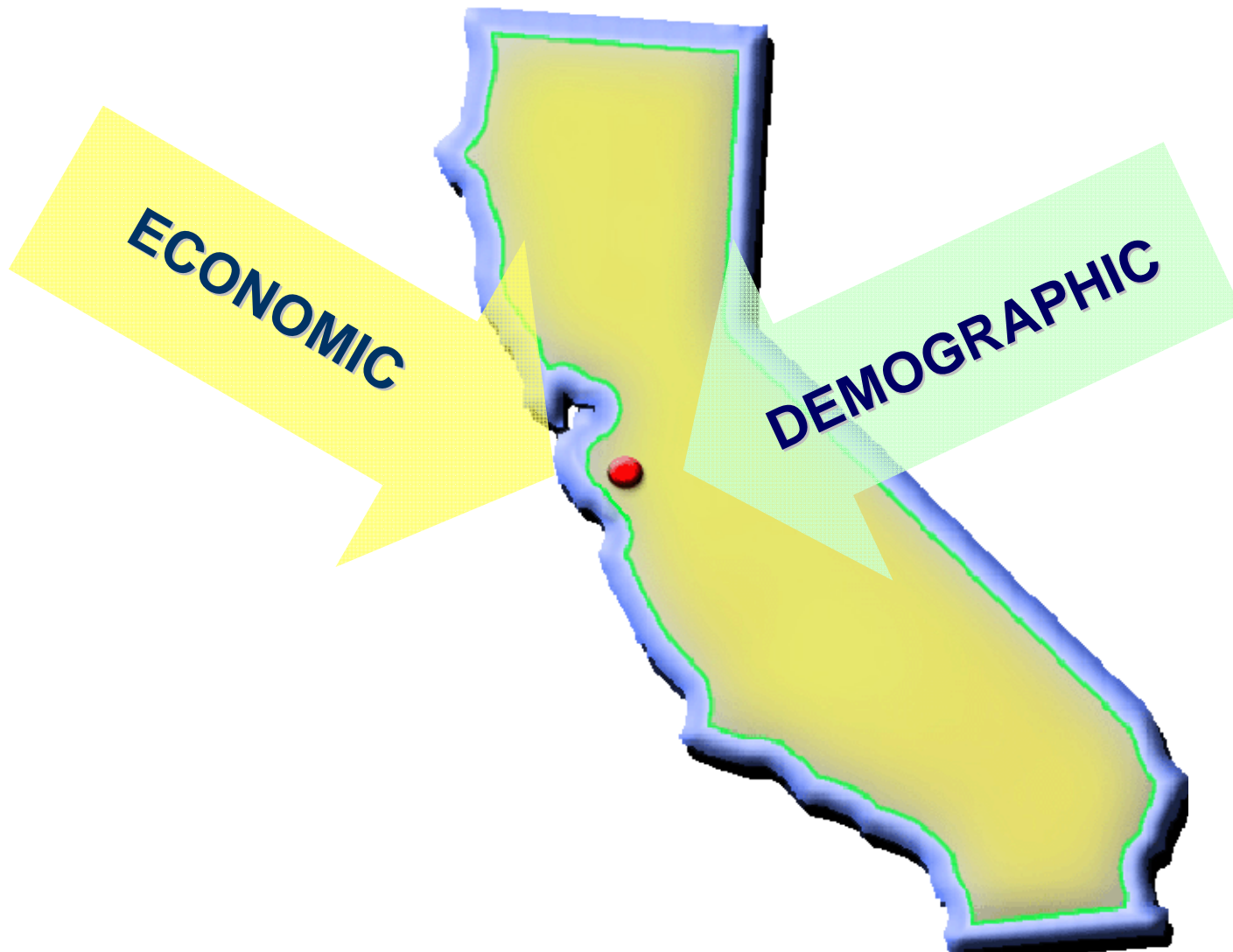
Milken Ranking of high-tech centers in the U.S

III. Major Forces Shaping San Jose's Economic Future

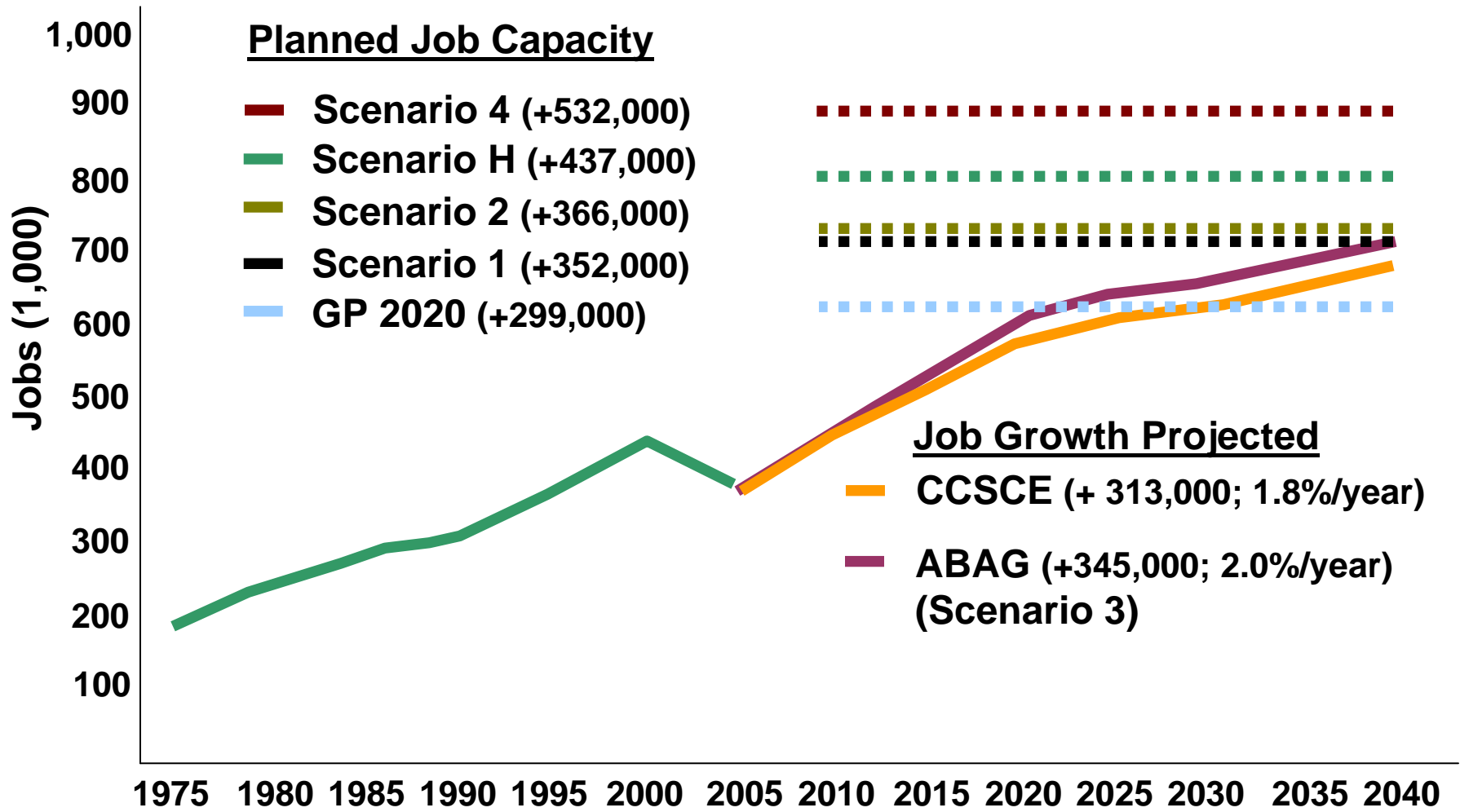
Environment Next Five Years...



Shaping Forces: Next 20 Years...



#1 More Moderate Job Growth, New Economic Engines



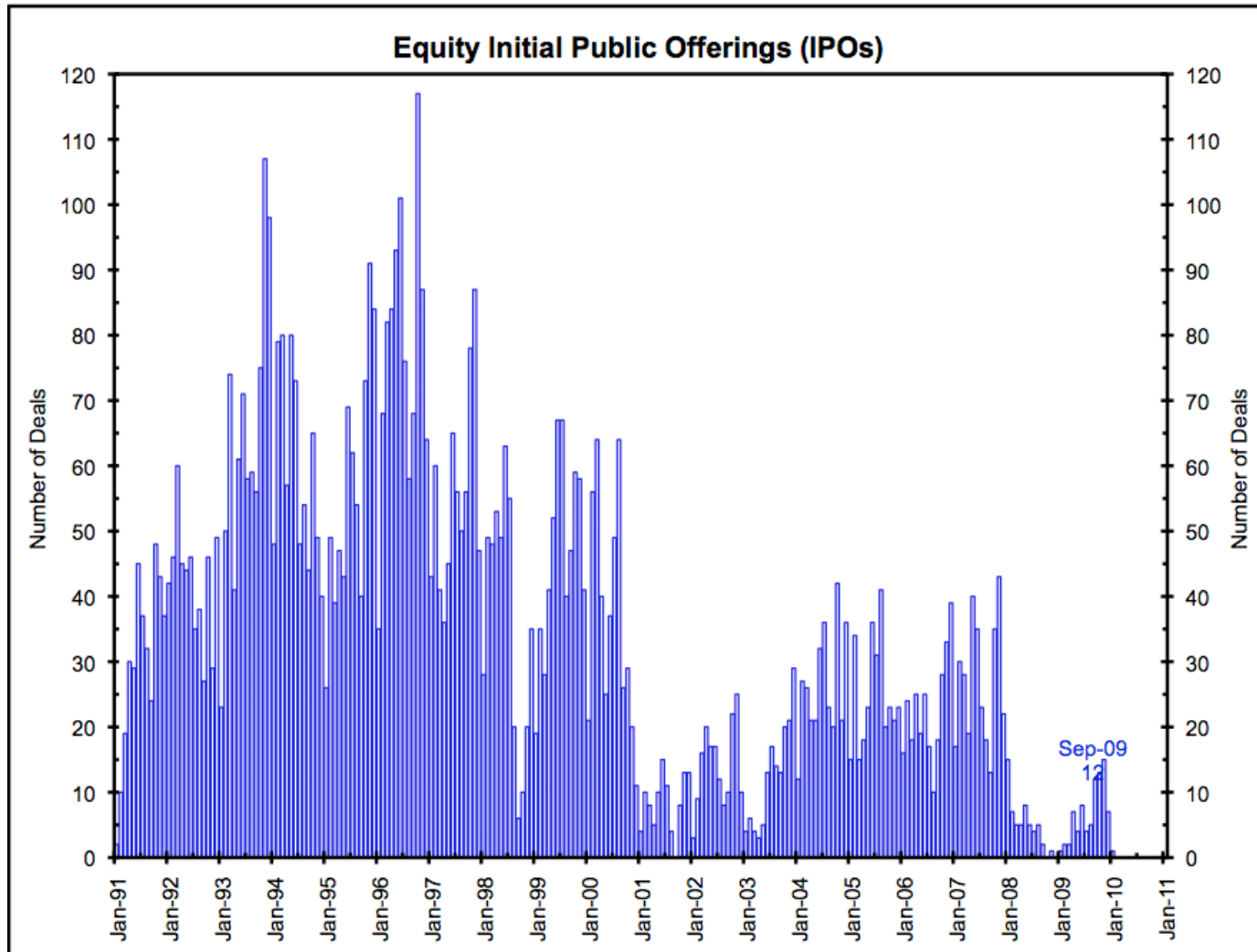
#2 Steady Pressure on Manufacturing and Other Middle-Income Jobs



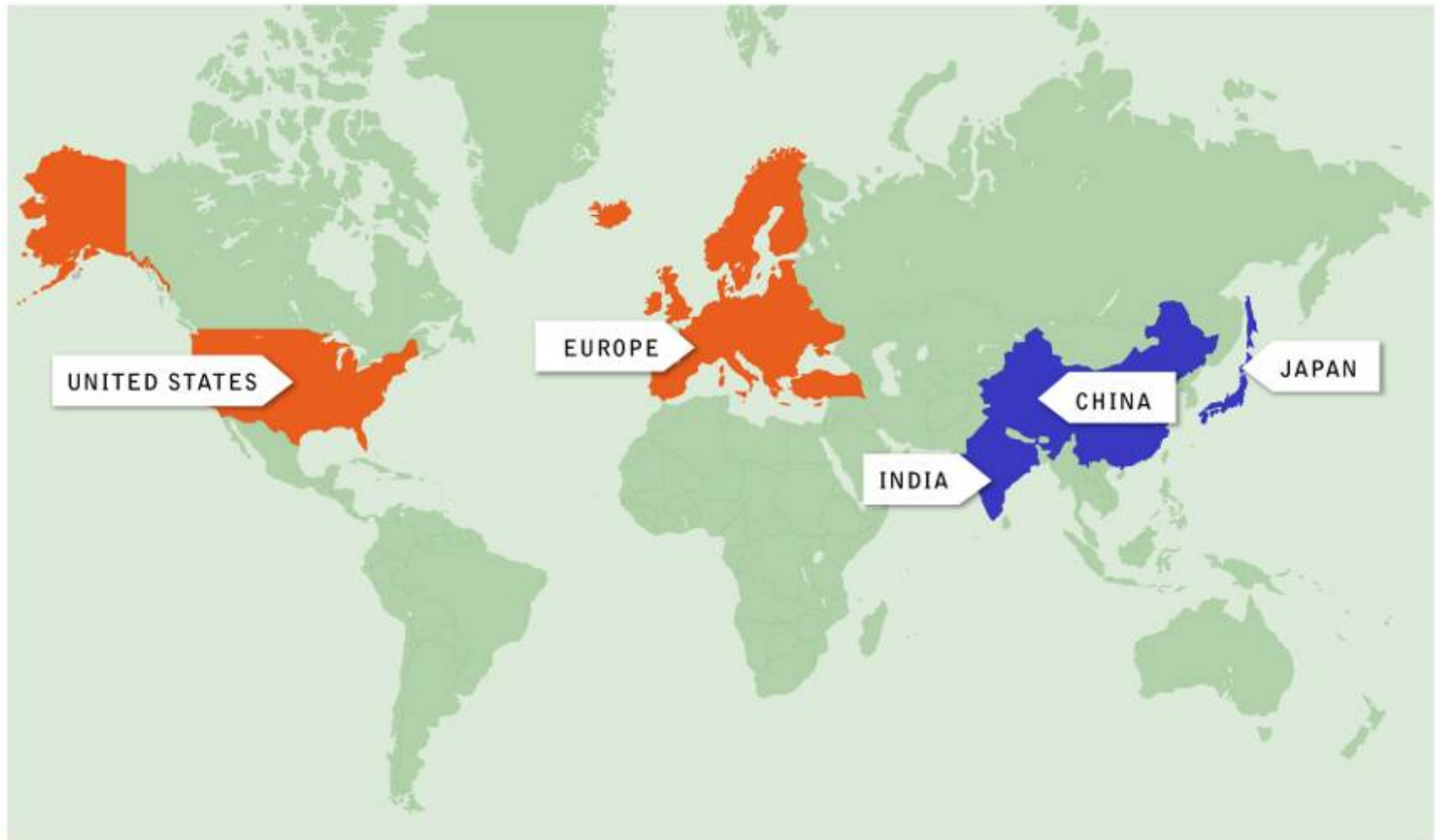
#3 Transition to Low-Carbon Economy



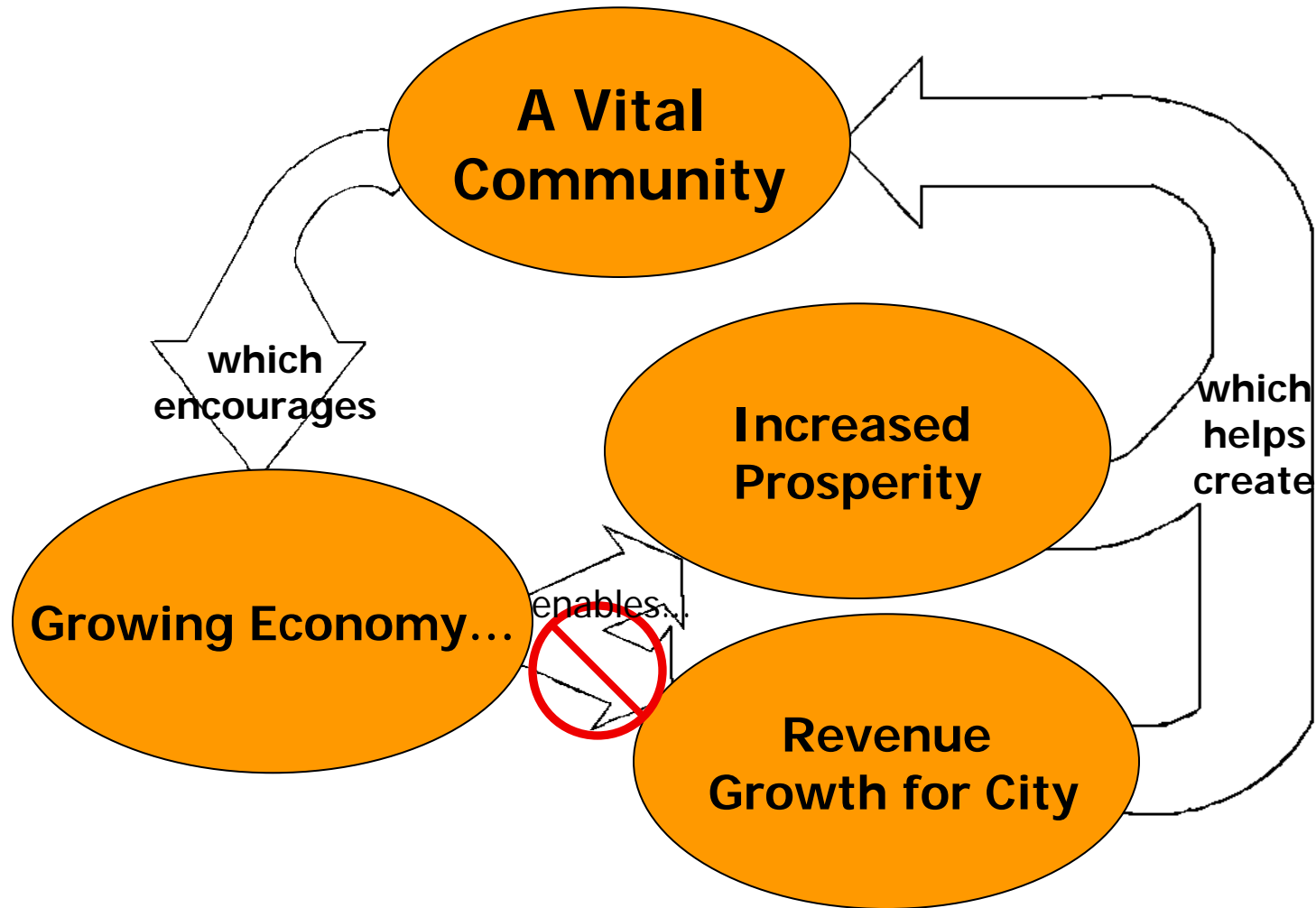
#4 New Funding Models for Business Start Up and Growth



#5 Asia Becomes New Center of Gravity

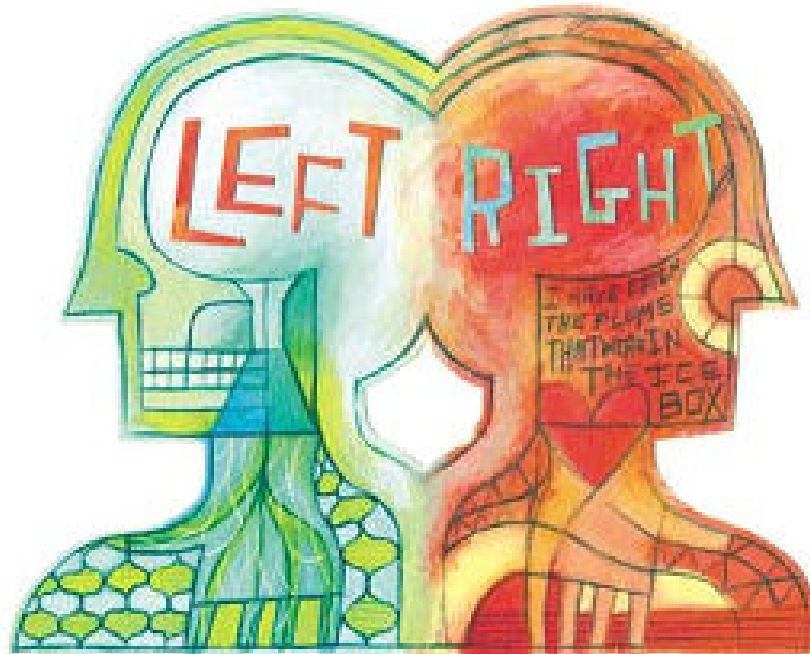


#6 Growing Disconnect Between Economic Growth, City Tax Base, and State Investment



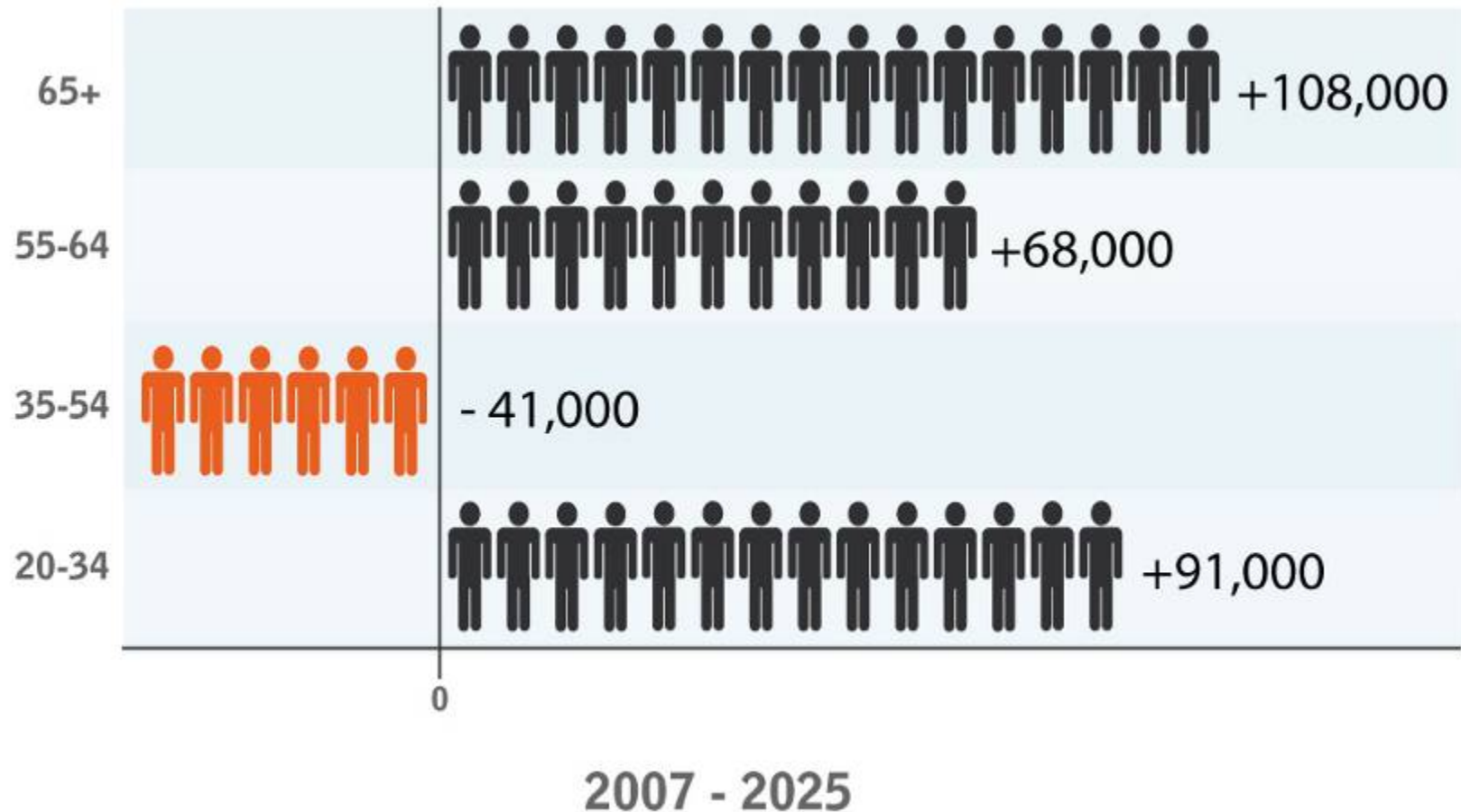
#7 Competing on “Right Brain” Creativity and Design

Logical
Mathematical
Linear
Sequential
Verbal
Rational



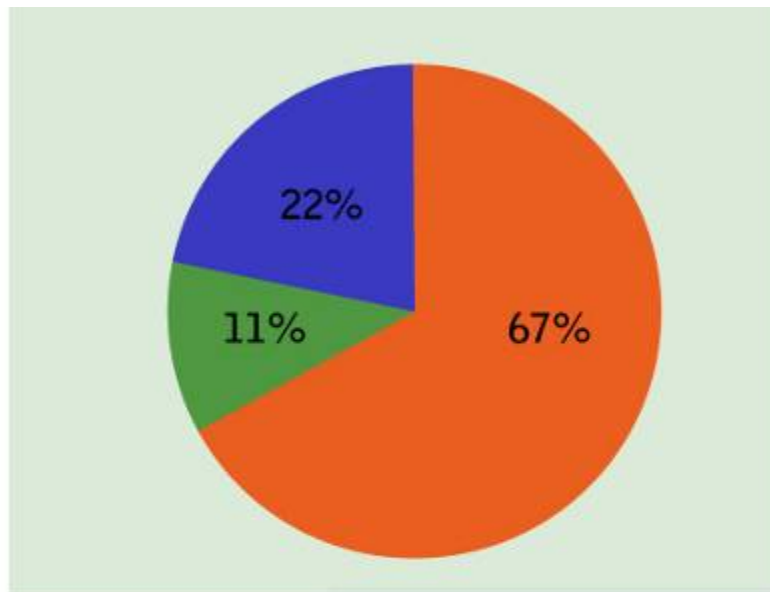
Intuitive
Artistic
Nonlinear
Simultaneous
Visual
Emotional

#8 Substantial Population Growth in Young Adults and Seniors

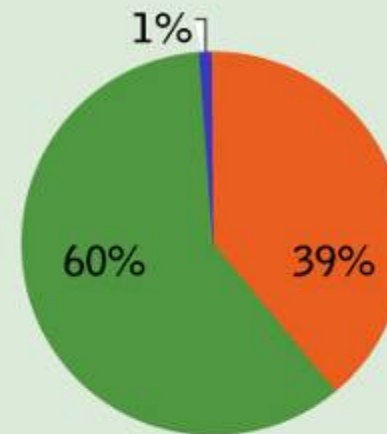


#9 Locally Educated Children of Immigrants Will Drive Workforce Growth

1980-2005
+8.1 million



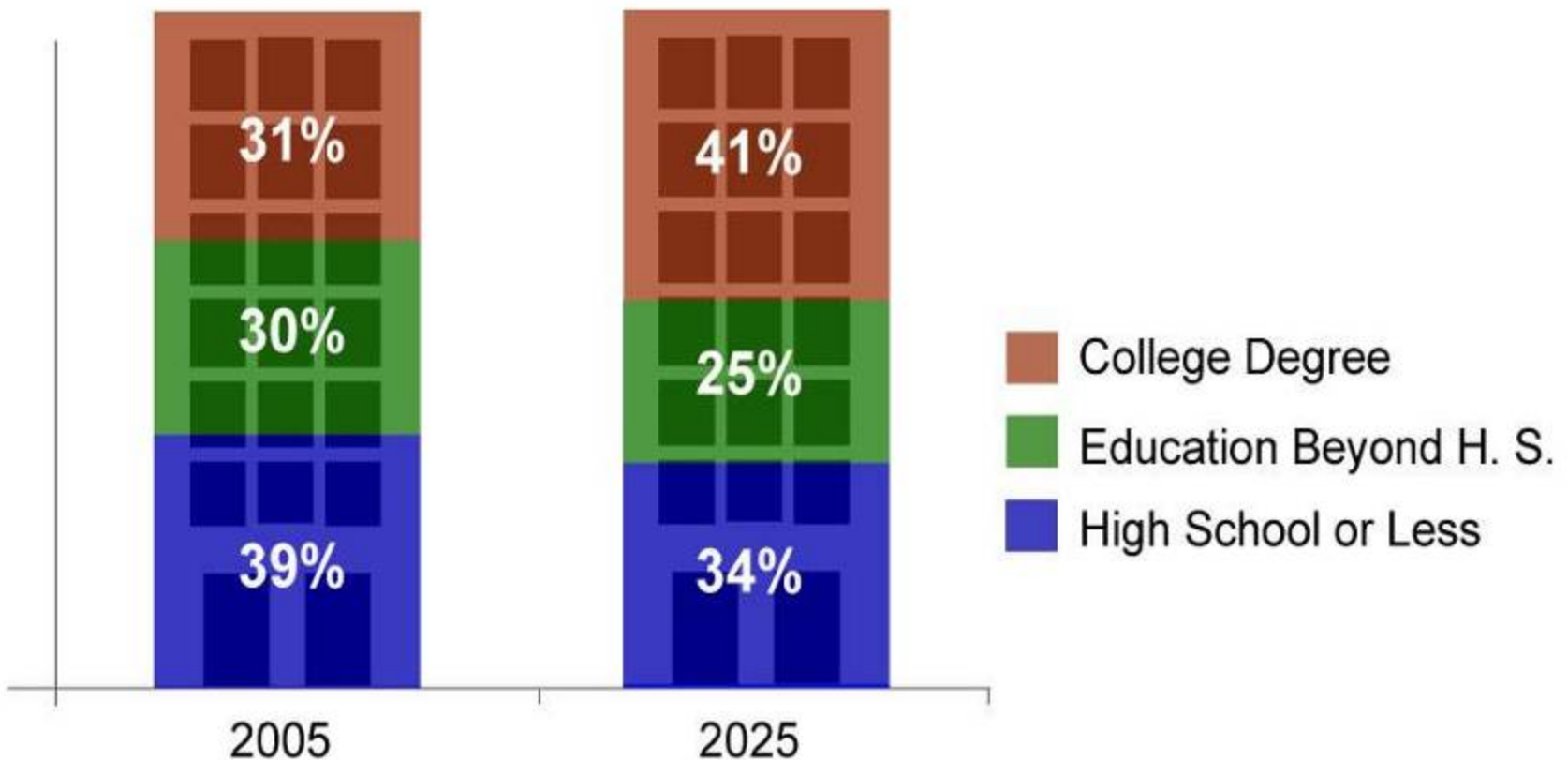
2005-2030
+6.0 million



- FOREIGN BORN
- CHILDREN OF FOREIGN BORN
- OTHER U.S. BORN

Immigration will continue, but growth will slow; economy will depend much more on California-educated children of immigrants

#10 Growing Demand for College-Educated Workers; Shortages Predicted



IV. Recommended Strategic Goals



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

A Global Gateway, a cosmopolitan, international city for leading businesses and talent from around the world

A Creative Community that pioneers innovation within and across technology and business, art and culture, and society

An Entrepreneurial Environment where people from all walks of life start and grow companies, and achieve their dreams

A Place of Opportunity, where residents find a range of rewarding employment opportunities and support to participate in the economy

The World's Most Livable Big City, with diverse and distinctive qualities of life

A Valued Contributor to addressing the world's pressing public challenges—environmental, economic, urban

TWO-PART ECONOMIC DEVELOPMENT CHALLENGE

- I. As the national economy recovers, *regain jobs* for our growing population and *regain revenue* for city services and infrastructure investment.

- II. Create an *outstanding business and living environment* that can compete with the world's best cities over the longer term.

12 STRATEGIC GOALS: 2010-2015

REGAIN JOBS AND REVENUE

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

12 STRATEGIC GOALS: 2010-2015

INVEST FOR FUTURE SUCCESS

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

V. Comments and Questions

VI. Advisory Panel Perspectives

ECONOMIC EXPERTS

What is most important for Council to know about the economic environment San Jose will face the next 5 years?

How should San Jose respond to ensure the City's economic success?

- Silicon Valley Perspective: **Doug Henton**, Collaborative Economics
- Bay Area Perspective: **Sean Randolph**, Bay Area Council Economic Institute
- National/Global Perspective: **Jaana Remes**, McKinsey Global Institute

STAKEHOLDER EXPERTS

From your perspective, what are the two most critical issues San Jose must address to succeed economically the next five years?

How should San Jose respond?

- Labor Perspective: **Bob Brownstein**,
Working Partnerships
- Driving Industry Perspective: **Carl Guardino**,
Silicon Valley Leadership Group
- Business Perspective: **Pat Sausedo**,
San Jose/Silicon Valley Chamber of Commerce

VII. Implementation Plan

IMPLEMENTING THE STRATEGY

- **Staff Proposed an 18-Month, 40-Action Workplan**
 - **Mayor Targeted 10 of the Priority Actions for 2010**
 - **Mayor/Council Input Being Sought**
- **Staff Proposed an Incentive Program**
 - **Mayor/Councilmembers Proposed Some Additional Incentives**
 - **Mayor/Council Direction is Being Sought**
 - **Clarify considerations**
 - **Staff will conduct further analysis where appropriate**
 - **Bring items forward for Council Consideration or Budget Action**

STAFF RECOMMENDED INCENTIVES

Short-Term Proposals

- **Project Reimbursement: “Net New”**
- **Downtown Parking Incentives**
- **One Year Hold on Parkland In-Lieu Fees**

Ongoing Proposals

- **Potential to Decrease Traffic Impact Fees in North San Jose**
- **Reinstatement of Construction-related Tax Suspension for Large Retailers**