

Memorandum

TO: CITY COUNCIL

FROM: Mayor Chuck Reed

SUBJECT: SEE BELOW

DATE: February 26, 2010

Approved

Chuck Reed, cm

Date

2/26/2010

SUBJECT: APPROVE THE 2010-2011 CLEAN TECH LEGISLATIVE AGENDA

RECOMMENDATION

Approve the 2010-2011 Clean Tech Legislative Agenda to serve as our legislative guide in Washington D.C. and Sacramento throughout the year.

BACKGROUND

The Clean Tech Legislative Agenda is a series of policy goals that will guide the City's advocacy for the Clean Tech industry on federal, state, and local levels. On December 4 2009, I hosted the third annual Clean Tech Legislative Summit, attended by key industry leaders, legislative officials, local green business companies, and several non-governmental organizations. This forum provided an opportunity to present and discuss challenges and obstacles which may potentially prevent or delay Silicon Valley from establishing itself as the foremost center of Clean Tech innovation. The policies outlined in the Agenda are designed to highlight tax incentives, efficiency goals and fundamental systemic changes and are designed to increase incentives to switch to clean energy while supporting economic growth and employment opportunities.

This year, the event focused on Smart Grid technology, Green Buildings and energy efficiency. Nancy McFadden, Senior Vice President of Public Affairs at PG&E, hosted a panel alongside Carl Guardino of the Silicon Valley Leadership Group and Mayor Reed. Speakers at the event included Assemblymember Paul Fong, Panama Bartholomy of the California Energy Commission, Andy Campbell of the California Public Utilities Commission, Executive Director of San José's Work2Future Jeff Ruster, PG&E Director of Energy Networks Jana Corey, Cisco Director of Utilities and Smart Grid Solutions Rick Geiger, Greensmith CEO John Jung, Solar Junction CEO Craig Lewis, US Green Building Council Northern California Director Elizabeth Echols, Webcor Builders CEO Andy Ball, and IDeAs Design CEO David Kaneda. Each presenter gave us their specific needs for improvements at the policy level which could enable a more fluid transition towards widespread adoption of clean technology.



Clean Tech is the future of San José

2010 - 2011

SAN JOSE

CLEAN TECH LEGISLATIVE AGENDA

"The nation that leads the clean energy economy will be the nation that leads the global economy."
- President Barak Obama, 2010 State of the Union Address

February 26, 2010

Dear Friends and Colleagues,

America is at a critical juncture in securing our children and grandchildren's future. The world is moving aggressively to adopt clean energy and green technologies. New technologies, new industries, and new jobs are being created around the globe. Will America lead the clean energy economy or will we follow?

The innovation and technological expertise necessary to ensure that America leads the world in clean technology will come from right here in Silicon Valley. Our driving industry companies will continue to create jobs and invest in innovation, facilities, and equipment. The question is: Will they do it in San José? Or overseas?

With Congress, state governments and local municipalities currently considering energy policies, now is a critical time to focus on energy efficiencies and new clean energy technologies. That's why we created San José's CleanTech Legislative Agenda to identify and remove impediments to growth and to support innovation and investment.

We developed this report by bringing industry leaders from large utilities, major corporations, developers, investors and start-ups together with legislators and regulators to discuss promising new technologies and the road blocks to bringing these innovations to market. We are working with our Silicon Valley companies to ensure that federal and state laws and regulations do not penalize innovation, increase the cost of creating jobs, or make global competition harder.

I hope you will use the following report as you set your priorities and focus your efforts on clean technology and job creation.

Sincerely,



Mayor Chuck Reed
City of San José

Federal Clean Tech Legislative Priorities

Expand Access to Capital

With the collapse of the credit markets in October 2008, growing companies face significant challenges accessing the capital needed to make the investments that will enable their businesses to grow and create permanent private sector jobs. With manufacturing and production facilities, U.S. companies are competing in a global marketplace, with countries overseas offering capital, land, and investment incentives to expand. Since 2001, California has lost more than 500,000 manufacturing jobs. Clean technology offers one area for rebuilding our manufacturing sector.

Expedite DOE Loan Guarantees

The Department of Energy's loan guarantee program provides great opportunity for many Silicon Valley businesses that want to expand their manufacturing and production operations. The City of San José urges DOE to expedite review and approval of these applications, which will enable businesses to expand, first putting construction workers who have been hit hardest by the current recession back to work, then creating permanent jobs for skilled workers. DOE should also expand the program to include loan guarantees for energy efficiency projects, allowing corporations to retrofit existing manufacturing and research and development facilities, which will create construction jobs and demand for clean energy products.

Restructure SBA Loan Programs

While the DOE loan guarantee program serves companies embarking on major production expansions, many of our start-up companies need much smaller amounts of money to add equipment or hire staff. In the current climate, however, banks are still not lending, and the Small Business Administration's loan programs (currently capped at \$250,000) are not designed for the capital-intensive emerging clean tech sector. If Congress increases the amount that the SBA loans to \$5 million per business, small businesses and start-ups will be able to access the capital they need to grow their companies and create permanent jobs.

Establish a Clean Energy Manufacturing Revolving Loan Fund

A Clean Energy Manufacturing Revolving Loan Fund Program would provide loans to small and medium-sized manufacturers to finance the cost of re-equipping, expanding, or establishing a manufacturing facility in the United States to produce clean energy technology products, energy efficient products, or reduce the energy intensity or greenhouse gas production of a manufacturing facility.

Invest in Innovation

Increase Support for Incubators

Federal support for business incubators makes it possible for early stage research that often leads to new driving industries. The federal government once invested substantial funding in basic research, investments that led to advances in semiconductors, lasers, and the development of the Internet. In addition to office and research space, business incubators provide an array of support services and resources to their resident companies. Research has shown that incubators promote regional development and accelerate the successful development of entrepreneurial companies. The City of San José urges the federal government to expand existing programs that fund business incubators and create a nationwide network that will allow emerging clean technology companies to share best

practices and strengthen efforts to take products from concept to commercial application. By refocusing investment in our nations' incubators, hundreds of new companies and thousands of jobs will be created. Additionally, the federal government can ensure that America's emerging green technologies reach market quickly through focused investment in demonstration projects, product testing, and early-stage manufacturing.

Support Regional Innovation Clusters

Silicon Valley's success in previous waves of innovation has shown that Regional Innovation Clusters fuel job creation and economic growth. An inter-connected ecosystem of businesses, academic institutions, research facilities, and government initiatives, a Regional Innovation Cluster generates a virtuous cycle of competitive strength in a well-defined area. Strong clusters produce better wages for workers and higher rates of entrepreneurship and innovation for businesses. Investment in innovation clusters and high asset regions will support emerging clean technology sector efforts.

Federal investments that will support the growth of regional clusters include funding for job training and workforce development, research and development activities, technology adoption, commercialization, marketing and business growth.

Establish Energy Innovation Institutes

To achieve large-scale use of renewable energy, significantly improve energy efficiency, and reduce the consumption of fossil fuels, the federal government needs to increase its non-defense investment in research and development into clean energy. Additional funding for energy R&D will generate new technologies, demonstrate them on a commercial scale, and rapidly deploy them to the market. This funding will go farther by linking the nation's best scientists, engineers, research universities, and national laboratories through a network of regional institutes focused on energy discovery and innovation. Developing such institutes will expand America's current energy R&D capacity, connecting government and academic research efforts to those of corporations who can take these innovations to market and make them available on a broad scale.

Invest in Job Training

Fund Workforce Training Programs

Unemployment in San José/Silicon Valley remains above the national average despite recent improvements in the national economy. Continued federal investment in workforce training programs will enable community colleges and job training organizations to develop appropriate curriculum to train our workforce for new green careers. For this investment to pay off, these programs must train workers for sustainable careers that will continue beyond immediate federal investment in the green economy. The City of San José supports reauthorization of the Workforce Investment Act, which funds the one-stop system throughout California, serving tens of thousands of job seekers and businesses annually. These centers connect unemployed youth and adults to job opportunities at local businesses, as well as work with businesses and impacted employees through the layoff process with the goals of reducing the number of layoffs, and ensuring that laid-off employees quickly connect with services such as unemployment benefits, job search and training programs. If the federal government were to redirect funding to job-training providers, it would negatively impact the one-stop programs and significantly reduce the number of individuals receiving job placement assistance. The City of San José urges renewal of the summer youth employment program and raising the upper age limit for participants to 24 rather than the current limit of 21 years of age.

Spur Private Investment through Financing Tools and Tax Incentives

Provide Tax Credits for Energy Storage

Developing reliable methods of storing energy is key to reaching our national energy policy goals, increasing the use of renewable energy, developing a smart energy grid, and creating new transportation alternatives. Current federal tax incentive programs only apply to energy generation and distribution. These programs should be extended and expanded to provide an investment tax credit to individuals and corporations that install energy storage facilities and/or equipment that temporarily stores energy for delivery or use at a later time. This tax credit should be based on the amount of energy stored, not the type of technology used. The goal is to offer consumers a broad range of incentives to foster innovation and encourage widespread installation of new technologies. By providing tax incentives, we will create demand for new renewable energy storage products and encourage the innovation to develop and bring them to market.

Create Property Assessed Clean Energy Loan Programs

Property Assessed Clean Energy loan programs allow communities to provide a tool for residential and commercial property owners to finance energy efficiency retrofits and renewable energy installations. Under a PACE program, property owners repay loans through their property tax bills. Such programs will increase the demand for renewable energy and efficiency products and make such products available to homeowners and business owners who cannot afford large up-front costs. The City of San José supports federal legislation that will lower financing costs. By working in partnership with the federal government, cities will be able to help homeowners and small business owners finance improvements that save energy costs, reduce greenhouse gas emissions, and create new jobs in the clean energy sector.

Defer Taxes on Foreign Earnings

Many of Silicon Valley's leading companies do the majority of their business in foreign markets. For some companies, as much as 90 percent of their business or product sales occur abroad. Congress and the Administration are considering a proposal that would severely limit – and possibly eliminate entirely – the ability of American multinational businesses to defer U.S. taxes on active foreign business income. The loss of deferral would immediately increase taxes for U.S. businesses with worldwide operations and have a negative impact on employees and suppliers. The additional tax burden would ultimately force U.S. companies to surrender lucrative markets to foreign competitors. In addition, the additional cash drain on many U.S. companies could make them acquisition targets of foreign competitors. By allowing American companies to return those earnings to their U.S. base, we would see a sharp increase in investment and job creation as well as technological advancements.

Enhance Research & Development Tax Credit

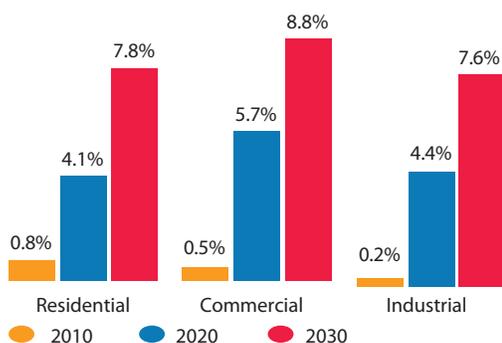
Research and development is critical to maintaining the nation's economic competitiveness in the global marketplace. The R&D tax credit encourages companies to invest in developing new technologies and is an important incentive for clean technology companies in the U.S., California, and Silicon Valley. The City of San José supports federal action to make research and development tax credits permanent, as well as expanding the tax credits to increase corporate spending on R&D.

Extend of Grants In-Lieu of Tax Credits

Numerous wind and solar projects have been postponed due to a lack of continued funding. The federal government should make financing readily-available for these projects. Extending the *Treasury Grants Program* would restart stalled projects by allowing renewable energy developers to qualify for grants or payments from the Treasury Department instead of claiming tax credits. Legislation to extend the grant program should also allow public power utilities to qualify for the grants program, expanding investment for renewable energy projects.

Policy Initiatives

Realistic Achievement Energy Saving Potential
(percent of total load by sector)



Source: Assessment of Achievable Potential from Energy Efficiency and Demand Response Programs in the U.S. (2010-2030). Electric Power Research Institute, January 2009.

Smart Grids

Many communities are implementing smart grids, networked electrical systems with two-way communications between the power suppliers and consumers. Installing communications equipment and software so users and utilities can share data will improve the power supply and make it more reliable. Smart grids will increase energy efficiency; handle current and future demand for power; make power suppliers more responsive; and reduce costs for the provider and consumer. Legislative and regulatory action should be taken to create interoperability standards, ensure that systems architecture is designed for future needs, redefine current utility business models and incentives, further integrate renewable energy into the power supply, and encourage consumers to adopt smart grid devices. The federal government should continue investment in smart grid technologies and applications, such as demand response; grid optimization; distributed generation; energy storage; vehicle-to-grid technologies; energy monitoring and control; and home area networks.

Green Data Centers

Data centers consume a significant amount of energy. As the use of cloud computing, social networking, and smart grid applications increases, the need for data centers will escalate rapidly. According to the latest EPA report, data centers in the United States doubled their annual energy use between 2000 and 2006 to reach usage of 61 billion kWh – enough electricity to power 5.8 million households. By 2011, U.S. data centers are projected to consume up to 100 billion kWh per year. The Department of Energy and Environmental Protection Agency are encouraged to adopt standards, as well as offer rebates or other incentives, to ensure the development high-efficiency data centers.

Clean Electrical Vehicle Transportation

With the global auto industry looking to bring new electrical vehicles to market, there is great opportunity for American innovation to lead in developing these new technologies. The federal government is urged to fund broad demonstration programs that will encourage the development of electric vehicles, reducing our dependence on foreign oil. These programs should integrate electric vehicles into the electrical grid. Funding is needed for innovation in electric drive vehicle and battery manufacturing as well as R&D. In funding such programs, the federal government should not limit its investment to traditional auto manufacturing centers but look to regions where innovation is occurring.

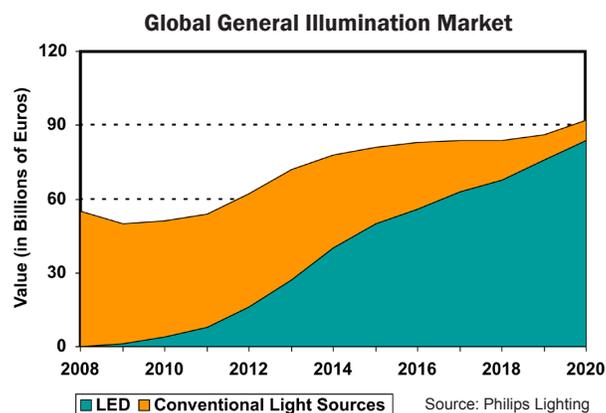
National Energy Efficiency Goals

The cheapest energy to produce is the energy you don't use. Energy efficiency isn't just important for the environment, it is critical to the bottom line for both families and business. Energy efficiency is a foreign policy priority, decreasing our reliance on foreign fossil fuels. The comprehensive climate and energy legislation pending before Congress articulates standards and programs for energy efficiency. This legislation should establish the goal of improving the overall energy productivity of the U.S. by at least 2.5 percent per year by 2012 and to maintain that annual rate of improvement. Energy efficiency provisions should include: updating building codes to reach higher levels of energy efficiency; creating incentives to retrofit existing buildings to become more energy efficient (including incentives for building owners to achieve zero-net energy use); creating a system to label and define a building's energy performance; and giving Fannie Mae and Freddie Mac authority to insure home loans for energy efficiency retrofits.

Green Buildings

Local and state governments have, up to now, been creating their own standards for green buildings, using an array of benchmarks. The City of San José supports updating national model building codes for residential and commercial sites to achieve deeper levels of energy efficiency. These should be standardized across the country, which would create consistency and develop a national market for green building supplies and technologies. These new standards should focus on retrofits, energy efficiency, onsite renewable energy production and transmission, and mass transit.

Lighting and Appliance Efficiency



Adopting a series of new appliance and lighting efficiency standards and making changes to the standards-setting process will spur energy savings, cut electricity costs for private industry and public agencies, and reduce greenhouse gas emissions. The federal government is encouraged to create targeted incentives for retailers and manufacturers to encourage consumers to install the most efficient appliances. Lighting standards should cover outdoor lights, portable light fixtures, and certain incandescent reflector lamps. Developing standards for outdoor lights will encourage the conversion of outdated fixtures to modern and extremely efficient light emitting diodes (LEDs). As standards are updated, the standards-setting process should review carbon valuation, consider the reduction in energy prices that may occur due to implementing the standards, and allow states the flexibility to exceed federal standards.

Emission Reduction

Market based policies have proven effective at reducing pollution in the United States and reducing carbon emissions in parts of Europe. A national cap-and-trade program that supports creation of a national market, provides credit for early emission reductions, assigns value to Clean Tech solutions, auctions permits to generate resources for research and development, inspires workforce development, engages low-income consumers, and promotes technology neutrality should be pursued.

State Clean Tech Legislative Priorities

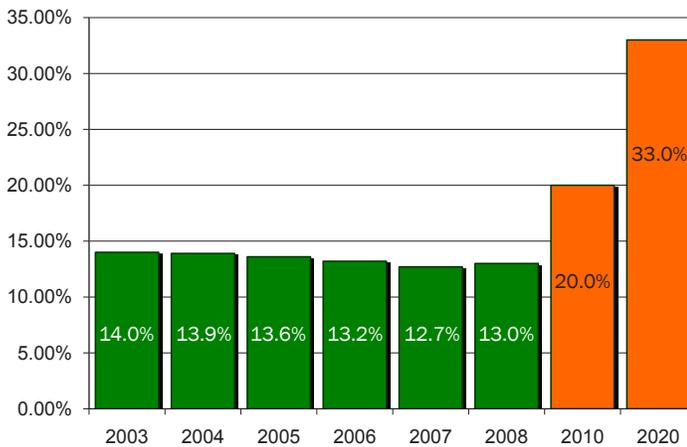
Achieve Renewable Portfolio Standard Goals

Expand Feed-In Tariffs

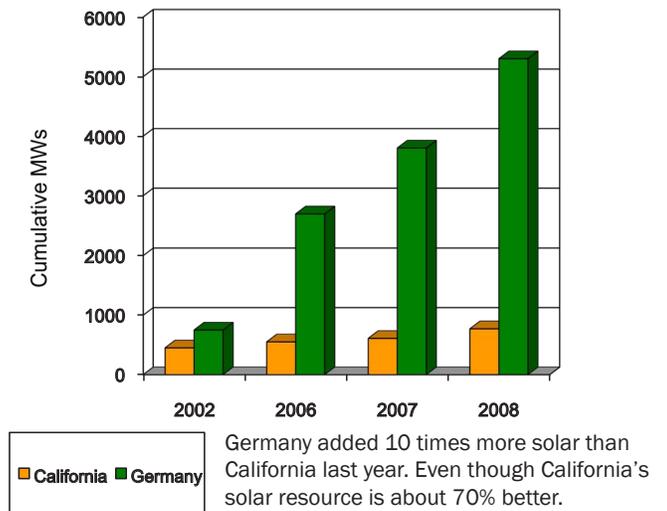
In February 2008, the California Public Utilities Commission made new feed-in tariffs available for utilities to purchase up to 480 MW of renewable energy generated by small facilities throughout California. These feed-in tariffs present a simple mechanism for small renewable generators to sell power to the utility at predefined terms and conditions, without contract negotiations. The feed-in tariff is designed to help utilities meet California’s Renewable Portfolio Standard goals.

The program transfers green attributes, such as renewable energy credits, to the utility when it purchases renewable energy through feed-in tariffs. The Energy Commission and CPUC should consider implementing feed-in tariffs for renewable facilities that generate more than 20 MW. To achieve the RPS goal of obtaining 33 percent of California’s energy from renewable sources by 2020, the State will need to develop a new policy framework that goes beyond the current program.

RPS “Progress” in California



Solar Markets: Germany vs California (RPS + CSI + other)



Sources: CPUC, CEC, SEIA and German equivalents.

Increase Net Metering

The current net metering cap limits solar to 2.5 percent of a retail electric service provider’s aggregate customer peak demand. If current solar market trends continue, applications for California Solar Initiative incentives in Pacific Gas & Electric’s service territory will likely hit that utility’s 2.5 percent net metering cap next year. If the existing 2.5 percent cap is not raised, California’s ability to achieve its 3,000-MW CSI goal will be jeopardized, and hundreds of small businesses that install solar systems will be in jeopardy. The City of San José supports AB 510, which would remove unnecessary burdens placed on California’s ability to meet its CSI goal and encourage the solar market to grow uninterrupted after the CSI program ends. By removing the California net energy metering cap, the State can ensure predictability in the photovoltaic marketplace.

Spur Investment through Tax and Finance Policy

Fund Alternative Energy and Advanced Transportation

Access to capital is a significant challenge for the emerging clean technology industry. The California Alternative Energy and Advanced Transportation Financing Authority provides critical financing for facilities that use alternative energy sources and technologies, as well as for facilities that develop and bring to market advanced transportation technologies. The goal is to fund facilities that produce products that conserve energy, reduce air pollution, and promote economic development and jobs. The Financing Authority should expand its programs to provide industry in California with alternative methods to finance alternative energy products and develop advanced transportation technologies. The State should explore providing sales and use tax exemptions for manufacturers to purchase equipment to manufacture zero-emission vehicles. This program would create a strong new industry in California, rebuilding manufacturing jobs lost in the last decade.

Eliminate State Sales Tax on Clean-Tech Manufacturing Equipment

Since 2001, California has lost almost half a million manufacturing jobs. California is one of only three states that tax the purchase of manufacturing equipment. Most states recognize that taxing the equipment needed to produce a product as well as taxing the final product discourages investment. California needs new technologies to be invented and manufactured here. By eliminating the state portion of sales tax that applies to green tech manufacturing equipment, California's innovators will be encouraged to stay here and grow here. California is at the forefront of research and development in new green technologies and solutions to climate change. With policies in place to support capital investment, we can also manufacture those technologies here.

Finance Renewable Energy and Efficiency Retrofits through California First

Property Assessed Clean Energy programs enable local governments to provide financing for renewable energy and energy efficiency projects to their residents and commercial and industrial property owners. The programs eliminate the chief barrier to clean energy installations: the large upfront cost. The property owners repay the loans through their annual property tax bill. The City of San José supports the implementation of the California First pilot program and expansion of the PACE program across the state.

Invest in New Technology

Support Smart Grids

Ensuring a reliable power grid is critical for California's economic vibrancy and future growth. Smart grids will increase energy efficiency, enable utilities to meet current and future demand for power, and reduce costs for the provider and consumer. As communities throughout California implement smart grids, the state is urged to support implementation through pilot projects and long-term programs. The State should support the creation of regulations by the National Institute of Standards and Technology and regulatory agencies that will ensure interoperability and create a security framework; address issues of scale and market transition; and spur innovation and collaboration.

Turn Waste into Energy

By both reducing the sources of waste on the front end and developing innovative means of processing waste on the back end, municipal solid waste facilities will reach zero-waste goals and decrease the need for additional landfill space. The City of San José supports legislation for renewable energy and diversion credits that would be awarded to facilities that create programs to convert organic waste-to-energy. Such incentives will help cities meet zero-waste goals that cannot be met by recycling and composting alone and will create a dependable supply of green energy for the solid waste facilities. We must increase economic incentives for these facilities to locate in California.

Distribute Energy on a Small Scale

While large energy plants can take as long as ten years to acquire permits and purchase equipment, smaller production facilities – such as those located on commercial buildings and rooftops – can deliver renewable energy more quickly and broadly. Photovoltaic panels can be installed quickly, and local energy can be transported through the current grid, eliminating the wait time to develop and install new transmission lines. The City of San José will continue to push legislation that encourages the development of smaller-scale renewable energy projects within urban boundaries. Additionally, it is critical that we preserve the ability of local government to finance local energy projects.

Invest in Job Training

Expand Workforce Training for Green Careers

As new green technologies come on line, California workers will need to upgrade their skills and training. California must reform and streamline the administration of its Employment Training Panel program. In addition, the State should identify some other source of funds to ramp up the program until performance payments accrue.

Policy Initiatives

Green Data Centers

With data centers projected to consume up to 100 billion kilowatt hours per year by 2011 – enough electricity to power 9.5 million households – California will need for these significant consumers to become more efficient. California should lead the way in advocating for more energy efficient and green data centers. Consistent national standards are critical, and the state should urge the Department of Energy and Environmental Protection Agency to adopt standards, as well as offer rebates or other incentives, to ensure the development high-efficiency data centers.

Local Clean Tech Legislative Priorities

Promote Public Private Partnerships

State and local governments do not have sufficient funds to invest in clean tech infrastructure. Yet many of these projects will have a long-term return on investment, both helping protect the environment and the government entity's bottom line. For those reasons, San José supports the use of Public Private Partnerships. In the clean tech arena, potential partnerships are likely to occur in the following areas:

- **Microgrid Demonstration**

Microgrids are small, local power grids that have the ability in emergencies or overload situations to separate from the larger power grid. By developing microgrids, cities like San José will better manage their energy supply and continue to advance new green technologies. A successful pilot program will demonstrate the benefits of distributed energy, renewable technologies, and energy management systems.

- **Alternative Transportation Technology and Electric Vehicle Infrastructure**

Over the next few years, Americans are expected to add tens of thousands of electric vehicles and plug-in hybrid electric vehicles to the roadways. For the electric vehicle market to succeed, we will require a regional system of infrastructure. In addition to upgrading existing charge points, a much larger, strategic and more comprehensive network of new electric charging stations will be needed to support these vehicles. Collaboration with other Bay Area cities is critical. In addition, the current federal and state funding is not likely to last over the long-term, so cities must pursue partnerships with private entities that have a vested interest in developing electric vehicle infrastructure.

- **Waste-to-Energy**

Diverting waste from our landfills remains a priority for San José. By converting our waste to energy, we not only fulfill that goal, we also add renewable energy to the grid, reducing the need to build new power plants and transmission lines through environmentally sensitive areas.

Implement Collaborate Regionally

Uniform Green Building Codes and Solar Permitting

For cities to maintain a competitive business environment, uniform building standards are necessary. San José and its neighboring cities must continue to work collaboratively to implement common standards for green buildings and solar permits, which will ensure higher levels of sustainable design and provide a common point of reference for builders and installers. We also must work together to implement statewide unified building codes as set forth by the California Green Building Standards Code, or CALGreen. This new code requires builders to install plumbing that cuts indoor water use; to recycle 50 percent of construction waste; to use low-pollutant paints, carpets, and floorings; and to install separate water meters for different uses. CALGreen mandates that energy systems be inspected to ensure that heaters, air conditioners, and other mechanical equipment in nonresidential buildings work efficiently. CALGreen allows local jurisdictions to implement stricter green building standards than those outlined under the state code if they choose.

Expand AB 2466

Under AB 2466, which the City of San José sponsored, local governments may place up to 1MW of renewable energy on their lands and/or buildings and receive credit to be applied towards energy use at another municipal facility. As AB 2466 is implemented, the tariffs for local government renewable energy projects must provide sufficient incentives for local entities to develop renewable energy projects. Additionally, AB 2466 should be expanded to spur government entities to implement solar and other renewable energy projects on a wide scale.

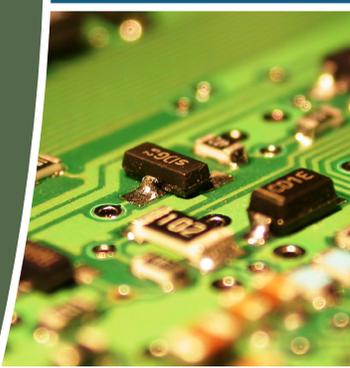
Policy Initiatives

Energy Efficiency Retrofit Programs

California has a long history of state leadership in encouraging energy efficient buildings, including the state's stringent Title 24 building standards. Comprehensive community retrofit programs can generate energy savings, create and preserve jobs, and spur local economic development. To be successful, such programs must provide: Alternative financing options that address upfront costs; effective outreach tools to motivate property owners to participate; technical assistance for public agencies as they embark on energy efficiency retrofits for public buildings; and streamlined permitting processes to reduce costs for consumers.

Clean Transportation

To bring zero-emission vehicles and other green transportation options to market will require supportive rules and incentives, including investment in research and development and demonstration projects. Supportive policies include: creating regulations to set and ensure performance standards; providing economic incentives to stimulate supply and demand; and funding R&D and product development. Cities can support the commercialization of alternate fuel vehicles and zero-emission vehicle technologies by purchasing green vehicles and distributing information about new technologies. San José continues to pursue and promote the use of clean bio-fuel and other green transportation options for city-owned cars and commercial vehicles.



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CITY OF
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CAPITAL OF SILICON VALLEY

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