



DRIVING A STRONG ECONOMY COMMITTEE

Executive Summary August 23, 2004

The meeting was convened at 1:35 p.m.

Members Present: Chair Forrest Williams, Co-Chair Terry Gregory, Councilmember Chuck Reed, Councilmember Judy Chirco

Staff Present: Mark Linder, Ed Moran, Paul Krutko, Kim Walesh, John Lang, John Weis, Laurel Prevetti

Guest: Don Gagliardi

1 Economic Indicators and Trends (Office of Economic Development)

The Committee accepted the staff's report, "Economic Indicators and Trends".

2. Status of Industrial Lands (Office of Economic Development, Planning, Building & Code Enforcement, Redevelopment Agency)

The Committee accepted the staff's report, "Status of Industrial Lands".

3. Report on Attracting Amateur and Professional Sports to San Jose (Office of Economic Development, City Manager, Sports Authority)

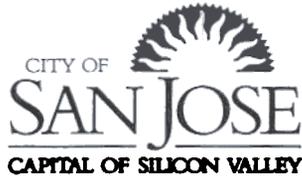
The Committee accepted staff's report and recommended staff to cross-reference this item at the September 7, 2004 council meeting.

4. Oral Petitions
None

5. Adjournment

Meeting was adjourned at 3:37 p.m.

Forrest Williams
Forrest Williams, Chair
Driving A Strong Economy Committee



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Report
August 23, 2004

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Staff Present: Mark Linder, Ed Moran, Paul Krutko, Kim Walesh, John Lang, John Weis, Laurel Prevetti

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The meeting was convened at 1:35 p.m.

1. Economic Indicators and Trends (Office of Economic Development)

Kim Walesh, Assistant Director for the Office of Economic Development, and John Lang, Economic Analyst, Office of Economic Development, presented this report. Staff presented a briefing on economic trends in San Jose, emphasizing changes in the most recent year. Recent economic performance shows most job loss in California was concentrated in the San Jose/Bay Area. Despite a 21% loss of jobs since the beginning of the recession, recent statistics show a significant increase in jobs in the most recent quarter. Unemployment rates keeps falling primarily because the number of individuals in the labor force declined, due to people either leaving the area, becoming independent consultants (self employed), having stopped looking for work or exhausted their unemployment benefits.

Occupational gains and losses during 2001 – 2003 were seen in the following industries.

Gains:

- Business and Financial Operations
Management Analysts
Personal Care and Service
- Recreation Workers

Losses

- Transportation and Material Moving
- Laborers, Bus Drivers, Light Truck Drivers
- Computer and Mathematical Occupations
- Computer Programmers, Software Engineers
Computer Support Specialists

The region's business confidence fell from 72% in January to 59% in July. 59% of Bay Area Companies expect no hiring in the next few months and nearly 1/3 have seriously considered moving at least some of their operations out of the region. Vacancy rates continue to fall as well as availability rates, which reflect the total amount of available space. Vacancy rates are similar to other cities on the peninsula (i.e. Redwood City, Palo Alto, and Mountain View.) Venture capital is slowly rebounding for start up and existing companies. Hotel vacancy remains under 50% occupancy, but recent significant additions of hotel rooms (Marriott and Hotel Montgomery) during the economic downturn has also affected recent statistics and positioned San Jose for when the demand for hotel rooms returns.

Various factors affect the ability to stimulate local job growth. The national economy is experiencing its slowest recovery since the depression era. State and local policies cannot overcome negative effects of slow national economic growth. During the recent recession productivity growth continued, but productivity growth also eliminated jobs.

Chair Williams asked if the jobs lost were due to overseas outsourcing. Staff explained that one percentage point of productivity gain eliminates about 1.3 million jobs. The loss of jobs during the recession has less to do with outsourcing and more to do with higher productivity from existing employees.

San Jose and the greater Bay Area have an advantage competitively over other regions in the world because of the powerful research and innovation infrastructure located here. Research labs at Stanford Linear Accelerator Center, Lawrence Livermore Lab, San Jose State University, IBM, NASA, and Lawrence Berkeley National Lab, are creating new business development in a variety of industries. Silicon Valley continues to receive 1/3 of all venture funding nationally, yet San Jose has only a small share of the region's venture-backed companies.

Councilmember Reed asked what could be done on a policy level to allow more flexibility in manufacturing. Staff responded that Council's recent approval for changes to San Jose's zoning code allows for more flexible uses. Councilmember Reed stated that market data is missing to help guide Council in making the best land use decisions.

Co-Chair Gregory asked if venture capitalists agreed that the industries listed on the 'Cross-Disciplinary Innovation' slide, were emerging, driving industries (i.e. Genomics, Bioscience, Nanodevices, Bioelectronics, etc.). Staff responded yes they do. Within the Bay Area, Silicon Valley Convergence Consortium is working through the Bay Area Council to ensure federal research dollars are awarded here. Co-Chair Gregory asked if there was representation from the City on a committee that is being formed to address research dollars being awarded locally. Staff responded they were unaware of anyone being appointed.

The Committee accepted staff's report on, "Economic Indicators and Trends".

2. **Status of Industrial Lands (Office of Economic Development, Planning, Building & Code Enforcement, Redevelopment Agency)**

Laurel Prevetti, Deputy Director of Planning, Building & Code Enforcement, John Weis, Deputy Executive Director for the Redevelopment Agency, and Paul Krutko, Director for Office of Economic Development, presented this staff report.

Current employment and office leasing trends were discussed as well as cumulative changes in the City's employment land base due to recent General Plan amendment approvals. Staff also spoke about pending General Plan amendments for industrial conversions.

Santa Clara County has experienced four consecutive months of job growth for the first time in three years. North San Jose has an 11.5% office vacancy rate compared to Mountain View's 24.8%. R&D vacancy rates remain approximately 20% for San Jose as well as other cities in Santa Clara County.

Approximately 243 acres of industrial land has been converted through General Plan amendments to non-industrial uses since 2003. The Economic Development Strategy identified strategic initiatives for the City to implement in order to strengthen its economic future and acknowledges the importance of land use policies and decisions as they relate to the economy. The City Council supplemented the recommendations of the Strategy and established criteria for considering future industrial conversions of the limited supply of remaining industrial land.

A total of 25 amendments affecting approximately 785 acres are in various stages of review. Nine of these amendments, comprising approximately 74 acres, are included in the Housing Opportunities Phase III. Initial analysis identifies these sites as having the potential to provide transit-oriented residential or mixed-use development. Private applicants have proposed sixteen other sites for conversion to residential uses, affecting approximately 711 acres. Staff asserted that if this pace of conversions continued, San Jose would no longer have industrial land left within a decade.

Councilmember Reed asked if there was an appropriate balance of heavy industrial/light industrial versus industrial parks and is there a measurement in place to provide data and guide the council in making the best decisions regarding conversions. Staff responded that a fair amount of land is designated for industrial park use, and some of that is more flexible for mixed industrial uses. Employment lands for future driving industries preferring to build on their own site should be preserved. Making incremental policy decisions on smaller land sites at the current pace is definitely unsustainable in ensuring that land is available within a decade. One approach may be to remove obsolete R&D buildings and create incentives for developers to build more square footage. At present only 10% of available land in the entire city is dedicated to employment land use, which causes concern over any type of conversion of these remaining lands. Recent interviews conducted by the recent Business Appreciation project has provided feedback from companies that have started here and need to expand. These interviews indicate that they prefer to remain San Jose because their workforce lives here. Moving out to the Central Valley where employment land is available is not the most desirable alternative for these companies. Having close proximity to a companies' headquarter operations is preferable with the present economy.

Co-Chair Gregory asked what kind of key indicators does staff use to determine whether or not the right balance of lands is being preserved and whether this data is being presented to Council to allow them to make the right decision. Staff responded that in reviewing conversions it should be recognized that not all conversions are equal. If a proposal for a conversion for retail and will enable a stronger economic base, staff will be supportive. Maintaining the integrity of key employment areas that strategically positioned for when the economy turns around is also a key indicator.

Chair Williams stated that goals set by the City to become a leader in creating affordable housing are being achieved and the next logical step is to create jobs for people who are a part of the affordable housing sector, such as manufacturing jobs and jobs in the industrial sector.

Councilmember Chirco asked that reports and accompanying handouts be presented uniformly to allow for a better understanding of what details and issues need to be understood. Councilmember Chirco asked what was the main idea the staff is trying to convey. Staff responded that the General Plan has been the foundation with respect to policy on issues such as economic development and downtown revitalization, and the intent of this report is to provide information on the cumulative pressure San Jose is facing as it relates to employment land conversion. Recently approved land use changes, which may make sense on an individual basis, are having a cumulative negative effect on available employment lands and the economic base. The attached maps identifies for the committee, which lands are in review for employment land conversions. The report also states that the impact of the approval of four recent amendments was to add 1,200 dwelling units. However, these sites were zoned for 1,000 Driving Industry businesses.

Co-Chair Gregory asked about development densities on industrial campuses. Staff responded that reviewing the environmental impact with regards to increased traffic and the parking needs of a building, recommendations are being made to increase densities. The numbers in the report reflect the highest density that staff believes can be accomplished.

The Committee accepted staff's report on, "Status of Industrial Lands".

3. Report on attracting amateur and professional sports to San Jose (Office of Economic Development, City Manager, Sports Authority) (DEFERRAL from June 28, 2004)

Paul Krutko, Director of the Office of Economic Development, presented this staff report. As part of the Council approved Economic Development Strategy, San Jose should retain and grow sports teams and major athletic events consistent with the City's position as the largest city in the Bay Area. Staff was directed to craft a specific strategy and assist in the reformation of the current Sports Authority Task Force to ensure aggressive, focused pursuit of "Big Four" professional sports, other professional sports, amateur sports, and NCAA events. City Council liaisons, Mayor's representative, and City Manager's representative are now full members of the Sports Authority Task Force. (Councilmember Lezotte, Councilmember Cortese, Del Borgsdorf, Paul Krutko and Joe Guerra)

The Staff report includes PowerPoint slides from the last Task Force meeting. A consultant, CSL International, has been retained and is presently providing detailed analysis on the "Big Five" of professional sports, Baseball, Basketball, Football, Hockey and Soccer. At the June 7th Task Force meeting, a detailed presentation was made on the market potential, the league environment and the cost/financing of facility development for Major League Baseball (MLB). This report was recently completed and is being distributed to each Councilmember.

The Bay Area is the 4th largest MLB market, but the smallest of the four dual franchise markets. A franchise in San Jose would result in a net increase of 1.4M in the population of the Bay Area combined MLB market. San Jose is a more affluent market than San Francisco or Oakland and all other MLB markets in terms of household income and has a higher percentage of population in the key 18 to 49 year old age group. Moving the Oakland A's to San Jose would result in a smaller overlap at the 25 and 35 mile radii than the current San Francisco-Oakland configuration. San Jose would also rank 11th in population among MLB franchises if the Oakland A's were to relocate.

Revenue for MLB comes from three primary sources; national and local broadcasting, facility generated income and shared revenue. There is a competitive imbalance of

favoring teams with newer ballparks and in larger markets in their ability to generate higher revenues to support higher payrolls. 16 of the 30 MLB franchises play in ballparks constructed since 1990, 5 additional have been substantially renovated. If a team was to relocate to San Jose, the following data was projected:

- Projected average attendance of 34,000 per game, 9th in MLB.
- This would represent a 24% increase over A's 2004 average but below Giants average of 41,000.
Projected average ticket price is \$24 per game, consistent with Giants.
- 64 suites would generate \$115,000 each, 5000 club seats at \$4,500 per season.
- Revenues are estimated to be \$153,000,000.
Expenses are estimated to be \$ 64,000,000 (excluding payroll, real estate taxes, capital improvements and potential revenue sharing).

This would result in an available cash flow of \$ 89,000,000 available for payroll debt service and team profit.

MLB payrolls were also analyzed

2004 A's payroll	\$60 M
2004 Giants payroll	\$82 M
2004 MLB average	\$69 M
Top 15	\$93 M
Playoff Teams	\$95 M

Staff then discussed the Task Force's findings in regards to professional soccer. Demographic analysis of soccer shows San Jose's 25 mile population ranks 7th among the ten Major League Soccer (MLS) markets, while its 50 mile population ranks 6th. Markets ranking head of San Jose in terms of population include major metropolitan areas such as New York, Los Angeles and Chicago. The San Jose region has several strong characteristics to suggest a team could be successful in this market:

- Strong ethnic base. MLS fan demographics tend to exhibit relatively strong ethnic interest.
- Highest percentage of population within the key age range of 18 to 49.
- Strong corporate base. Location in San Jose provides team with many major corporations located in close proximity.
- San Jose population is more affluent than that of all other MLS markets in terms of household income.

Earthquakes attendance has been on the decline since 1999. The team ranks 9th out of the 10 MLS franchises in attendance for 2003 and had the lowest attendance in 2001 and 2002 despite recent championships. Attendance has decreased approximately 30 percent since 1999, while the MLS as a whole has seen an increase of approximately

four percent. The San Jose market appears to have potential to support higher attendance levels than have been achieved recently. Earthquakes attendance has not consistently remained at the level that could be expected given the region's strong demographics. The lack of fan amenities associated with Spartan Stadium may be one factor limiting Earthquakes attendance. Several MLS franchises have developed or are planning new facilities to address issues similar to those faced by the Earthquakes at Spartan Stadium.

Recent discussions with the Earthquakes and City staff have been focused on forming a partnership with San Jose State University in a major renovation of Spartan Stadium. It was the desire of the team to be housed in a new facility.

Chair Williams asked what was the Earthquakes present situation. Staff responded that the team is owned by AEG and they are looking for an entity within the Bay Area, willing to build a new soccer only facility and absorb 80% of the costs. A news report indicated AEG might sell the team to Club America who would move the team to Houston, Texas.

Don Gagliardi, Vice-President of Soccer Silicon Valley, made a presentation and stated the Earthquakes have a deadline of September 17 to find a new owner locally. Soccer Silicon Valley is dedicated to supporting the Earthquakes and is actively involved in determining strategies to keep the team in San Jose. He and his group plan on meeting with Mayor Gonzales and try to get AEG to extend the deadline to find a local buyer.

Chair Williams offered his support to keeping the Earthquakes in San Jose and asked if the negotiations with the City had been severed. Staff responded that discussions with the Earthquakes, AEG, and San Jose State University initially was on the topic of facility development of Spartan Stadium, and AEG was firm on wanting a new, soccer only facility. The staff is not involved in discussions regarding the sale of the team to a new investor group.

Councilmember Reed asked what is it the City can do to assist. Mr. Gagliardi said his organization has put together an investment program for individuals.

Councilmember Reed asked committee members to cross-reference this item at the next council meeting and that staff be prepared to answer what the City can do to help retain the Earthquakes.

Upon motion of Councilmember Reed, seconded by Councilmember Chirco, the Committee accepted staff's report on, "Attracting amateur and professional sports to San Jose".

4. Oral Petitions

None

5. **Adjournment**

The meeting was adjourned at 3:37 p.m.

Forrest Williams

Forrest Williams, Chair

Driving a Strong Economy Committee