



Memorandum

TO: COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE

FROM: Nanci Klein

**SUBJECT: ECONOMIC RECOVERY STATUS
REPORT**

DATE: September 14, 2021

Approved

Date

9/17/2021

COUNCIL DISTRICT: CITYWIDE

RECOMMENDATION

Accept the status report on the implementation of economic recovery work being undertaken by the Office of Economic Development and Cultural Affairs in response to the COVID-19 pandemic.

BACKGROUND

The health crisis triggered by the COVID-19 pandemic has also been an economic crisis whose impacts have disproportionately fallen on the most vulnerable communities and populations. This memorandum provides an update on economic conditions within the City, a look inside struggling sectors and populations, trends to monitor as the pandemic enters new phases, and support activities completed and planned in response to the economic disruption.

In March 2020, the Office of Economic Development Business Development team (OED Team) was activated into the Emergency Operations Center—forming a Small Business Response unit within the Liaison Branch—to serve as a resource and help San José businesses most affected by COVID-19. In August 2020, the OED Team resumed regular operations within the City Manager's Office while maintaining a focus on business recovery and response, particularly to assist small businesses in the City's underserved communities. A comprehensive overview of business outreach and education activities to date was provided in a July 30, 2021 information memo, included here as Attachment A.

At the November 23, 2020 Community and Economic Development Committee meeting, staff presented an Economic Recovery Work Plan that included work items along three pathways depending on their primary area of impact: Citywide, Neighborhood, and Individual. Since the

November presentation, public health conditions have improved, businesses and activities have largely reopened, and new federal, state, and local resources became available. However, the recovery has been uneven within the City, and this reality informs the targeted approach to business recovery moving forward, particularly in light of the emergence of the Delta variant. While this memorandum will provide a status of the work plan, it will primarily focus on lessons learned over the past 18 months and activities planned through Fiscal Year (FY) 2021-2022.

ANALYSIS

Economic Context

The national, state, and local road to economic recovery has been rocky throughout 2021. In the late spring, optimism abounded for a “return to normalcy” as the state approached the June 15 reopening. Then, in the early summer, the more contagious Delta variant caused case rates to rise to levels not seen since last winter. As a result, employers have pushed back return-to-office plans – greatly impacting small businesses that depend on workers’ daily routines. Events, gatherings, and business travel have all been slow to resume. Meanwhile, most government-funded direct financial support options for both individuals and businesses have ended.

Key local economic indicators show that our most vulnerable areas are continuing to bear the brunt of the economic impact, even as overall citywide employment, consumer spending, and sales tax receipts are bouncing back. Nationally, women, Black and Latino/a/x workers are still experiencing high rates of unemployment, partly because those worker categories are heavily represented in employment sectors that have been most impacted and slowest to recover. While local unemployment data disaggregated by demographics are not available, staff analysis has shown elevated unemployment in traditionally underserved San José neighborhoods with strong percentages of residents of color and vulnerable service occupations.

The following chart summarizes some of the trends – both positive and negative – as we head into the latter quarter of the year.

Progress toward Recovery	Continued Challenges
The City’s overall unemployment rate is down to 5.5 percent in July 2021 from 14.3 percent in April 2020. (In February 2020, the unemployment rate for the City was 2.7 percent.) The number of unemployed people in San José is down to 30,000 from 77,500 since April 2020. (In February 2020, there were 14,900 unemployed people in the City)	Unemployment remains high for women, Black, and Latino/a/x workers. The national unemployment rate in July 2021 was 9.1% for women; 12.7% for Black workers; and 10.1% for Hispanic workers. That compares to 8.8% for the overall headline unemployment rate. At the same time, many business owners report difficulty recruiting for open positions as the labor market finds its footing following nearly two years of disruption and stimulus.

Progress toward Recovery	Continued Challenges
Consumer spending now exceeds January 2020 levels. Total spending has increased by 13.1% since then, after dropping as much as 40% in April 2020.	Spending in certain key sectors remains depressed. Entertainment/recreation, and transportation spending remain down by 18.3% and 15.4% respectively.
Surviving businesses have largely reopened as all remaining restrictions were lifted June 15, 2021. In the real estate market, demand for industrial and true Research and Development/lab space remains consistent as companies plan for a continued presence in Silicon Valley.	Many commercial office employees (76.8%) remain at home, affecting the local economic impact of workers ¹ . A home-based workforce may also increase the share of e-commerce in retail sales, further pressuring brick and mortar stores.
Economic relief with an aggregate value of \$2.7 billion reached thousands of San José businesses with over 45,000 individual loans and grants secured through federal, state, and local programs.	Analysis shows this relief did not reach all areas of the City, or types of businesses, with the lowest takeup among micro-businesses employing two to nine staff.
Safety net programs (enhanced unemployment insurance, eviction moratoria) were effective. For instance, the commercial eviction moratorium protected up to 27,000 eligible businesses.	Key elements of the emergency safety net (including enhanced unemployment insurance and eviction moratoria) have now expired, heightening uncertainty over what comes next.
Wages are rising nationally even for lower-skilled positions, according to the Atlanta Fed's Wage Growth Tracker, with August wage growth ticking up 4% in August.	Potential for increased inflation could also do economic harm as costs rise, pressuring profit margins and consumer spending power.
Driving-industry employers are profitable and hiring, with the S&P 500 up 34% over its pre-pandemic peak.	Office vacancy and availability rates are elevated, particularly in downtown. Costar shows downtown's availability rate (which includes occupied space being marketing for lease) at roughly 23%, the highest since 2011.

A key theme throughout the recovery has been its uneven nature. While sectors such as information, manufacturing and transportation, and warehousing have recovered essentially all

¹ Source: Kastle Systems Return to Work Data: Occupancy Rates Based on Key Fob Swipes, United States Major Markets, August 2021.

(or more) of the jobs lost in early 2020, it is a different story for other sectors, and progress has slowed due to the recent uptick in COVID-19 cases. For example, the leisure and hospitality sector went from creating a monthly average of 4,800 new jobs in April and May 2021 to only 1,700 new jobs in June and July 2021. The sector showed zero growth nationally in August. This speaks to the volatility of the economy and the degree to which it is still being driven by the pandemic. Education, health services, retail, and government are also lagging sectors, as shown in Figure 1.

Residents working in the most impacted sectors tend to be heavily represented in San José's most vulnerable neighborhoods. A staff analysis shows that neighborhoods of color – especially in Central and East San Jose – are often typified by high resident employment in health care, government, construction, retail, and hospitality. Workers in these sectors – many of them immigrants and people of color – already were more likely to suffer the direct health impacts of COVID-19, due to on-site work that involves interfacing with the public. Staff continues to explore strategies to better understand and visualize economic indicators disaggregated by race and ethnicity and within neighborhoods.

Figure 1: Employment Trends Across Selected San José Metro Area Job Sectors, 2020-2021

Industry Sector ² (San José Metropolitan Statistical Area)	February 2020 Jobs	April 2020 Jobs	July 2021 Jobs	Peak Job Loss in April 2020	Job Gain April 2020-July 2021	% Recovered	Feb 2020-July 2021 Job Loss/Gain
Information	105,500	104,800	110,600	(700)	5,800	100.0%+	5,100
Manufacturing	170,700	165,100	171,500	(5,600)	6,400	100.0%+	800
Transportation/Warehousing	14,800	12,600	14,900	(2,200)	2,300	100.0%+	100
Construction	53,200	34,800	50,000	(18,400)	15,200	86.6%	(3,200)
Other Services	29,000	18,200	24,300	(10,800)	6,100	56.5%	(4,700)
Retail Trade	80,600	62,300	72,700	(18,300)	10,400	56.8%	(7,900)
Education & Health Services	185,100	163,300	173,500	(21,800)	10,200	46.8%	(11,600)
Government	99,800	97,000	85,700	(2,800)	(11,300)	0%	(14,100)
Leisure & Hospitality	105,300	52,900	75,300	(52,400)	22,400	42.7%	(30,000)
Total Jobs	1,166,000	1,014,800	1,096,300	(151,200)	81,500	53.9%	(81,700)

² “Other Services” includes personal care services, such as salons, nail care, pet care, as well as equipment repair. The sustained drop in Government is mostly due to a drop in employment in local education as K-12 and state education employment is included in this sector.

Figure 1 compares job numbers across three key moments in time: The month before the pandemic's impact (February 2020), the single biggest month for job loss (April 2020), and the most recent available data (July 2021). All sectors have made progress toward recovering jobs except government, but job growth has been uneven. Data is for the San José metro area, which includes Santa Clara and San Benito counties. The Total Jobs row includes jobs across all sectors, including those not listed here.

In addition, while hundreds of billions of dollars in government relief were earmarked for business, staff analysis shows these programs have a spotty record reaching the most vulnerable communities. Many of the City's underserved businesses lacked access to professional services, banking relationships, and professional recordkeeping. As a result, fewer successfully applied to the multiple relief initiatives, such as the federal Paycheck Protection Program. This is especially true of smaller businesses (fewer than 10 employees) in all areas of the City. These businesses are often the ones who were least able to pivot to a virtual or work-from-home model during the depths of the pandemic.

Targeted investments to support these business segments and communities through technical support are needed during the next phase of economic recovery, which is why much of the work plan is focused on ramping up services in Central and East San José. The City's own experience shows what is possible when this targeted outreach is conducted. City-funded financial initiatives (such as the Coronavirus Relief Fund or Community Development Block Grant-funded grants distributed last year) were able to better target underserved populations. The City-managed small-business grants disbursed \$6.09 million to support 499 San José small businesses owned by low- or moderate-income individuals, primarily from communities of color, thanks to these targeted outreach strategies.

Work Plan Activities through September 2021

At the November 23, 2020 meeting, OED staff presented an Economic Recovery Work Plan with key work areas addressing the range of issues affecting the City's employment and cultural sectors. As the community approaches a new normal, some of this work has been completed; other work items move into new phases; and still other pieces will continue or shift in subtle ways. Additional details of the specific actions contained in the work plan can be found in Attachment B to this memorandum.

The primary focus of the work undertaken by the OED Team and its partners over the past nine months has been the support of neighborhood small businesses that make up the Neighborhood and Individual Workplan Pathways. This work includes providing information and resources to business owners so that they might successfully transition through the tumultuous environment created by the shifting nature of public health and consumer behavior. At the same time, the OED Team has worked to facilitate investments that will have a larger impact on the citywide economy, primarily through the development of major projects. Some key highlights include:

- **Access to Capital Initiative:** Staff hosted numerous webinars, sent email blasts, conducted flyer drops, and served as technical support for a number of loan and grant programs including Paycheck Protection Program (PPP), Economic Injury Disaster Loans

(EIDL), and California Small Business Relief Grants. A detailed report on the impact of these programs and key metrics is in the July 30, 2021 information memorandum.

- **Business Outreach Initiative:** The initiative includes targeted business walks every other week to spread key messages and resources; the BizWalkSJ initiative replaces a twice-monthly drop-in “office hours” program held over Zoom. Earlier in the summer, a business support flyer was mailed to more than 12,000 businesses in the City, and staff continues to produce a webinar series every other Thursday focused on topical messages.
- **Ongoing Development and Corporate Facilitation:** Small businesses clearly need the most assistance during this uneven recovery, but large investments are also critical for keeping the labor force employed and sales tax generation. The OED Team’s Development Facilitation Officer worked to recapture momentum following the construction shutdown in spring 2020 and kept projects moving including Westfield Valley Fair buildout, over 1,000 downtown residential units (The Grad, Miro, and The Julian), and ushered in over 600,000 square feet of industrial space.
- **Economic Development Administration Grant:** In February 2021, the City received approval for a \$1.1 million grant that will provide additional technical support resources to support small businesses and manufacturers in targeted areas of the City. The first two personnel (housed within nonprofits, Manufacture: San José and the San José Downtown Association) have recently been hired.
- **Assisting Laid-Off Workers and Businesses:** work2future implemented a CARES Act-funded Work Experience and Training Project to provide workforce development support to San José residents displaced from work by the pandemic. The project served 173 low-income San José residents. Sixty-six participants were placed in work experience opportunities and more than 105 additional participants enrolled in a range of occupational training programs.
- **Rapid Response:** Since the onset of the COVID-19 Santa Clara Public Health order, work2future responded to over 250 major layoff notices impacting approximately 30,000 workers.
- **Creating Pathways for Skills Development and Advancement:** The City of San José, with the support of work2future, launched Resilience Corps in July 2021 to serve youth and young adults who have suffered extended unemployment and poverty. All of these individuals are low-income and nearly 90% are from low-resource census tracts. Three employment pathways launched during the summer:
 - **Environmental Pathway:** Focusing on environmental work (such as wildfire defense), this pathway counts 81 enrollees. This pathway is managed by the City of San José’s Parks, Recreation and Neighborhood Services Department that has contracted with San José Conservation Corps for the employment and training services provided to Resilience Corps participants.
 - **Learning Loss Pathway:** Focusing on after-school educational support, this pathway is managed by the City of San José’s Library Department. To date, 34 enrollees are providing education support at schools, nonprofits, and City libraries and community centers. The goal is to combat the learning loss that arose during the pandemic while providing work experience.

- **Small Business Pathway:** This pathway is managed by work2future and is being administered by Goodwill. To date, 30 youth enrollees have been trained in the areas of social media, digital marketing, and e-commerce. These enrollees have been matched with a San José small business or nonprofit to put their skills to work.
- **Small business community:** work2future launched a project in coordination with Facebook to provide paid work experience internship opportunities to approximately 30 young adults. Four weeks of training were provided by Facebook in the area of Digital Media Marketing, and participants were matched with a Facebook mentor. The participants have been paired as paid interns with local San José small businesses or nonprofits to grow their social media and online presence.
- **Supporting our Arts, Culture, and Events:** The Cultural Affairs grant program provided 103 cultural arts grants in the FY 2020-2021 and is currently awarding 123 grants for the current fiscal year that will support the economic and community recovery through arts programs. The Office of Cultural Affairs (OCA) is also assisting the event industry's re-start by providing coordination and authorization services.

While activities up to now have focused primarily on distribution of information, access to capital, and outreach, the next phase of recovery activities will shift more OED-initiated programmatic work. This work is informed by several lessons learned over the last 18 months and is summarized below.

Focus Area	Lesson Learned
Outreach	Digital outreach during the crisis is only partially effective, as many business owners are not online or have limited access. In short, digital communications are critical – but are not the “whole ballgame.”
Equity	Non- or limited-English-speaking populations need resources in their own languages at the same time as resources or programs are launched. This was critical during the rollout of grant/subsidized loans because programs were first-come, first-served, but language access was often delayed at the federal level.
Technical Assistance	When it comes to loan or grant applications or understanding regulations (such as the eviction moratorium), professional/technical assistance is key for success, but existing providers were often overwhelmed. The City needs more capacity within its portfolio of technical assistance providers.
Business Size	A comprehensive analysis of PPP data within the City shows that sole proprietors and micro-businesses (under 10 employees) failed to capture the full potential of government relief programs. This result indicates that these smaller businesses need greater assistance when it comes to professional services and access to financial resources.
Geography	Every aspect of the City was impacted by COVID-19, but the highest infection rates were concentrated in neighborhoods with the lowest household incomes, higher rates of unemployment, and with many local businesses closed for much of 2020.

Focus Area	Lesson Learned
Access to Capital	Securing short- and long-term working capital is the key to recovery and expansion, but too many small businesses lack access to lenders or investors. Financial education and access to FDIC-approved loans are central to enabling underserved businesses to achieve stability or simply survive.
Economic Tracking	The pandemic revealed weaknesses in traditional economic data monitoring at all levels. Conventional metrics (such as the unemployment rate or quarterly sales tax) are lagging indicators and inadequate in an environment when conditions are changing daily. Nontraditional sources (restaurant reservations on OpenTable), high-frequency sources (credit card spend), and data visualization can help provide additional insights in a timely manner, but blind spots remain.
Work from Home	Many office-oriented companies were easily able to switch to a work-from-home model, igniting a robust conversation about the nature of the workplace (and worker location) in a post-pandemic world. The jury is still out on the extent to which “work-from-home” practices will be permanently adopted, but the trend will create ripples in the local economy and lead to continued challenges and opportunities for downstream businesses.
The Pivot	The arts, convention, and cultural sector were hit hard by public health restrictions, impacting earned revenue. Supporting partner organizations’ adaptivity was a key principle. For example, the School of Arts and Culture at the Mexican Heritage Plaza adapted the facility operations to a COVID-19 testing and vaccination site.

Another key takeaway from the last 18 months of work is the need for stronger business-support ecosystems both citywide and within neighborhoods. The OED Business Development team is approximately 10 people, with five focused on business outreach, whereas San José’s business community consists of more than 60,000 companies. Strong neighborhood business associations, technical assistance providers, and other community networks create the conditions for more resilient business communities and can act as a force multiplier for City staff efforts. This realization informs much of the approach to planned work plan activities.

The economic context of recovery is changing, as economic volatility remains, but most direct government financial relief fades from the picture³. This new reality has only increased the importance of ensuring strong business basics (such as customer acquisition, marketing, business planning, capital access, real estate strategy, and operations) for small businesses in San José and ecosystem development (such as business associations or chambers of commerce).

³ Some government relief is still in progress. The federal Childcare Stabilization Grants (part of the CARES Act) have yet to roll out, and the final round of the \$1.5 billion State of California Small Business Relief Grant program is currently open for new applications. The City of San José will also be launching a grant program \$2.75 million small business grant program funded by the American Rescue Plan funding.

Planned Work Plan Activities through July 2022

The City has received financial resources, including through the American Rescue Plan, that will help implement new economic recovery programs, and continue or expand existing ones informed by the lessons of the last 18 months. For each initiative, the OED Team is focused on inclusive economic recovery that focuses resources to assist the most vulnerable populations, neighborhoods and businesses who often have been most impacted by COVID-19.

The work areas below identify some of the key plans taking shape for the next six to nine months. A full list of workplan activities is included in Attachment B.

Workplan Area	Description
Assisting the Most Vulnerable	<ul style="list-style-type: none"> • Two new staff members will join the OED Team to focus on business outreach and service referrals in Spanish- and Vietnamese-speaking small business communities. • Additional capacity for language access services will ensure City communications are disseminated in multiple languages. • Support for the Quetzal Gardens Small Business Center in East San José will enable the Latino Business Foundation to provide services directly to small businesses. • A study of small-business displacement will help inform a citywide approach.
Building the Small Business Ecosystem	<ul style="list-style-type: none"> • A revamp of the businessownersspace.com technical-assistance network's website will enhance access. • Additional funding will be provided to support technical assistance providers working with underserved populations. • A virtual business startup center will create pathways for residents to confidently plan for and launch a new business. • Implementation of the Economic Development Administration grant will continue, providing additional technical assistance resources primarily for downtown, central, and East San José. • Broadening digital outreach is key. OED is exploring how to reach business owners text messages (SMS).
Direct Financial Assistance	<ul style="list-style-type: none"> • A grant program (up to \$2.5 million) will target small business owners who did not already receive government funding. • A grant program will offset costs associated with City permitting costs and building out permanent Al Fresco business operations spaces.

Workplan Area	Description
Stronger Commercial Corridors	<ul style="list-style-type: none"> • Support for establishing Property Based Improvement Districts will result in more resilient business communities in primarily underserved commercial corridors. • Outreach around the existing Storefronts grants program will be expanded, to support small businesses re-occupying vacant spaces. • Additional funding to support information and resources for small commercial tenants facing real estate challenges. • A Monterey Corridor digital hub will promote the key commercial/industrial area and centralize the work of the Monterey Corridor Task Force.
Monitoring the City's Economic Health	<ul style="list-style-type: none"> • New tools (such as mobility and credit card data) will help the City better understand changing economic conditions through data visualization and high-frequency data collection. This will also help the City better target populations and geographies for enhanced outreach and service delivery.
Cultural Affairs	<ul style="list-style-type: none"> • Technical support and grantmaking assistance will continue to be provided to the arts, culture, and events sector in response to the COVID-19 pandemic. • Advocate for and support arts programs and projects as they are critical to the recovery – combating social isolation, economic injury, and inequities. • Provide critical communication and outreach to the convention, arts, and cultural community on the implementation of the vaccination mandate for City-owned facilities, as well as how to safely organize events and programs.
Empowering Residents to Advance	<ul style="list-style-type: none"> • Implementation of the Resilience Corps programs, providing under-resourced youth with opportunities to develop skills and on-the-job training. • Sustain the success of the San José Works youth internship program. The current summer program provided 312 subsidized employment opportunities for youth aged 14-18. Of the 312 participants, 90% of placed youth successfully completed their paid internships. With the success of the summer program, two 30-student cohorts will start in November 2021 and spring 2022.
Workforce Development and Rapid Response	<ul style="list-style-type: none"> • Move work2future client services to Las Plumas Avenue site in East San José, closer to those in need of services. • Continue to provide Rapid Response team to mass layoff events as needed, providing job and safety-net referrals.

As 2021 draws to a close, changing public health conditions continue to drive large parts of the economy – and that means continued uncertainty. One example is the high-profile delay of tech companies returning to the office. Companies such as Google, Apple, and others have repeatedly moved back their return to on-site work during 2021, with companies citing the spread of the Delta variant. The lack of office workers – and their economic impact – continues to be a major hindrance to sectors of the “weekday economy.” A long-term work-from-home model for some percentage of the labor market will have ongoing impacts on the City’s economy that has yet to come into focus.

Also unclear are the impacts of several policy levers now reaching inflection points. The commercial eviction moratorium has ended, introducing a new variable in the real estate market. Enhanced pandemic-era unemployment benefits are also ending, with unknown impacts on the labor market. Over the course of the next year, many businesses face the uncertainty of repaying outstanding debts, recruiting hard-to-find staff, and – in the service sectors – managing an unpredictable cash flow due to changing consumer purchasing behaviors.

The pace of economic recovery remains uneven across sectors, geographies, and populations, even as headline citywide economic indicators improve. The once-unfathomable disruption of the last 18 months has revealed core weaknesses in our national, state, and local small-business ecosystem when it comes to support services, capital lending, and information access.

Thankfully, this unparalleled time also creates the opportunity to rethink that ecosystem to ensure it exists to serve the needs of the most vulnerable and underserved entrepreneurs across the city. The initiatives and projects being pursued by the OED Team are designed to increase the resilience of the San José business community so that it can better withstand the next crisis.

CONCLUSION

San José is home to more than 60,000 businesses, a vibrant arts community, and a talented and diverse workforce. Together, these attributes provide its unique culture, economic opportunities, and sense of place. Preserving the viability of our small business and arts communities is central to our City’s economic future.

Traditionally, the OED Team has had one full-time staff member focused on small business and housed within work2future, with the rest of the team largely focused on major revenue and large-job generators. The pandemic has shifted the OED Team’s focus substantially toward small business support. In addition to the work described above, the OED Team will be heavily involved implementing council direction related to San José/Berryessa Flea Market vendor support, as well as continuing to serve the rest of the City’s business community. Establishing many of the programs described in the Economic Recovery Workplan will take time, but these initiatives represent areas where the City can address the greatest needs.

COMMUNITY AND ECONOMIC DEVELOPMENT COMMITTEE

September 14, 2021

Subject: Economic Recovery Status Report

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An update on several of the recovery work plan items outlined in this memorandum is scheduled to come back to the Committee in March 2022.

/s/

NANCI KLEIN

Director of Economic Development
and Cultural Affairs

For questions, please contact Nathan Donato-Weinstein, Business Development Officer, at (408) 535-8178.

Attachments

Attachment A: COVID-19 Business Outreach and Financial Assistance Update Information
Memorandum, dated July 30, 2021

Attachment B: Economic Recovery Work Plan