



Memorandum

**TO: COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE**

FROM: Nanci Klein

**SUBJECT: CORPORATE HEADQUARTERS
ECONOMIC INCENTIVE PROGRAM**

DATE: September 9, 2010

Approved

Date

9/10/10

RECOMMENDATION

Accept the Presentation of Criteria Per the Mayor's June Budget Message Request.

BACKGROUND

In June of 2010 the Mayor's Budget Message provided direction that the Catalyst Fund should be repurposed to be used for the creation, retention, or relocation of corporate headquarters to San Jose. The language in the June budget message was consistent with direction previously provided by Councilmember Herrera and other members of the Community and Economic Development Committee (CEDC). The Catalyst Fund had been created to provide equity financing to San Jose businesses through a competitively selected intermediary investment provider. The CEDC members indicated that focusing the City's limited funds on attracting headquarters operations would allow the City to gain the greatest benefit in terms of jobs and/or City revenues back to the City. The Mayor's June Budget Message directed the Office of Economic Development to bring forward recommended criteria for distribution of the funds to the CEDC for review and discussion in September 2010.

ANALYSIS

Headquarters locations are an important component of San Jose's business mix since they include most if not all of the executive decision makers in the company. Key decision makers and staff reporting to them are frequently responsible for leading company innovation and commercializing new ideas into profitable business units. Headquarters locations generally continue to expand in support of growing global operations. There is intense competition for

headquarters operations regionally, nationally and internationally. Many neighboring states have large incentive funds and aggressive campaigns to recruit headquarters. Many times companies founded in San Jose or the Bay Area would prefer to remain local, but must be accountable to boards of directors or share holders for the most cost effective site location. It is important for company executives to demonstrate that they maintain control of expenditures. It is important then for San Jose to assist in demonstrating the value proposition of a San Jose location and for San Jose to have an array of tools to retain and attract headquarter locations. The proposed Headquarters Economic Incentive Program would complement other City programs such as the Special Tenant Improvement Program and Enterprise Zone.

The Corporate Headquarters Economic Incentive Fund currently has a one-time allocation of \$1.5 million. Staff has proposed a set of guidelines (below) for participation in the program. Flexibility in the development of the guidelines and for the participating companies is important, so that staff can recognize promising and/or significant companies that can result in lasting benefits to the City. Potential qualifying headquarters will come from a wide variety of sectors and provide the City a range of benefits. Office of Economic Development staff will target driving industry companies including initially clean tech, bio-science, software and information technology companies for participation in the program.

Proposed Criteria for Qualifying Companies

- Each allocation of funds from the Corporate Headquarters Economic Incentive Program would be brought forward for City Council approval. Staff would provide a profile of the company in addition an evaluation of the fiscal and economic benefits, both direct and indirect, that the City would derive from attracting or retaining the company.
- Employment – staff will target companies with growing employment to provide jobs for area residents and to assist the City’s efforts with regard to the jobs/housing balance.
- Revenues – staff will review all sources of revenue to be generated by the company from sales tax, property tax, and utility tax over the life of the lease.

Proposed Uses of Incentive Funds

Qualifying companies approved by the City Council for participation in the program could use the funds to:

- Off-set portions of permitting costs
- Reimbursement of Equipment Costs
- Infrastructure Costs

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Reporting

Staff will report the results of the Corporate Headquarters Economic Incentive Program through the 2011-12 City Budget process and give a one year update to the Community and Economic Development Committee in September 2011.

A handwritten signature in black ink, appearing to read "Nanci Klein", written in a cursive style.

NANCI KLEIN

Economic Development Division Manager