



Memorandum

To: Honorable Mayor and City Council

From: Councilmember Nancy Pyle
Councilmember Nora Campos

Subject: APPROVAL OF ACTIONS
RELATED TO THE COST-
BENEFIT ANALYSIS PILOT
PROGRAM

Date: AUGUST 27, 2007

Approved:

Recommendation:

- a. Approval to incorporate all of the Sunshine Reform Task Force Recommendations into the Council-Adopted Cost-Benefit Analysis Pilot Program, including i. Accountability, ii. Net fiscal impact, iii. Net job impact, iv. Housing impact, v. Source of funds and vi. Neighborhood impacts.

Background:

The City Council's previously stated intent has been to:

1. Consider including the Sunshine Reform Task Force Recommendations on public subsidies into the already Council-Adopted Cost-Benefit Analysis Pilot Program; and
2. Continue the Council's consideration of remaining Sunshine Reform Task Force Recommendations when agendized by the Rules Committee.

From its beginning, the Sunshine Reform Task Force recognized the "significant public interest" regarding major public subsidies of \$1 million or more. Also it indicated its intention to require disclosure of a minimum level of information to the public with adequate notice for taxpayers to fully assess the rationale for the subsidies. The Task Force proposed that the minimum level of disclosure include all these points:

- I. **Accountability.** What happens if the business promises aren't fulfilled?
- II. **Net fiscal impact.** The tax revenues generated compared to the tax revenues lost.
- III. **Net job impact.** The number of jobs created, categorized by salary ranges, and whether they include health insurance.
- IV. **Housing impact.** The number of housing units constructed or demolished and an estimate of Extremely Low Income (ELI) units required for the business's employees.

- V. **Source of funds.** Where the subsidy comes from in the budget and restrictions of those funds.
- VI. **Neighborhood impacts.** How the subsidized project will affect neighborhood traffic, parks, community centers, libraries and other public infrastructure.

At present, the total cost of San Jose's public subsidies – direct and indirect – is unknown and the public benefits of these subsidies – if any – are unverified. Answering those two questions is the reason for conducting a cost-benefit analysis. Without the answers, there is no fiscally sound, publicly defensible rationale for subsidy decisions.

The staff recommendations thwart the Sunshine Reform Task Force's intentions in two ways:

1. They would exclude two essential considerations for granting subsidies – the impact on job quality and the impact on ELI (Extremely Low Income) housing – from the staff's Cost-Benefit Analysis Pilot Program.
2. They would remove the entire issue of subsidy disclosure from public discussion or City Council consideration.

Both the net job impact and the ELI housing impact are essential to understanding the full cost-benefit rationale for any large subsidy proposal, and full disclosure to the public is critical to meeting the open government goals for which the Task Force was created. There are valid reasons for the City to subsidize certain business projects, but the public must understand why these projects were granted taxpayer funds.

Job quality disclosure is required in Illinois, Minnesota, Maine, New York City, North Dakota and Texas, and hundreds of large and small businesses readily comply. In many cases public disclosure often leads to future deals with other companies. The reporting requirement imposes no standards on business, but it removes the secrecy that gives low-wage businesses an unfair competitive advantage, allowing them to appear just as valuable to the community as companies that provide high-paying jobs. Taxpayers should know what kind of jobs their investment is producing.

The City should make every attempt to be transparent in its assessment of the economic and social benefits of its subsidies and, as such, implement the Sunshine Reform Task Force's full recommendations as we initiate this pilot program. Staff will report to Council at the completion of the pilot program on the successes and challenges of the program for further consideration at that time. It is important that current and future consideration of public subsidies and the Cost-Benefit Analysis program be part of the Sunshine Reform Task Force domain as "sunshine" is an important part of the Council's review of its public subsidies.

The agenda recommendation to "disaggregate" the Sunshine Reform Task Force recommendations on public subsidies would end the Council's consideration of this part of the Task Force recommendations – without either "Sunshine" or "Reform". That would short circuit the Council's already stated process and deprive the Rules Committee and City Council of future votes on public subsidies.