CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

COUNCIL AGENDA: 11/14/06
ITEM: 4.3

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Paul Krutko
Larry D. Lisenbee

SUBJECT: **SEE BELOW**

DATE: November 7, 2006

Approved

Date 11/8/06

COUNCIL DISTRICT: Citywide
SNI AREA: NA

SUBJECT: Authorizing the City Manager to execute an Investment Management Agreement with Pacific Community Management, Inc. (PCM), a wholly owned subsidiary of Pacific Community Ventures, as the Investment Manager for an Economic Development Catalyst Program (EDCP) to create a resource for strategic investment to support the growth and expansion of San Jose's small businesses.

REASON FOR SUPPLEMENTAL MEMO

To provide appropriation language for funding investments under the Economic Development Catalyst Program scheduled for City Council approval November 14, 2006, to modify the name of the investment manager, and to revise the minimum revenue requirement for eligible companies.

RECOMMENDATION

(a) Adoption of a resolution authorizing the City Manager execute an Investment Management Agreement with Pacific Community Management, Inc. (PCM) as the Investment Manager for an Economic Development Catalyst Program (EDCP) to create a resource for strategic investment to support the growth and expansion of San José's small businesses, for a term of 10 years and a City capital commitment of up to $3 million to capitalize the EDCP.

(b) Adoption of a resolution authorizing the City Manager to exercise up to two 5-year options to extend the agreement at the City's discretion.

(c) Approval to consider the recommendations below pursuant to the Early Distribution Process Rules (2/3 vote required).

Adoption of the following Appropriation Ordinance Amendments in the Economic Development Enhancement Fund:

(1) Establish an appropriation to the Office of Economic Development for the Economic Development Catalyst Program project in the amount of $1,000,000.

(2) Decrease Ending Fund Balance in the amount of $1,000,000.

OUTCOME

Adoption of the above Appropriation Ordinance Amendments will provide funding for City investments that will increase economic impact in terms of enhanced job creation and an expanded tax base.

BACKGROUND

The Economic Development Catalyst Program represents a partnership between the City of San Jose and Pacific Community Ventures' wholly owned, for-profit subsidiary, Pacific Community Management, Inc. (PCM) to support high growth small businesses within San Jose. The City will dedicate up to $3 million to support the creation of the EDCP. Acting as the City's investment advisor, PCM will leverage the City's capital contribution 5.7:1. PCM has extensive experience in working with small businesses and provides investees with a wide range of funding and technical assistance to help in the expansion of small businesses and in the enhancement of the local tax base and job creation. Pacific Community Ventures, originally chosen through a competitive RFP process to manage the EDCF, desires to maintain and preserve its non-profit status; therefore, the Investment Management Agreement will be executed with PCM. PCM will receive a 3% management fee for identifying and servicing the small business investments. The City and PCM will share 80/20 respectively in the profits of the investments made in the various small businesses. This new investment model represents a pioneering and innovative approach for the City to focus its support and resources in support of high growth small businesses.

ANALYSIS

There are a limited number of companies that meet the criteria for EDCP investment opportunities. The EDCP investment policy requires that City funds are to be: (1) used only for investments in San Jose companies, and (2) leveraged a minimum of 5.7:1. As investment opportunities are identified and evaluated, PCM, as determined through final negotiations, shall facilitate investments in companies that have a positive cash flow with annual revenues of at least $3,000,000 (with occasional exceptions based on high-growth opportunities), a strong management team in place, and a clear path toward growth and increased profitability. Originally, the revenue requirement was to be $5,000,000, but a $3,000,000 limit will afford a greater opportunity to capture high growth potential companies. PCM has identified three such investment opportunities for the City's consideration.

It is necessary to establish an appropriation to provide funding for a new Economic Development Catalyst Program to move forward with these three investments if City Council approves the program.

PUBLIC OUTREACH/INTEREST

✔ **Criteria 1**: Requires Council action on the use of public funds equal to $1 million or greater. **(Required: Website Posting)**

☐ **Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

☐ **Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach.. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This memo will be posted on the City's website for the November 14, 2006 City Council agenda.

COORDINATION

This memo was coordinated with the Budget Office and City Manager's Office.

FISCAL/POLICY ALIGNMENT

The execution of an Investment Management Agreement with PCV to provide investment management services for the EDCP will further the City's Economic Development Strategy by helping to: (a) "Support Start-Up and Growth of Local Businesses" (Initiative 5), (b) "Diversify San Jose's Economic Base and Preserve/Create Middle-Income Jobs" (Initiative 8), (c) "Develop Retail to Full Potential and Maximize Revenue Impact" (Initiative 13), and (d) "Engage Private-Sector Leadership for San Jose's Economic Strategy" (Initiative 15).

BUDGET REFERENCE

N/A

CEQA

Not a project.

PAUL KRUTKO
Director
Office of Economic Development

LARRY LISENBEE
Budget Director

For questions please contact Paul Krutko, Director of OED, at 535-8182.