



# Memorandum

**TO:** COMMUNITY & ECONOMIC  
DEVELOPMENT COMMITTEE

**FROM:** Chris Burton

**SUBJECT:** ECONOMIC STRATEGY  
UPDATE

**DATE:** April 8, 2019

Approved

Date

April 12, 2019

## RECOMMENDATION

Accept staff's report updating the Committee on the current status of the Economic Strategy.

## BACKGROUND

In November of 2003, the San Jose City Council adopted the city's first comprehensive Economic Development Strategy (Strategy). The dot.com bust of 2001-02 had raised serious questions about prospects for the Silicon Valley economy and the role of the City in affecting its economic future. Moreover, City leaders saw aggressive competition from within the region and from other high-tech centers globally and knew they could not take future success for granted. The original 2003 Strategy, comprised of 15 bold goals designed to stimulate the local economy, helped focus the work of City staff across departments and create a common understanding around the importance of economic development.

Following the Great Recession, the City Council adopted an update to the Strategy in April of 2010 (Attachment A). The Strategy update further refined the 15 goals into 12, and attempted to strike a balance between aggressively regaining jobs and revenue and creating an outstanding business and living environment that can compete with the world's best cities over the long term. In addition to serving as a guide for staff's work across the Community and Economic Development City Service Area (CED CSA), the updated Strategy became a guiding framework for many of the major policy projects that have followed it, including the Envision 2040 General Plan Update in 2011.

Because of the dynamic nature of the local economy, both the original and updated Strategy were intended to consider a five-year period. On January 26, 2015, the Community and Economic Development Committee accepted staff's report on the accomplishments of the final Economic Strategy workplan for the January 2013-December 2014 period. Due to the ongoing strength of the economic cycle and the demands of major project and policy work at the time, staff did not

recommend undertaking a major update of the Economic Strategy. The Committee agreed that the 12 Strategic Goals remained an appropriate organizing framework for the Departments that comprise the Community and Economic Development CSA and provided feedback to staff to proceed under the direction of the existing strategy.

The current economic cycle has continued to expand since staff last reported on the Economic Development Strategy, becoming the longest “trough to peak” expansion period in modern history. With this have come new opportunities and challenges that staff has continued incorporate into their ongoing workplans. This memorandum is intended to provide the Committee with an update on how staff are continuing to use, and align with, the Economic Strategy, and provide initial recommendations as to an appropriate timeframe for a potential update of the Strategy.

## **ANALYSIS**

### **Continued Work to Date**

Following the Committee’s acceptance of staff’s report on the Economic Strategy in 2016, and approval of the proposed two-year workplan covering the period between March 2016 and March 2018, staff continued to pursue work items that delivered on the projects included. Attachment B provides a brief summary of those items that were completed within the two-year period, and which continue to be worked on today. The vast majority of work conceived under the workplan passed a significant milestone or was completed during this period, however, many of these topics remain significant today, and in many cases, some form of work continues.

Over the last year staff has also been working to make progress on existing and new City Council Policy Priorities, as well as responding to changing local conditions. Some of the major policy projects and strategic initiatives that either weren’t a priority or have subsequently come into focus during this period include:

- Google/Diridon
- Development Services Transformation
- Development Fees and the Cost of Development
- Opening of Phase 2 of North San Jose
- Downtown EIR
- Housing Crisis Workplan
- Citywide, North San Jose, and Downtown Retail Studies
- Commercial Linkage Fee
- Climate Smart
- Small Business Displacement Strategy
- Residential Displacement Strategy
- San Jose Branding Initiative

- Downtown Height Limitations (OEI)
- Major Conferences and Events, including Apple WWDC, Facebook F8, NVIDIA GTC, College Football Playoffs
- Launch of Manufacture: San Jose

As we approach the latter stages of the current economic cycle, different pressures have taken on a more significant role. Foremost amongst these is the impact of housing construction related to economic development. The challenge of providing housing for an expanding workforce, and ensuring equitable economic opportunities for existing residents, continues to be a significant one and this is reflected in the citywide prioritization of the Housing Crisis Workplan. The lack of availability of a diverse range of housing types has the potential to disrupt the regional economy as unemployment remains at historic lows, new workers move into the area, and some existing residents find the high cost of living unsustainable. As such, policy work that advances new housing opportunities or addresses the high cost of development will remain a priority over the next 12 months. In addition, responding to new and increased pressures throughout the City that have resulted from the sustained nature of the current economic cycle, and the impact it has on residents in existing neighborhoods, is rapidly becoming a policy priority. Staff is currently developing workplans that consider and address challenges related to residential displacement, small business displacement, and ensuring career preparation opportunities and pathways for residents across all skill levels.

Economic Conditions

Even in the context of a seemingly slowing national economy, San Jose/Silicon Valley has continued to demonstrate significant signs of growth throughout 2018. The San Jose economy has continued to grow along with the rest of the region. The number of jobs within the City have increased almost 20% between 2010 and 2018, and unemployment has fallen to 2.5% and below.

	2010 Indicators	2014 Indicators	2018 Indicators	Change 2010-14	Change 2014-18
San Jose Jobs <sup>1</sup>	351,215	384,000	420,592	↑ 32,785	↑ 36,592
Population <sup>2</sup>	955,255	1,017,000	1,035,000	↑ 54,594	↑ 18,000
Unemployment <sup>3</sup>	11.5%	5.7%	2.5%	↓ 5.8%	↓ 3.2%
Office Vacancy Rate <sup>4</sup>	18.4%	15.6%	10%	↓ 2.8%	↓ 5.6%

<sup>1</sup> Source: California Employment Development Department

<sup>2</sup> Source: US Census (2017 latest available data)

<sup>3</sup> Source: California Employment Development Department, as of December of the listed year.

<sup>4</sup> Source: Office of Economic Development, based on various broker reports.

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In addition to the table above, staff monitors a broad range of additional economic information that outlines the current state of the local economy. This information shows that even though the local economy continues to grow, San Jose continues to add employed residents at much faster rate than jobs, and that the number of jobs has a direct correlation to revenues that support City operations. As such, in addition to providing support and leadership to the residential development community, the City mustn't lose sight of its long term economic goals of balance growth that not only accommodates more residents, but also provides them opportunities to work in the community they live in, and delivers fiscally positive land uses that support sustainable City services. Staff will return to the Committee in the fall with a complete Community Economic Profile report that will provide additional detail and information.

#### Updating the Economic Strategy

As noted through the CED CSA's continued work in alignment with the prior Economic Strategy, staff believes that now is not the time undertake a wholesale update of the City's Economic Strategy. The first and second strategies were both developed during a time of economic instability as a means of guiding the City's growth out of a major economic slowdown. As the current economic cycle continues to mature, there is increased risk of a slowdown in the next 12-18 months. Staff's recommended approach is to continue to operate within the context of the existing Economic Strategy and focus planning and strategic work on areas of greatest need, including the Housing Crisis Workplan and the upcoming General Plan four-year review. The goals of the current Strategy align with much of the work currently being undertaken within the departments that formulate the CED CSA, and the Strategy is capable of provide continued guidance and direction in its current form.

#### EVALUATION AND FOLLOW-UP

Staff will return to the Committee in the fall to present the Community Economic Profile and provide an update on evolving economic conditions. Staff will retune to the Committee to present further analysis on the appropriate timing and scope of an Economic Strategy Update in one year.

/s/

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Office of Economic Development

For questions, please contact Chris Burton, Deputy Director, at (408) 535-8114.

#### Attachments:

- A. Economic Strategy (2010)
- B. Approved 24-Month Implementation Workplan (March 2016-March 2018)

## ATTACHMENT B

### Economic Strategy Approved 24-Month Implementation Workplan (March 2016-March 2018)

-  Items Completed (some maybe ongoing)
-  Items Still in Progress

ACTION	TEAM
<b>#1 Encourage Companies and Sectors that Can Drive the San Jose/Silicon Valley Economy and Generate Revenue for City Services and Infrastructure</b>	
1 a. Through the City's ongoing business outreach efforts, incorporate focused retention and expansion visits with companies located within, or appropriately suited to location in, key employment areas including North San Jose, Downtown and Edenvale.	OED
1 b. Partner with local companies, associations, and agencies to identify unique attributes of the local economy (including the Internet of Things, advanced manufacturing, and clean energy) that enhance San Jose's value-add in attracting new companies and investment.	OED
1 c. Promote the key attributes of areas experiencing significant development to businesses looking to expand in or move to San Jose, the brokerage community, and property owners and developers working in the area.	PBCE/OED
<b>#2 Develop Retail to Full Potential, Maximizing Revenue Impact and Neighborhood Vitality</b>	
2 a. Advance destination retail projects on existing sites through the planning and implementation stages, including the Valley Fair expansion, Federal Realty's new development, Evergreen Arcadia, and the new Great Oaks retail development.	OED/PBCE
2 b. Continue to support retail and small businesses in Downtown and Neighborhood Business Districts through a combination of the Storefront Program, the Small Business Ally, and targeted outreach.	OED/Development Services
<b>#3 Preserve and Strengthen Manufacturing-Related Activity and Jobs</b>	
3 a. Preserve the diversity of industrial lands and viability of facilities that support manufacturing and adopt an ordinance that protects the manufacturing rights of existing industrial land uses from encroaching incompatible uses.	PBCE
3 b. Help forge connections between manufacturing service companies and emerging hardware start-ups to help facilitate the commercialization of new products and the sustainable growth of local companies.	OED

3 c. Continue to work with community colleges and San Jose State University to develop training programs that are in demand, and real time to meet the training and hiring needs of local manufactures.	work2future/OED
3 d. Propose general plan and zoning code amendments to support implementation of the North San Jose Development Policy, including needed amendments resulting from the process to update the Policy.	PBCE
<b>#4 Nurture the Success of Local Small Businesses</b>	
4 a. Actively promote BusinessOwnerspace.com (BOS) as the core element of San Jose's small business support strategy with an emphasis on immigrant owned small business.	work2future
4 b. Provide support and services for creative industries and entrepreneurs through the Creative Industries Incentive Fund and Creative Entrepreneur Program.	OCA
4 c. Continue to forge partnership opportunities with other local business associations and agencies to interact, support and assist small businesses.	OED
4 d. Complete the FoodWorks assessment and the Food Access Plan to identify and advance opportunities to invest in the food production ecosystem for local businesses and to increase access to healthy, local foods.	Housing/OED
<b>#5 Increase San Jose's Influence in Regional, State and National Forums in Order to Advance City Goals and Secure Resources</b>	
5 a. Increase San Jose's effectiveness in using regional agencies/forums to advance city goals and secure financing from regional, statewide, and national sources.	CMO/OED/
5 b. Continue to support the development and roll out of the federally funded "NextFlex" Flexible Hybrid Electronics Manufacturing Innovation Institute.	OED
5 c. Provide a one voice approach on SB 375 implementation by actively influencing and shaping implementation of the Sustainable Communities Strategy ("Plan Bay Area" and the associated "One Bay Area Grant" program) and Regional Housing Needs Allocation. Work with external partners to develop regional mechanisms to facilitate the ability of all cities in the County to fully contribute to meeting the region's housing needs across incomes and employment sectors.	Planning/Housing/ DOT
5 d. Actively engage in and shape programs and funding opportunities, such as "Plan Bay Area" and the associated "One Bay Area Grant" program and the Affordable Housing and Sustainable Communities (Cap and Trade) Grant Program in order to maximize San Jose's competitiveness for key resources to implement sustainable, equitable development.	DOT/Housing
<b>#6 Improve the Speed, Consistency, and Predictability of the Development Review Process, and Reduce Costs of Operating a Business in San Jose</b>	
6 a. Ensure the timely delivery of major development projects that can have a measurable impact on job creation or revenues within the next 24 months, including those that will generate tax increment, property tax revenues, or sales tax revenues.	Development Services (PBCE, Fire, PW)/ OED

6 b. Promote expedited permitting processes and continue to evaluate opportunities to streamline the development review process.	Development Services
6 c. Continue aggressive promotion of the Foreign Trade Zone, Use Tax Incentive and other available local and state incentives to reduce business operations costs, and pursue other state and federal assistance programs to support new development and business attraction and expansion.	OED
<b>#7 Prepare Residents to Participate in the Economy Through Training, Education, and Career Support</b>	
7 a. Create partnerships between employers, K-12, community colleges, pre-apprenticeship and apprenticeship programs, and institutions of higher learning to create a diverse range of employment opportunities and job ladders for upward mobility, including for youths and the homeless. Examples include a system that can steer low-income people towards careers in the construction, manufacturing, and ICT.	work2future/OED/Housing
7 b. Through work2future, provide occupational assessment and counseling services to people that advance to middle-income jobs through identification of both career ladders (sequential positions) and career lattices (transferable skills).	work2future
7 c. Partner with public, private, and non-profit organizations, and continue to develop partnerships with San José State University, community colleges and other educational institutions, to advance connection between academia and industry to support long term workforce supply.	work2future
<b>#8 Advance the Diridon Station Area as Key Transportation Center for Northern California</b>	
8 a. Support Valley Transportation Authority (VTA) to extend BART service to Berryessa, Downtown San Jose and Diridon Station, and BRT service from Alum Rock to Downtown/Diridon Station.	DOT/OED/Planning/PW
8 b. Facilitate planning and future development of increased rail service, including the expansion of Caltrain, ACE and Capitol Corridor services and the new California High Speed Rail.	DOT/Planning
8 c. Facilitate the Diridon Station Task Force – a multi-agency partnership with community and stakeholder involvement – to develop an exceptional multimodal station and integrate transit-oriented development consistent with the Diridon Station Area Plan.	DOT/OED/Planning/Housing
<b>#9 Keep Developing a Competitive, World Class Airport, and Attract New Air Service</b>	
9 a. Maintain a cost-competitive, efficient and attractive airport that can successfully compete with airports in the Bay Area and across the nation in recruiting carriers and flights to serve Silicon Valley.	Airport
9 b. Execute strategy to recruit new international and domestic air service, in partnership with the Silicon Valley business community.	Airport
9 c. Develop and implement strategies to increase non-airline revenues.	Airport
9 d. Expansion of current outreach efforts to the local business community to ensure the success of new flights.	Airport/OED
<b>#10 Continue to Position Downtown as Silicon Valley's City Center</b>	
10 a. Continue to create a vibrant and safe environment that attracts a diverse range of residents and visitors.	PW/OED/PD/PRNS

10 b. Promote Downtown San Jose as an easy-to-access, competitive work environment for start-ups, scaling businesses, major tech companies and freelancers by highlighting our innovation and creativity.	OED
10 c. Maintain communication with major downtown businesses, property owners and brokers to retain and grow and attract new businesses.	OED
10 d. Provide oversight and enhance competitiveness and success of the San Jose Convention Center, Convention and Visitors Bureau and the Team San Jose-managed cultural facilities as unique attributes of the downtown environment.	OED/PW
10 e. Steward the success of Downtown cultural facilities and venues. This includes City-owned facilities and the development of a new partnership with SJSU to operate the Hammer Theatre, development of a live music venue (Levitt Pavilion San Jose) in St. James Park, and the expansions of the Children's Discovery Museum and Tech Museum of Innovation. The City will encourage private facility projects of community-based partners including MACLA and San Jose Stage Company.	OCA/OED/PW/PRNS
10 f. Partner with the Downtown Association and downtown creative community on implementing the Downtown Association's Streetlife Plan.	OED/PD/CAO/Housing/DOT
10 g. Continue to develop responses in order to address the needs of the homeless living Downtown.	Housing
10 h. Encourage new speculative and build-to-suit office development in Downtown.	OED/PBCE
<b>#11 Create More Walkable, Vibrant, Mixed-Use Environments to Spur Interaction and Attract Talent</b>	
11 a. Develop Urban Village Implementation Plans that reflect City Council modifications to the General Plan that occur as part of the Four Year Review process. Such Implementation Plans should establish funding mechanisms for need infrastructure and amenities in Urban Villages while at the same time facilitating mixed use development.	PBCE/Housing/DOT/PW/OED
11 b. Encourage neighborhood-serving retail that supports a diverse set of needs.	OED/Planning
11 c. Develop an implementation strategy to achieve affordable housing in key growth areas such as in Urban Villages, Priority Development Areas, and in transit locations in order to support walkability, vibrancy, and neighborhood-serving retail and small businesses.	Planning/Housing
11 d. Identify opportunities for public/private partnership to enhance the pedestrian environment in key development areas.	DOT/Planning/Housing/OED
11 e. Design and install wayfinding information to bring people and vibrancy to city streets, enhance the walkability, legibility, and comfort of Downtown San Jose, and encourage non-auto travel approaching trips to and within Downtown.	OED/DOT
11 f. Facilitate vibrancy through cultural and arts activation, which may involve municipal code and policy recommendations.	OCA/OED
11 g. Complete high quality, integrated public art as part of Bus Rapid Transit and Berryessa's BART station through a partnership with VTA.	OCA/OED
<b>#12 Develop a Distinctive Set of Sports, Arts, and Entertainment, Offerings Aligned With San Jose's Diverse, Growing Population</b>	



12 a. Support production of national and international high-profile events and performances in San Jose in partnership with the San Jose Sports Authority, Team San Jose, and other private and non-profit sponsors. This includes engagement opportunities for residents and visitors.	OED/OCA
12 b. Continue to produce and promote VivaCalleSJ and activate parks and public spaces.	DOT/OED/PRNS
12 c. Facilitate vibrant city-wide districts through creative placemaking strategies including public art, events, festivals, participatory creative experiences, and other public realm amenities.	OCA/OED/PRNS