

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Paul Krutko

SUBJECT: INNOVATION HUB
APPLICATION

DATE: November 13, 2009

Approved

Date

11/13/09

COUNCIL DISTRICT: City-Wide

RECOMMENDATION

Adoption of a Resolution:

- A. Authorizing the City Manager to complete and submit the application for an Innovation Hub designation for 5 years and take any other actions necessary to submit the Innovation Hub application to the California Business, Transportation and Housing Agency.
- B. Authorizing the City Manager to negotiate, execute and modify from time to time a Memorandum of Understanding between the City and Innovation Hub (iHub) partners defining the roles, responsibilities, and contributions that each party will make to the iHub.
- C. Authorizing the City Manager to negotiate, execute and modify from time to time a Memorandum of Understanding between the City, any participating jurisdictions and the State of California defining the goals and commitments made in the application and their measurement and evaluation.

OUTCOME

San Jose and Silicon Valley have long defined the innovation frontier for the Bay Area, Nation and globe due to the area's strength in supporting innovation. For decades, companies have benefitted from the area's unrivalled access to venture funding, highly skilled workers, experienced entrepreneurs, world-class research institutions, supportive government policies, and cutting-edge technology incubators.

The State of California, through it's Department of Business, Transportation and Housing (BTH) is looking to enhance this model in Silicon Valley and elsewhere in the State where it exists and

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to replicate it where it does not, in order for the State to compete more effectively against emerging innovation regions worldwide. To encourage enhanced regional cooperation between universities, research laboratories, economic development agencies, workforce development groups, business assistance and advocacy organizations, venture capitalists, municipalities and others, BTH has created a new State designation for regional innovation clusters called Innovation Hubs. BTH intends to designate a limited number that it will promote and market worldwide for business formation and location

Upon adoption of the resolution, Staff will finalize the application for the Innovation Hub and Memorandum of Understanding (MOU) for submission to the California Business, Transportation and Housing Agency. If approved by the State, the City will enter into an MOU with the State and receive a five year designation as an Innovation Hub. The City's assumption of the role as iHub Coordinator is anticipated to encourage greater collaboration between current partners and will augment San Jose's and the region's capacities to generate jobs through the commercialization of research.

In addition, possessing the designation is expected to help the City and iHub partners apply for individual and joint grant funding to stimulate more research as well as further collaborative efforts. There are currently bills being considered at the Federal level which may result in funding specifically for the state-wide Innovation Hub program. No State funding is currently available.

BACKGROUND

On September 10, 2009 the State of California Business, Transportation and Housing Agency released guidelines for applications for Innovation Hub designations. According to the guidelines "the purpose of the iHub program is to promote collaboration and commercialization of technology to stimulate job creation." The target groups for collaboration include universities, research laboratories, economic development agencies, workforce development groups, business assistance and advocacy organizations, venture capitalists, municipalities and others.

On October 15, the State of California Business, Transportation and Housing Agency approved the City's Letter of Intent (see Attachment A) an intermediate step required prior to submission of an application.

ANALYSIS

With the State's decision to offer an iHub designation, the City of SJ has the opportunity to lead such a regional collaboration to spur capital investment and job creation. This more collaborative role will allow the regional partners to benefit from each other's programs and processes (e.g. the City's demonstration policy or joint purchasing); more effectively compete for grants and other funding; participate in joint marketing; and generally seek additional synergies.

Staff is currently discussing iHub partnership with a variety of organizations such as San Jose State University (SJSU), the University of California at Santa Cruz (UCSC), San Jose BioCenter,

Work2Future, the San Jose Silicon Valley Chamber of Commerce and others. Each of these groups has excellent programs in their areas and by working more closely together will help realize the State's vision for regional economic collaboration.

The concept of fostering clusters of mutually supportive companies and institutions is not new. However, with the languishing economy, the State's action is inspired by concerns about the capacity of California's leading regions to effectively compete internationally against regions whose governments are playing a larger supportive role.

Clean and emerging technologies represent the next wave of innovation in San Jose and will be the focus for the San Jose Silicon Valley iHub. These technological innovations will harness the power of renewable energy sources, manage natural resources more efficiently, and reduce the environmental impacts of human activity. While emerging technologies are difficult to project, Staff's proposal to the State focused on the following areas and convergence arising from them:

- Clean Tech
- Life Science
- Nanotech
- Software
- Data Storage
- Informatics
- Smart/Green Grids
- New Media

The City's application will need to include each partner's signature on a statement of cooperation. This statement defines the roles, responsibilities, and contributions that each partner will make to the iHub.

In general under the MOU, the City and each of its partners will continue to engage in the activities which have been producing value for the partner and community. Each partner will also provide documentation to the City regarding their iHub-related work, the funds involved and the outcomes of those activities like new monies attracted and jobs created. Working more closely, however, will support improved excellence without use of additional funds. As partners and goals are added, the Administration will update the MOU to reflect the additional resources being leveraged.

As iHub Coordinator, the City will be responsible for maintaining the partnership as well as participating in state-wide iHub coordination and training. The City will also be responsible for providing annual reports based on input from the partners and City sources.

In its role as an iHub partner, Staff expects that the City will supplement existing programs by encouraging partners to participate in clean-tech demonstration projects as well as joint purchasing efforts. Each partner's work in this area will help local companies to develop their products and/or services, demonstrate that their products will satisfy customer needs and expand access to funding. Given the longer development times required of many clean and emerging technologies, the opportunity to demonstrate products will help San Jose area companies become more competitive.

If the iHub is approved by the State, the City will enter into an MOU with the State and receive a five year designation as an Innovation Hub. The MOU with the state will embody the goals identified and commitments made in the application, establish mutually agreed-upon

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performance benchmarks, and define self-evaluation processes. If other communities participate in the iHub program they will also enter into the MOU with the State. As changes to the goals and participating communities are made, the Administration will update the MOU to reflect these adjustments.

EVALUATION AND FOLLOW-UP

Staff will return annually to the Community and Economic Development Committee with the report to be submitted to the State regarding the status of specific performance measures and progress toward adopted goals established by the iHub partners.

PUBLIC OUTREACH/INTEREST

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

While this memo does not meet any of these criteria, this memorandum will be posted on the City's website for the November 17, 2009 Council Agenda.

COORDINATION

This memorandum was coordinated with the Attorney's Office.

FISCAL/POLICY ALIGNMENT

The application for an Innovation Hub designation is supportive of the 3rd, 5th and 8th initiatives of the City Economic Development Strategy: "Develop Strategic Partnerships with San Jose State and Other Universities to Drive Innovation and Economic Impact;" "Support Start-Up and Growth of Local Businesses, Small and Large in Tech as well as Non-tech Fields;" and "Diversify San Jose's Economic Base and Preserve/Create Middle-Income Jobs."

The application is also consistent with the goals of the City's Green Vision.

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COST SUMMARY/IMPLICATIONS

At present, there is no funding associated with the iHub program. Staff anticipates, however, that the City and iHub partners will be able to more effectively compete for operational or research grants after achieving designation.

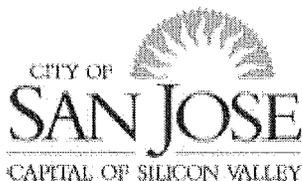
CEQA

Not a project.

A handwritten signature in black ink that reads "Paul Krutko" with a long horizontal stroke extending to the right.

PAUL KRUTKO
Chief Development Officer

For questions please contact Dhez Woodworth, Economic Development Officer at 535-8230.



Office of Economic Development

October 2, 2009

Chris Westlake
California Department of Housing and Community Development
1800 3rd St., Suite 390
Sacramento, CA 95811

Dear Mr. Westlake,

The City of San Jose intends to submit an application for designation as an Innovation Hub (iHub) as iHub Coordinator under the new State program. Please find below a brief overview of the planned iHub, its focus, growth potential, value to the region, and a list of anticipated collaborators/partners.

iHub Overview and Focus

The San Jose/Silicon Valley Emerging Technology Innovation Hub will build on San Jose's long-standing tradition of innovation and strong national leadership in clean and emerging technologies. By attracting and welcoming domestic and international ideas and talent, San Jose has become known as the world's center for innovation and entrepreneurship producing concepts and inventions that have changed the world.

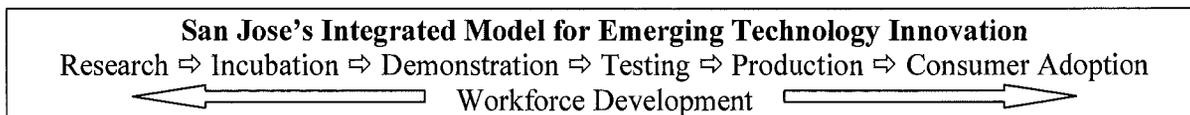
San Jose and Silicon Valley have long defined the innovation frontier for the Bay Area, nation and globe due to the area's strength in supporting innovation. For decades, companies have benefitted from the area's unrivalled access to venture funding, highly skilled workers, experienced entrepreneurs, world-class research institutions, supportive government policies, and cutting-edge technology incubators.

Clean and emerging technologies represent the next wave of innovation in San Jose. These technological innovations will harness the power of renewable energy sources, manage natural resources more efficiently, and reduce the environmental impacts of human activity. While emerging technologies are difficult to project, the iHub will initially focus on the following areas and convergence arising from them:

- Clean Tech
- Life Science
- Nanotech
- Software
- Data Storage
- Informatics
- Smart/Green Grids
- New Media

Using the new iHub designation, San Jose will forge new relationships between San Jose and local, national, and international partners to foster commercialization of clean and emerging technologies as each passes through stages of development.

Building on a strong foundation of public and private research partners, the iHub will follow San Jose's successful Integrated Model for Emerging Technology Innovation to boost new entrepreneurship. Beginning with incubation and business assistance strategies, new companies will be further supported through the availability of prototyping firms. The City will offer more demonstration project opportunities to help provide companies with ways to show how well their products work. Local testing/ certification partners will reinforce the product's marketability. As the production stage begins, the City will use its economic development and regulatory position to support manufacturing and consumer adoption. Throughout the evolution of the new technologies the iHub partners will work to augment current workforce capacity to capture job creation locally.



iHub Growth Potential

The potential growth represented by the fields in the iHub focus is dramatic. For instance, in 2008, the total venture capital investment into California clean tech businesses rose from \$1.9 billion in 2007 to over \$3.3 billion, nearly half of the total national funding in that sector. Solar photovoltaics alone will grow from a \$29.6 billion industry in 2008 to \$80.6 billion by 2018 according to Clean Energy's *Trends 2008* analysis.

Other examples such as medical device technologies which will benefit from the aging of developed nation populations and the molecular-scale manufacturing ideas being researched by local and partner facilities have tremendous potential. Forward looking investors funded over \$1.1 billion in medical devices projects in Silicon Valley in 2008. Over the next 5 years electronics, biomedical and consumer products have projected growth rates of 30.3%, 56.2%, and 45.9% according to BCC Research's *Nanoparticle News Review, 2008*

Value to the Region

The presence of the iHub will encourage continued investments resulting in new direct and indirect jobs further fostering the economic health of San Jose and surrounding communities. This is good news for a region which has seen its unemployment rise to over 12% (over 100,000 people) despite having one of the most educated workforces in the nation. Since its adoption in 2007, the implementation of the City of San Jose's clean tech vision has supported the creation of over 3,500 jobs. The City of San Jose anticipates creating 25,000 new clean tech jobs by 2022 and is working to incorporate even more aggressive goals into the City's 2040 general plan such as an additional 45,000 clean tech jobs. Wider goals will be established for the iHub application to reflect the zone's larger scope.

Beyond employment benefits, San Jose and the surrounding communities will benefit from quality of life improvements brought about by the impacts of implementation of the San Jose Green Vision. The City has adopted goals to be accomplished by 2022 including decreasing per capita energy use by 50%, receiving 100% of power from clean, renewable sources, and diverting 100% of waste from San Jose landfills. More information about the City's Green Vision Goals can be found at www.sanjoseca.gov/greenvision/.

iHub Collaborators/ Partners

The following prospective partners have expressed an interest in working with the City of San Jose to apply for an iHub designation. Conversations are underway with several other potential collaborators.

Colleges, Universities and Research Institutes

- University of California, Santa Cruz
- Trinity College (Ireland)
- San Jose State University

Private Research Centers and Complementary Initiatives

- IBM Almaden Research Center
- Cisco Systems

Incubation and Business Assistance

- San Jose Environmental Business Cluster
- San Jose BioCenter
- BusinessOwnerSpace.com (umbrella for 39 business assistance organizations)
- Deloitte
- San Jose Silicon Valley Chamber of Commerce
- Pacific Community Ventures (venture capital)
- Pacific Gas and Electric
- City of San Jose

Demonstration Projects

- City of San Jose Departments
- San Jose State University
- San Jose/Santa Clara Water Pollution Control Plant

Testing/Certification & Production

- Underwriters Laboratories
- Local Contract Manufacturers

Workforce Development

- Work2Future (Workforce Investment Act Implementation)
- Evergreen Community College

We are pleased to be able to participate in this new program. The iHub designation will provide an additional tool to expand our tradition as an innovative and entrepreneur friendly area. If the City of San Jose can be of assistance to HCD or to other potential iHubs, please just let us know.

If you have any questions, please contact Dhez Woodworth, Economic Development Officer, at (408) 535-8230 or dhez.woodworth@sanjoseca.gov.



Paul Krutko
Chief Development Officer

cc: Honorable Chuck Reed, Mayor of San Jose
Debra Figone, City Manager, City of San Jose