

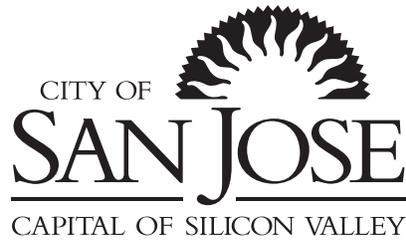
Economic Development Strategy

San Jose
Capital of Silicon Valley

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D R A F T

Cover to be designed



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EXECUTIVE SUMMARY

During the past 50 years, San Jose has grown from an agricultural community of 95,000 people to become the largest city in the Bay Area and the urban center of Silicon Valley, the world's leading center of technology innovation. Today, the City of San Jose is home to 925,000 residents and to 54,000 employers with more than 355,000 workers.

From 1993 through 2000, Silicon Valley's fourth major wave of innovation—commercialization of the Internet—and a sustained national and international economic expansion brought strong growth in jobs, income, and revenue to San Jose and other communities in the area. The San Jose metropolitan area added 282,000 jobs, and the unemployment rate fell below 2%.

Since the beginning of 2001, the San Jose metropolitan area has lost more than 200,000 jobs. This situation has raised a tremendous amount of concern about the region's ability to regenerate.

San Jose's City leadership viewed the downturn as the ideal time to develop an economic strategy that can help guide policies, projects, and investments for the next five years. This effort aimed to answer two important questions:

- What is the nature of the San Jose economy, and how is it changing?
- What should the City and its economic partners do to help ensure sustained economic success?

The current downturn has made it clear that a vital economy is essential for ensuring a quality community for the people and employers of San Jose. History is full of communities that enjoyed fleeting economic excellence rather than sustained economic success. In San Jose, we want three basic outcomes for our economy in the long term:

- Outcome #1: A growing economy.
- Outcome #2: Economic opportunity and prosperity for residents.
- Outcome #3: Revenue growth to fund City services.

The first outcome, a growing economy, is a prerequisite to achieving the other two outcomes.



San Jose's Changing Economy

The extensive research and outreach for this strategy point to two fundamental conclusions:

- Our community has reason both to be optimistic about our future and to be concerned about staying ahead of our competition.
- To succeed in an environment characterized by *competition, uncertainty, and opportunity*, San Jose must excel at *productivity, creativity, and livability*.

In thinking about the next five years, among the most important considerations are:

- **Creative destruction.** Local companies operate in a world of rapid, continuous, unpredictable change. San Jose will not have a fixed set of companies, jobs, or industries.
- **Structural shifts.** Employment in the industries that drive the San Jose/Silicon Valley economy has been shifting from traditional strengths in semiconductors and computing to software, innovation services, and bioscience.
- **Global business operations.** Companies today succeed by harnessing the strengths of different regions internationally. Though the San Jose area retains special strengths in technology innovation and entrepreneurship, it is no longer the only region in the world with a concentration of technical talent. Technical talent in other less-developed regions is much less expensive.
- **Value proposition.** To stay competitive as a community, companies must perceive that the advantages of operating in San Jose—in terms of productivity and creativity—outweigh the cost disadvantages. Our community must invest in infrastructure and services that increase productivity and help mitigate cost increases.
- **Technical talent.** To succeed, companies need to retain and attract technical talent from around the nation and world, especially recent graduates. Our region's high cost of housing is the number one deterrent. Increasingly, other cities offer exciting work opportunities and lower-cost metropolitan environments.
- **Job growth from young companies.** The major source of new jobs has been and will be the growth of young companies and the start-up of new ones. Mature, established companies are unlikely to add significant headcount here. New waves of innovation and entrepreneurship are likely, but not assured.
- **Regional collaboration and competition.** From a macro perspective, the future of San Jose and the Silicon Valley region are intertwined. From a micro perspective, the regional glut of office space (60 million square feet vacant in October 2003) means that property owners in San Jose will vie with those in neighboring communities to host companies already committed to a Silicon Valley presence.
- **Support industries.** Business-support and local-serving industries, which constitute the majority of San Jose's job base and provide valuable mid-tier jobs, also are challenged to increase productivity and adapt to competitive pressures. Opportunities exist to preserve and create mid-tier jobs in areas such as health care.
- **Community success factors.** San Jose has a number of distinctive assets that it should leverage more completely for competitive advantage. These assets include the airport, San Jose State University, extensive housing, diverse neighborhoods, lower-cost workspace relative to the cost on the Peninsula, and Downtown's potential as a unique creative and cultural center of Silicon Valley.
- **Community identity.** Despite its large size, San Jose suffers from unclear identity and low stature within the Bay Area region, nationally, and internationally.

The message is clear: San Jose must not take its economic future for granted. Leaders from all walks of life need to work as a team in more proactive, strategic ways to ensure a strong economic future for San Jose.

A Vision for San Jose's Economic Future

Having a clear, compelling vision—a distinctive identity for our community—has become important at this stage of San Jose's development.

- An attractive and visible identity is critical for attracting and retaining innovative people and companies in a highly competitive global environment.
- An inspiring, shared vision is critical for mobilizing people to work collaboratively and proactively to create their future.

San Jose can be an exciting, economically successful city by creating and then communicating a set of six unique attributes that will define San Jose as the Capital of Silicon Valley. Each element of this vision builds on San Jose's current assets and opportunities but stretches us to develop and express them more fully—transforming nascent signs of who we are today into a powerful vision of how we will find success tomorrow.

VISION FOR SAN JOSE

As the **Capital of Silicon Valley**, and the largest city in the world's leading region for innovation, San Jose is...

- **A Global Gateway**, a cosmopolitan, international city for leading businesses and talent from around the world
- **A Creative Community** that pioneers innovation within and across technology and business, culture and society
- **An Entrepreneurial Environment** where people from all walks of life start and grow companies that achieve their dreams
- **A Tech-Savvy City** that uses and showcases technology to improve daily life
- **A Place of Opportunity**, where residents find a range of rewarding employment opportunities and support to participate in the economy
- **America's Most Livable Big City**, with diverse and distinctive qualities of life!

By creating and communicating these attributes, San Jose can enjoy sustained increases in prosperity, opportunity, and quality of life.

Strategic Initiatives

This economic strategy identifies 15 initiatives that the City of San Jose should pursue with its economic development partners to achieve the vision and desired economic outcomes. Action in these areas will make San Jose more competitive and attractive as a place to start and grow businesses in the Silicon Valley region, as well as relative to national and international competitors. These actions will also improve economic opportunity and quality of life for residents.

The following Exhibit aligns these 15 Strategic Initiatives with the vision themes they support most directly. The complete strategy document (Chapter IIB) provides specific tactics that should be implemented for each Strategic Initiative.

15 STRATEGIC INITIATIVES

Global Gateway

1. Build a World-Class Airport Facility and Air Services.
2. Forge Connections to Innovation Regions Globally for Mutual Economic Benefit.

Creative Community

3. Develop Strategic Partnerships with San Jose State and Other Universities to Drive Innovation and Economic Impact.
4. Evolve and Position Downtown as a Unique Creative and Cultural Center of Silicon Valley.

Entrepreneurial Environment

5. Support Start-Up and Growth of Local Businesses, in Tech as well as Non-tech Fields.
6. Improve Speed, Consistency, and Predictability of the Development Review Process, and Reduce Costs of Operating in San Jose.

Tech-Savvy City

7. Make San Jose a Tech-Savvy City; Lead the Way in Using Technology to Improve Daily Life.

Place of Opportunity

8. Diversify San Jose's Economic Base and Preserve/Create Middle-Income Jobs.
9. Prepare Residents to Participate in the Region's Economic Opportunity, from K-12 to Lifelong Learning.

America's Most Livable Big City

10. Continue Emphasis on Developing New Housing, Including New Housing Types in a Variety of Neighborhood Settings.
11. Revise Key Land Use and Transportation Policies to Reflect the New Realities of the San Jose Economy.
12. Encourage Sporting Teams, Events, and Facilities, Professional as well as Amateur.
13. Develop Retail to Full Potential, Maximizing Revenue Impact and Neighborhood Livability.

Capital of Silicon Valley

14. Communicate a Compelling, Consistent Community Identity for San Jose.
15. Engage Private-Sector Leadership for San Jose's Economic Strategy.

What's Next: Strategy Implementation

To be effective, this economic strategy needs to be embraced by City government and also belong to the entire San Jose community. Each Strategic Initiative includes specific tactics that local government should pursue—policy changes, new initiatives, and new operational practices. But all sectors and institutions—and many, many leaders—have a role in ensuring a strong economic future for San Jose. Implementing San Jose's economic strategy will require mobilizing the talents, resources, and passions of the entire San Jose community and beyond.

Implementation of the strategy should have three main tracks:

- ***Set City Priorities and Make Commitments***—This strategy should be communicated throughout the entire city organization, so every staff member can help “connect the dots”—align their work to this vision for economic excellence. City elected leaders and senior staff should commit to a select number of fast-track Strategic Initiatives, and to priority tactics under each Strategic Initiative to implement in the next two years. City Service Areas should incorporate these priorities into their business plans, performance measures, and budget requests for 2004–05.
- ***Build Implementation Partnerships with the Community***—City elected leaders and staff should take this strategy out into the business and residential communities. They should engage key economic-development partners about how to champion the vision and align efforts to move forward on the Strategic Initiatives.
- ***Track Performance and Progress***—The City should track and publish three kinds of measures related to implementation of the strategy: performance on desired economic outcomes, performance on community success factors, and milestones and results of implementing the economic strategy.

As we implement this strategy in the next five years, we need to be aware that our environment will continue to change. Even as we focus on implementing initial priorities, we will need to be opportunistic as new possibilities and challenges emerge over time. We must continue learning from each other and from our increasingly connected world, and we must continue updating our ideas and practices. In this way, San Jose can pioneer a new kind of civic adaptability that will make change healthy for individuals, organizations, and our community.

IMPLEMENTATION PRINCIPLES

When implementing and refining this strategy over time, City leadership and staff should remember the following principles:

Perspective we have...

- Economic development is a *Citywide business*.
- Economic development and quality of life are *interdependent priorities*.
- *Employers are customers*, just like residents.
- Each City staff member is an *Ambassador* for the entire City.

What we do...

- Support efforts of private-sector employers to *increase productivity*—to add more value or to reduce costs.
- Create *unique competitive advantages* for San Jose.

How we do it...

- *Be in relationship* with San Jose industries for ongoing learning.
- *Collaborate* within and outside the City organization to address shared challenges and access expertise and resources.
- Be *speedy, agile, and adaptable*.
- Focus on a few priority actions, and finish what you start.
- *Be open* to new opportunities that emerge aligned with our economic vision.

PART I. INTRODUCTION

San Jose Needs an Economic Development Strategy

San Jose is the eleventh-largest city in America and the largest city in Silicon Valley, the most successful technology region in the world. The San Jose region has exceptional rates of productivity, innovation, and entrepreneurship. We have a highly educated workforce, top universities, and experienced venture capitalists.

In a highly competitive and fast-changing world, we cannot take our future success for granted.

Underneath the recent economic boom and more recent downturn, fundamental changes have been taking place in our economic structure. Today, the San Jose area faces aggressive competition from other innovation centers globally; we are no longer the only concentration of technical talent and innovation in the world. And our region is now among the highest-cost places to do business and live in the world.

A vital economy is the most important tool we have for ensuring a first-rate quality of life for the people of San Jose. Prosperous companies, wide-ranging career opportunities, and robust tax revenue are all essential prerequisites for building a great community.

The City of San Jose viewed the recent downturn as the ideal time to develop an economic strategy that can guide City policies, projects, and investments in the next three to five years. Having a big-picture economic strategy will help the City and its partners set priorities in a proactive manner. The strategy will serve as a guide, or framework, for understanding choices, making decisions, and moving the community in the desired direction.

The strategy includes four key parts:

- Outcomes—what we wish our economy to achieve
- Vision—the ideal picture of San Jose’s economic future
- Strategic Initiatives—what we need to do to realize the vision and outcomes
- Tactics—specific measurable steps the City should take to implement the strategy.

Although this strategy has specific implications for actions by the City government of San Jose, successful implementation will require the active involvement of partners from business, education, and the community. City government affects the local economy in some important ways, but is one of many public, private, and nonprofit players that shape economic success. Implementation must be a team effort.

Successful implementation will require that we refine our strategy as our environment changes. This strategy was developed at a time of economic downturn and significant flux. Even as we focus on implementing initial priorities, we will need to be opportunistic as new possibilities and challenges emerge over time.

HOW LOCAL GOVERNMENT AFFECTS THE ECONOMY

Local government is one of many players that affect San Jose’s competitiveness. Local government affects the economy in nine main ways.

1. *Adopts Policies to Shape the Qualities of the Community* that make San Jose attractive to talented people and world-class companies.
2. *Determines How Land Is Used and Facilities Are Developed* to ensure balanced and quality community development.
3. *Provides Local Infrastructure to Ensure Business Efficiency and Investment*, including airport, roads, transit, utilities, and environmental services.
4. *Spends Money on Capital Projects and Public Services*, stimulating economic activity, employment of people, and maintenance of investments.
5. *Supports Development of the Local Workforce* through involvement in early childhood, K–12, and workforce development and support.
6. *Supports Innovation and Entrepreneurship* by enhancing an environment that supports industry change, private investment, and risk taking.
7. *Establishes Policies to Align Business and Community Goals* to advance community values and aspirations without undermining competitiveness.
8. *Communicates the Community’s Assets, Advantages, and Aspirations* to send a clear, consistent, compelling message.
9. *Provides Leadership for Long-Term Economic Success*, working with private and community partners to advance shared goals.

SAN JOSE'S ECONOMIC STRATEGY		
Desired Outcomes	Vision	Strategic Initiatives
Growing Economy Increasing Prosperity City Revenue Growth	Capital of Silicon Valley <ul style="list-style-type: none"> • Global Gateway • Creative Community • Entrepreneurial Environment • Tech-Savvy City • Place of Opportunity • America's Most Livable Big City 	<ol style="list-style-type: none"> 1. Build a World-Class Airport Facility and Air Service 2. Forge Connections to Innovation Regions Globally for Mutual Economic Benefit 3. Develop Strategic Partnerships with San Jose State and Other Universities to Drive Innovation and Economic Impact 4. Evolve and Position Downtown as a Unique Creative and Cultural Center of Silicon Valley 5. Support Start-up and Growth of Local Businesses, in Tech as well as Non-Tech Fields 6. Improve Speed, Consistency, and Predictability of the Development Review Process, and Reduce Cost of Operating in San Jose 7. Make San Jose A Tech Savvy City; Lead the Way in Using Technology to Improve Daily Life 8. Diversify San Jose's Economic Base, and Preserve/Create Middle-Income Jobs 9. Prepare Residents to Participate in the Region's Economic Opportunity, from K-12 to Lifelong Learning 10. Continue Emphasis on Developing New Housing, Including New Housing Types in the Variety of Neighborhood Settings 11. Revise Key Land Use and Transportation Policies to Reflect the New Realities of the San Jose Economy 12. Encourage Sporting Teams, Events, and Facilities, Professional as well as Amateur 13. Develop Retail to Full Potential, Maximizing Revenue Impact and Neighborhood Livability 14. Communicate a Compelling, Consistent Community Identity for San Jose 15. Engage Private-Sector Leadership for San Jose's Economic Strategy

The Strategy Was Developed through Research and Outreach

San Jose developed its economic strategy by blending new facts and research with outreach and opinion.

More than 300 business leaders, residents, and experts contributed a rich set of inputs to this strategy during 2003. The outreach process included 14 focus groups involving 210 people, interviews with senior executives from 50 companies, and 30 interviews with economic-development partners and City leaders. More than 60 people testified at five days of "Getting Families Back to Work" Study Sessions convened by the Mayor and Council.



The strategy involved creating a new dataset about the San Jose economy—distinct from Santa Clara County or Silicon Valley—and research about San Jose’s existing economic base, changing external context, and community advantages and disadvantages. The project also included two special research projects. One explored the relationship between job growth, land use, and the City’s fiscal health. The other took an in-depth look at San Jose’s retail capacity and potential.

The economic strategy was developed by a team of senior City executives and researchers, with guidance from the Mayor’s Office and the City Manager’s Office. The strategy team included staff from the Office of Economic Development; the Redevelopment Agency; the Department of Planning, Building and Code Enforcement; and the Housing Department. The team benefited from the knowledge and experience of leading economic experts from throughout California.

About This Document

This document provides the core findings and recommendations for San Jose’s economic development strategy.

Readers wanting to understand the key top-level recommendations should focus on Part II. Recommendations.

- **I.A. Vision: San Jose’s Distinctive Identity**—This chapter outlines a distinctive set of characteristics that can differentiate San Jose from competitors and enable our community to excel economically.
- **I.B. Strategic Initiatives and Tactics**—This chapter describes 15 strategic initiatives to achieve our economic vision and desired outcomes. Each strategic initiative is supported by specific tactics the City can take to move in the desired direction.
- **I.C. Strategy Implementation**—This chapter suggests next steps for turning the economic strategy into action, including making commitments and measuring results.

Readers wanting to review the main findings from the strategy research and outreach will find them in Part III.

- *IIIA. Desired Outcomes from the San Jose Economy*—This chapter describes the desired outcomes of San Jose’s economic development, what parts of the economy matter most to achieving these outcomes, and how our economy has been performing.
- *IIIB. San Jose’s Changing Economic Base*—This chapter describes San Jose’s current economic base and how it has changed over time, including recent cyclical and structural change.
- *IIIC. San Jose’s Portfolio of Driving Industries*—This chapter outlines the five key trends and realities facing the outward-oriented industries that drive the San Jose economy.
- *IIID. San Jose’s Business-Support and People-Serving Industries*—This chapter shares findings about the trends and challenges affecting companies that serve primarily local business and consumer markets.
- *IIIE. San Jose’s Competitive Advantages and Disadvantages*—This chapter describes the perceptions and realities about the competitive advantages and disadvantages of operating a business in San Jose.
- *IIIF. The San Jose Economy, Land Use, and the City’s Fiscal Health*—This chapter describes the relationship between job growth, land use, and the City of San Jose’s fiscal health.

Extensive supporting documentation, including focus-group results and commissioned research, is available online at www.sjeconomy.com.

PART II. RECOMMENDATIONS

IIA. Vision: San Jose's Distinctive Identity

Our community has reason to be both optimistic about our future and concerned about staying ahead of our competition. The key findings from the strategy research (see Part III) call for us to focus aggressively on creating our economic future by channeling forces of change to our advantage and not taking our lead position for granted. To stay on a constructive course in an ever-changing world, we need a strong, shared vision for the future.

Having a clear, compelling vision—a distinctive identity for our community—is especially important at this point in San Jose's evolution. A clear and visible identity is critical for attracting and retaining innovative people and companies in a highly competitive global environment. Our community faces aggressive competition from other regions—all vying for talent, success, and recognition. Companies are under pressure to justify to investors why they choose to operate here. People have many choices of where to work and live, and they want to know where San Jose is heading and what our community has to offer.

An inspiring, shared vision is also critical for mobilizing people to work collaboratively and proactively to create their future.

Vision: a desirable, distinctive set of community characteristics that will differentiate our community from competitors and enable it to excel economically.

San Jose's economic vision should spring from the intersection of our highest economic aspirations and our strongest economic opportunities. It should come from listening to the deepest desires of our community, as well as from hard-nosed assessment of our actual opportunities, competitive challenges, and unique assets.

San Jose can be an exciting, economically successful city by creating and communicating a set of six unique attributes and by aggressively identifying San Jose with the internationally recognized Silicon Valley. Each attribute builds on current assets and opportunities, but stretches us to develop and express them more fully—transforming nascent indicators of who we are today into a powerful vision of how we will find success tomorrow. Taken together, this combination of characteristics can provide San Jose with competitive advantage in attracting, retaining, and supporting the world's most innovative people and companies.

VISION FOR SAN JOSE

As the **Capital of Silicon Valley**, and the largest city in the world's leading region for innovation, San Jose is...

- **A Global Gateway**, a cosmopolitan, international city for leading businesses and talent from around the world
- **A Creative Community** that pioneers innovation within and across technology and business, culture and society
- **An Entrepreneurial Environment**, where people from all walks of life pursue and realize their entrepreneurial dreams
- **A Tech-Savvy City** that uses and showcases technology to improve daily life
- **A Place of Opportunity**, where residents find a range of rewarding employment opportunities and support to participate in the economy
- **America's Most Livable Big City**, with diverse and distinctive qualities of life!

Global Gateway

San Jose capitalizes on the trend toward global business and its ethnically distinct population, and we position our community as a unique global gateway. In San Jose, like nowhere else internationally, people from all different countries and ethnic backgrounds work together effectively to create, innovate, exchange, and lead globally.

What success looks like...

- Businesses of all sizes, and in diverse sectors, lead global operations and multi-cultural teams from a San Jose base.
- San Jose sees an acceleration of international travel through Mineta San Jose International Airport. Travel promotes two-way exchange of ideas, investment, and trade (not just "brain drain" or "brain gain," but "brain circulation"!).
- New occupations, skill sets, and advantages emerge in leading cross-cultural, cross-border innovation teams from a San Jose location.
- San Jose is an exceptional center for international meetings involving people from different cultures and countries. Meeting facilities offer simultaneous translation, and San Jose's diverse ethnic communities host their overseas counterparts.
- More and more foreign-owned firms view San Jose as the gateway to Silicon Valley, the Bay Area, and the nation and set up offices in our community.
- In San Jose, visitors and locals alike can sample the best, most varied ethnic cuisine and entertainment in the Bay Area.

- In San Jose, people can experience art and culture from around the world, but also see it fuse into new intercultural forms.
- San Jose is a bridge bringing Silicon Valley technology to untapped markets, including Latin America.
- San Jose is home to growing numbers of culturally based product, service, and trading businesses. These companies start small, serving the needs of local immigrant communities, but grow into businesses of national and international stature.

By serving as a global gateway, San Jose and other regions worldwide benefit mutually from the global business model.

Creative Community

San Jose becomes known as a fundamentally creative community, not just a technology center.

Breakthrough ideas emerge within and between technology, art, and society as people from different disciplines and backgrounds interact and innovate. Our companies' and residents' consistent ability to create—to generate new ideas—distinguishes San Jose, provides competitive advantage, and further increases the attractiveness of our community as an exciting place to live.

What success looks like...

- New products and firms emerge from the convergence of information technology, life science, and nanotechnology.
- The best creative talent in the world is drawn to San Jose and nurtured here—artistically creative people as well as technically creative people.
- Downtown San Jose is the undisputed creative and cultural center of Silicon Valley. Visitors to the Bay Area who come looking for the “center” of Silicon Valley find it in San Jose.
- San Jose becomes the world’s leading center for advancing art and technology, including new media and electronic arts.
- San Jose State University and other higher-education and research institutions in the Bay Area spark practical innovation in San Jose across a range of fields, from engineering to education, health care to culinary arts.
- Public spaces, work spaces, and open spaces throughout San Jose encourage people to cross paths and collaborate in planned meetings as well as through informal, spontaneous interaction.

Entrepreneurial Environment

San Jose becomes a start-up center, where people from all walks of life pursue and realize their entrepreneurial dreams. We become home to a critical mass of venture-backed start-ups and large numbers of successful businesses in tech and non-tech fields. Our entrepreneurial spirit binds us as San Joseans, across cultures and generations.

What success looks like...

- San Jose has a reputation as an entrepreneur-friendly city—one that values, supports, and recognizes entrepreneurs.
- Our community has extensive support infrastructure for entrepreneurs, including incubators, shared tools, expert advisors, and meeting places.

- Start-ups grow into larger headquarters operations that bring prestige and investment to our community.
- A growing concentration of headquarters operations spawns new start-ups and stimulates their growth.
- Immigrants start successful businesses in San Jose that leverage relationships with their home countries and cultures.
- Downtown San Jose is home to a sizable community of entrepreneurs who view Downtown as new kind of “start-up campus” and value its amenities and resources, including San Jose State University.

Tech-Savvy City

San Jose becomes a tech-savvy city that uses and showcases technology to improve daily life. We establish a reputation as a place that lives our full potential as technology innovators and users. This reputation helps stimulate practical innovation in companies large and small and makes San Jose a very interesting and efficient place to live and visit.

What success looks like...

- The City of San Jose leads its peers internationally in using technology to modernize government and build community.
- San Jose encourages use of the community as a test bed for new technology and develops model processes for encouraging and managing these applications.
- San Jose sets the standard for deploying high-speed broadband infrastructure—including wireless technology—in government, business, and residential buildings and in public spaces. San Jose becomes the first large American city with ubiquitous fiber to the home.
- Throughout our community are visible signs of the technology innovation that occurs in local companies. People interact with and learn about technology pioneered locally as they go about their daily business.
- Small businesses throughout our community use Internet-based technology to target and serve customers better.
- Visitors flock to San Jose to experience technology of the future, but also to see the preserved history of early breakthrough innovations in radio, computing, and other fields.
- San Jose establishes a international reputation as a place that “walks the talk” on adoption of technology to improve quality of life.

Place of Opportunity

San Jose is a place of opportunity, where residents find support to participate in the economy and do rewarding work. Industrious, creative people—existing residents as well as newcomers—find opportunity to succeed financially and do meaningful work.

What success looks like...

- San Jose’s workforce is “tuned in” to the kinds of jobs that are here and are trained appropriately.
- Education and training providers are in communication with local industries and understand their skill needs. Together, we anticipate and plan for future skill needs.
- Though few workers stay at one job forever, residents have steady employment in a fluid, growing job market.

- Residents and workers take advantage of opportunities for retraining and ongoing learning through a rich network of higher education and training institutions.
- Young people are prepared from pre-kindergarten onward to succeed in course work and make thoughtful choices about their careers.
- San Jose becomes known for effective K–12 education in math and science.
- Residents enjoy community support that increases their well-being and their productivity at work, including affordable housing, public transportation, child care, and health care.

America’s Most Livable Big City

San Jose gains recognition as the most livable big city in America, with diverse and distinctive qualities of life. Pioneering an attractive new urban form, San Jose is a city of wide-ranging neighborhood and lifestyle choices. The community enjoys an exciting mix of residents, and prides itself on being both heterogeneous and harmonious.

What success looks like...

- San Jose offers the best of suburban as well as urban-style living—with everything in between.
- San Jose remains the safest big city in America.
- San Jose has many neighborhoods where people have “everything close by”—homes, shopping, workplaces, parks, transportation options, and amenities.
- San Jose is an attractive home to a broad range of talented and industrious people; this category includes technology professionals and suburban-family types, as well as young entrepreneurs, empty nesters, artists, intellectuals, and hip people of all ages. This variety diversifies our economy and enlivens our community.
- Our community enjoys efficient traffic flow, connected alternative transportation options, and walkable neighborhoods and business/employment districts.
- Taking advantage of its pleasant climate and beautiful natural setting, San Jose residents enjoy an extensive network of walking trails, bike paths, and parklands easy to access near homes and workplaces.
- Neighborhoods are served well by retail services and special commerce options, such as farmer’s markets, ethnic food stores, and gourmet offerings.

IIB. Strategic Initiatives and Tactics

Strategic initiatives identify how our community will realize its vision and achieve its desired outcomes.

This economic strategy identifies 15 initiatives that San Jose should pursue in the next five years.

Together, these strategic initiatives will move San Jose toward its vision of securing a distinctive, recognized role as the Capital of Silicon Valley, the world's center for innovation. Action in these areas will make San Jose more competitive and attractive as a place to do business in the Silicon Valley region, as well as relative to national and international competitors. Such action will also improve economic opportunity and quality of life for residents.

Implementing the strategic initiatives will require specific tactics on behalf of the City, as well as other partners. Tactics are actions, policies, or investments that will advance the strategy in definable, measurable ways.

This section describes each strategic initiative, aligning each with the vision theme that it most directly supports. For each strategic initiative, the section identifies tactics that the City could pursue to drive implementation.

15 STRATEGIC INITIATIVES

Global Gateway

1. Build a World-Class Airport Facility and Air Services.
2. Forge Connections to Innovation Regions Globally for Mutual Economic Benefit.

Creative Community

3. Develop Strategic Partnerships with San Jose State and Other Universities to Drive Innovation and Economic Impact.
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Entrepreneurial Environment

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6. Improve Speed, Consistency, and Predictability of the Development Review Process, and Reduce Costs of Operating in San Jose.

Tech-Savvy City

7. Make San Jose a Tech-Savvy City; Lead the Way in Using Technology to Improve Daily Life.

Place of Opportunity

8. Diversify San Jose's Economic Base and Preserve/Create Middle-Income Jobs.
9. Prepare Residents to Participate in the Region's Economic Opportunity, from K-12 to Lifelong Learning.

America's Most Livable Big City

10. Continue Emphasis on Developing New Housing, including New Housing Types in a Variety of Neighborhood Settings.
11. Revise Key Land Use and Transportation Policies to Reflect the New Realities of the San Jose Economy.
12. Encourage Sporting Teams, Events, and Facilities, Professional as well as Amateur.
13. Develop Retail to Full Potential, Maximizing Revenue Impact and Neighborhood Livability.

Capital of Silicon Valley

14. Communicate a Compelling, Consistent Community Identity for San Jose.
15. Engage Private-Sector Leadership for San Jose's Economic Strategy.

Global Gateway

Build a World-Class Airport Facility and Air Services

To support job generation and maximize private-sector investment impact, we must better align our airport with the needs of our employers. Doing so includes a growing need for nonstop air service to international business centers, facilities for corporate aviation, and improved nonstop access to major domestic markets. Our goal should be to increase San Jose's market share of Bay Area passenger-travel business.

City Tactics

- Increase the City's capacity to understand and communicate the air-service needs of San Jose's Driving Industries and our ability to understand the business plans and needs of air carriers.
- Develop direct international flights to Asian and European gateway cities (Taipei, Hong Kong, Shanghai, Singapore, Ho Chi Minh City/Saigon, London, Dublin).
- Maintain a diverse base of air carriers.
- Provide more nonstop service to more international and domestic business centers with the frequency of flights that is convenient for business travel.
- Accommodate corporate needs for owned, leased, or fractional shares of corporate jets.

We must better align our airport with the needs of our employers.

- Complete implementation of the Airport Master Plan that provides expanded and improved facilities and infrastructure for air service.
- Continue construction projects that improve access into and out of the airport.
- Make the airport facility a physical reflection of San Jose's vision and distinct characteristics, making a powerful, positive first impression.

Forge Connections to Innovation Regions Globally for Mutual Economic Benefit

San Jose should position itself as a global gateway that connects leading businesses, talent, and markets from around the world. To this end, San Jose should forge relationships with other technology regions globally to accelerate business partnerships, trade, and inward investment.

City Tactics

- Leverage current Sister City relationships for economic benefit where appropriate.
- Develop new strategic partnerships with other innovation regions where San Jose companies have strong presence or where San Jose people have strong relationships (start with India, China, Taiwan, but this effort could also include Vietnam and Mexico). Identify other regions with potential synergy in Europe, Canada, and Latin America.
- Develop an International Business Advisory Council that can advise City leaders about how to support international businesses, including the strategic use of regional relationships trade missions.
- Explore opportunities to co-market the community of San Jose and San Jose-based businesses in key international markets.
- Encourage relationship building among entrepreneurs from different cultures who live or work in San Jose.
- Build capacity for San Jose to be a bridge to untapped technology markets, including those in Latin American communities.

- Attract offices of foreign companies that want a Silicon Valley or Bay Area presence.
- Market the bioscience incubator and innovation center to attract foreign companies seeking a Bay Area presence.
- Help establish more foreign incubators and government offices in San Jose.

Creative Community

Develop Strategic Partnerships with San Jose State and Other Universities to Drive Innovation and Economic Impact

Building on the successful Martin Luther King, Jr. library collaboration, the City of San Jose should partner with San Jose State University (SJSU), to increase the economic benefit of the University’s expertise and operations to businesses and the community. Key areas for collaboration include bioscience, athletics, culinary arts, international business, art/design, entrepreneurship, and health care. On an opportunistic basis, the City should also partner with other higher-education and research institutions in the Bay Area region to develop research facilities/programs, forge industry partnerships, and attract federal R&D initiatives to benefit San Jose.

City Tactics

- With SJSU, create a corporate “front door” to SJSU to help San Jose companies—including start-ups—navigate SJSU as a resource. Work with SJSU to help identify Downtown sites for University-related activities that would be attractive for community involvement.
- Explore partnership opportunities with SJSU for a multiuse sports venue on the South Campus that could serve students and residents, as well as meet needs of amateur and professional sports teams.
- Support creation of a “NanoTools” center through the SJSU School of Engineering, where entrepreneurs can access sophisticated, expensive equipment to develop and test new nanomaterials.
- Link SJSU’s international capabilities, interests, and relationships (e.g., overseas research parks and degree programs) to develop San Jose’s niche as a global gateway for business and to add an international dimension to its visitor/meeting industry.
- Work with SJSU’s School of Art & Design to bring university arts activities into the Downtown and to create a Center for Art and Technology in Downtown that will pioneer new approaches to art and technology.
- Partner with SJSU’s Biotechnology training initiative to expand San Jose’s bioscience workforce, training opportunities, and lab capacity.
- Help market the capabilities of the SJSU’s Entrepreneurship Center through the SBA-Cisco Systems-San Jose Entrepreneur Center and other mechanisms.
- With SJSU and other partners, work to make Downtown more “hip” by catering to the young populations that the University and the library attract.
- Arm SJSU leadership with the City of San Jose’s communication message and material so they can be highly informed ambassadors for our community in the region, nationally, and internationally.
- Explore opportunities to partner with other regional higher-education/research institutions to develop research facilities/programs, create education programs, forge industry partnerships, and attract federal R&D initiatives.

San Jose State University is a \$400 million institution that attracts 20,000 daily.

Evolve and Position Downtown as a Unique Creative and Cultural Center of Silicon Valley

Downtown San Jose should play a distinct role in the Silicon Valley region as a unique creative and cultural center—a vital, visible place in the region where technology and entrepreneurship, education and entertainment, art and athletics, business and community, all come together. Downtown should showcase and reflect our community’s identity and particular aspirations to be a global gateway, a creative center, a tech-savvy city, and an entrepreneurial environment.

City Tactics

- Expand the Convention Center to increase its capabilities as a world-class meeting place.
- Help enable the scaling up of existing museums from mid-tier to big-city size, facilitating private and philanthropic dollars, in order to attract more local, regional, and national visitors.
- Help facilitate the addition of new cultural, entertainment, and athletic attractions Downtown.
- Help facilitate the creation of permanent homes for existing arts institutions, and the retention and expansion of existing “boutique-sized” art spaces.
- Host an international-caliber Art and Technology Festival every two years, beginning in 2006.
- Encourage arts programs at San Jose State University to move off campus.
- Make Downtown San Jose the visible home of prestigious regional institutions (e.g., business associations, philanthropic foundations, major charities, media).
- Attract software and start-up companies Downtown, positioning our urban center as a new kind of start-up campus with rich amenities and resources for entrepreneurs.
- Retain and attract business and professional-service companies Downtown, including financial services, venture capital, legal firms, and creative services.
- Expand the tenant-improvement program to office users Downtown.
- Showcase ethnic cuisine from throughout San Jose/Silicon Valley in Downtown.
- Nurture locally owned businesses that bring day and night vibrancy to Downtown streets, including restaurants, cafes, art galleries, clubs/music venues, and businesses serving university students.
- Create physical space for artists to sell their wares and create in public (i.e., like the Torpedo Factory in Alexandria, Virginia).
- Encourage other educational institutions and learning opportunities to locate Downtown.
- Implement the plans for SOFA creative district, including physical connections to SJSU, and for the Spartan Keyes artist-housing complex.
- Showcase Silicon Valley technology; make it visible, interactive, and exciting.
- Develop a splash page on the Web to help people connect intuitively to the major Web sites highlighting activities, events, and resources Downtown.
- Bring free WiFi service to outdoor public spaces Downtown.
- Develop a wide variety of housing types Downtown: rental and for-sale; mid-rise and high-rise; small studios, large flats, and townhouses.
- Streamline the permit process for special events and festivals.

Entrepreneurial Environment

Support Start-Up and Growth of Local Businesses, in Tech as well as Non-tech Fields

San Jose should actively and visibly encourage the start-up of new businesses and growth of existing businesses in the city, from venture-backed technology start-ups to small businesses launched by new immigrants. The San Jose/Silicon Valley economy generates job growth primarily through the start-up and expansion of new locally based businesses. Traditional small businesses are an important avenue of opportunity for residents, especially for new immigrants, and contribute to our community's quality of life. San Jose should become known as a place that welcomes and encourages entrepreneurs from all walks of life.

City Tactics

- Retain and attract company headquarters in San Jose, because they are an important source of and stimulus for new entrepreneurs.
- Increase San Jose's cachet with the venture-capital community and entrepreneurs as an attractive home for companies in the "start-up" (1 to 10 employees) and "grow-up" (10 to 100 employees) phases of development. Develop and promote a set of attributes attractive to these firms, especially in the Downtown.
- Increase access to City contracting and purchasing opportunities through improvements to communication and the procurement process.
- Draft a policy for prime contractors, consultants, or vendors to use local businesses where legally permissible.
- Support promotion of the bioscience incubator and innovation center in Edenvale to encourage occupancy and participation.
- Explore development of an incubator and specialized support infrastructure for culturally based businesses—business that sell products and services rooted in a particular ethnic group or home country for a niche or mainstream market.
- Increase access to Entrepreneur Center resources that support small businesses (e.g., training, counseling, financing offered by a suite of partner organizations) by expanding the role of City staff, Mayor/Council offices, neighborhood business districts, and chambers of commerce in making referrals and communicating offerings. Support efforts of the Entrepreneur Center to develop a marketing/communications strategy, increase participation of immigrant entrepreneurs, make San Jose State resources available through the Entrepreneur Center, and increase availability of on-line/video training and support.
- Augment City government's capacity to provide referrals and assistance to business owners who speak Vietnamese and Spanish.
- Aggressively promote use of the Enterprise Zone tax credits (set to expire in 2006) as a tool for reducing business operating costs.
- Develop a strategy to increase investment by lenders subject to Community Reinvestment Act (CRA) requirements in businesses and real estate located in disadvantaged San Jose neighborhoods.
- Reduce the time of the City's contract approval process in order to expedite payments to nonprofit employers for services rendered.

San Jose should welcome and encourage entrepreneurs from all walks of life.

Improve Speed and Predictability of Development Review Process, and Reduce Costs of Operating in San Jose

San Jose should be vigilant about minimizing barriers to innovation, efficiency, and investment by employers. The City should drive to implementation the current efforts to improve the speed, predictability, consistency, and customer experience of the development review process. Its different departments should speak with one voice, through a clear point of customer contact. The City should continuously identify opportunities where local government can help restrain the costs of operating in San Jose.

City Tactics

- Extend the Special Tenant Improvement fee exemption for another 18 months, from November of 2003 through April of 2005. Expand the Special Tenant Improvement program to office users Downtown.
- Reduce and simplify regulations for business signs in industrial and commercial zones.
- Refund permit fees when City staff exceed cumulative review cycle targets.
- Simplify and clarify the historic resource review procedures.
- Improve access and delivery of development review services. Shift responsibility of interdepartmental coordination (Building, Fire, Public Works) from the business customer to City staff.
- Integrate the development and permitting functions of City Departments and RDA under the Department of Planning, Building, and Code Enforcement.
- Speak with “one voice” by focusing City service areas, City departments, and the Redevelopment Agency into clusters of resources and workgroups with common purposes.
- Create a “One Start” Development Center where anyone needing to do business with the City can find assistance at a single customer-service location.
- Expand or modify the hours that City Hall is open to serve businesses to improve the convenience and accessibility of doing business in San Jose.
- Identify priority sites for development and redevelopment, especially for retail. Invest in having the City rather than the developer secure entitlements.
- Join with other Silicon Valley cities and local businesses to change State regulatory policies that create unique costs of operating in California without commensurate public benefits.
- Complete the “Guide to Land Use Planning and Development” to explain the process to residents, small business/property owners, and other laypeople. Include translation into Vietnamese and Spanish.
- Help companies access resources for energy efficiency, recycled water, and green building design to help reduce energy, water, and operating costs.

Tech-Savvy City

Make San Jose a Tech-Savvy City; Lead the Way in Using Technology to Improve Daily Life

To live our tagline “Capital of Silicon Valley,” San Jose should become a tech-savvy city that uses and showcases technology to improve daily life. Through investment and partnership, we should lead peer communities in the Bay Area, nationally, and internationally in the thoughtful, creative use of technology to help modernize government and build community. We should help showcase and demonstrate the innovations born from San Jose–based companies and organizations. Doing so will stimulate economic development and differentiate San Jose as an interesting and efficient place to live and visit.

City Tactics

- Continue to partner with local technology businesses to bring world-class technology expertise, tools, and systems to City government in a cost-efficient manner.
- Serve as a demonstration market for new technology products under development by local companies, established as well as start-up firms. Develop a clear contact point in the City for businesses with emerging technologies; a clear evaluation, decision-making, and implementation process; and the organizational capacity to support this effort.
- Identify key strategic and operational areas of City government that could be enhanced through technology applications that promote safety, convenience, and mobility for community residents.
- Ensure 100% broadband coverage (meaning either DSL or cable access) to every home and business in San Jose by 2005.
- Support the deployment of wireless services for business, government, residential, and public-space applications, with appropriate levels of security.
- Encourage “fiber to the home” for new home construction.
- Develop a best-in-class City website that presents the City as a cohesive whole and facilitates timely access to information and efficient interaction between government, residents, businesses, and economic development partners.
- Increase national/international recognition of the City of San Jose’s innovative technology initiatives, exemplified by the eBranch and San Jose Permits On-Line.
- Collaborate with the Joint Venture Silicon Valley’s new “Smart Valley II” initiative to make San Jose a demonstration community for wireless deployment in education, health care, and e-government.
- Encourage street-level visibility of tech companies through signage and visitor access.

Place of Opportunity

Diversify San Jose’s Economic Base and Preserve/Create Middle-Income Jobs

In addition to pursuing the fundamental strategies that this chapter identifies, San Jose should place a particular focus on supporting employment growth in sectors that can help diversify San Jose’s economic base and create middle-income jobs. Key sectors for focus include software, bioscience, health services, and the visitor industry, as well as industrial suppliers, distribution, and construction.

City Tactics

- Appoint a software “champion” to work opportunistically with the local software industry to support its development.
- Expedite development and marketing of the Bioscience Incubator/Innovation Center. Develop partnerships with training and research resources in San Jose and the broader region. Promote the Edenvale area for expansion of bioscience companies.
- Preserve sufficient land in “industrial sanctuaries” and other locations for light/heavy industrial uses, including production support, distribution, building and repair, and miscellaneous manufacturing.
- Develop a strategy, in partnership with Santa Clara County and the medical industry, to encourage growth of health services jobs and capabilities. Explore opportunities for workforce development (including training, recruitment, and career path development), strategic partnerships to increase health-services capabilities, and supportive land use/regulatory policy.
- Through the Silicon Valley Workforce Investment Network (SVWIN), support career awareness, training, and career-path development for mid-wage service jobs, especially in health care, bioscience, retail, the visitor industry, and the trades.
- Increase the size of San Jose’s Visitor Industry by expanding and diversifying convention business, extending the stay of business visitors, and attracting leisure travelers. Key tactics follow:
 - Upgrade and expand the Convention Center; ensure competitive offerings and cost.
 - Aggressively ask for convention/meeting business related to local companies, associations, and individuals.
 - Facilitate the scale up of existing arts/cultural institutions Downtown.
 - Enable the development of a select number of new cultural/entertainment attractions in and near Downtown, including performance venues, museums, sporting attractions, and a nationally/internationally significant festival.
 - Consistently communicate a clear, compelling message about the distinctive attractions of San Jose.

Prepare Residents to Participate in the Region’s Economic Opportunity, from K-12 to Lifelong Learning

San Jose’s economic vitality depends on a quality workforce, and we want local residents to benefit from our community’s economic development. San Jose should strengthen its focus on preparing residents to participate in the regional economy, from youth through older adults. Doing so includes transforming San Jose’s K–12 system into an economic asset, continuously upgrading the skills of the local workforce, and enhancing community infrastructure that helps people, especially lower-income residents, participate in the economy and improve their well-being.

City Tactics

- Through the Silicon Valley Workforce Investment Network (SVWIN)
 - Facilitate ongoing learning from employers about growth occupations and skill requirements; start with a select number of industries initially.
 - Communicate current and future skill needs to job seekers and education/training providers.
 - Align SVWIN job-training programs to focus on growth occupations and industries.
- In collaboration with education/training providers and community-based organizations, identify and secure additional sources of funds for training and career path development.
- Support outreach to the business community to encourage use of SVWIN to meet hiring and technical assistance needs.
- Preserve and enhance community infrastructure that enables residents, especially low-income residents, to participate in the economy—affordable housing, child care, health care, public transportation.
- Bring financial literacy education and tools to low-income San Jose households.
- Facilitate the siting of child care centers in San Jose.
- Encourage the retraining and redeployment of people whose skills are outdated or modest, including but not limited to technical talent.
- Document and communicate information about the high-performing schools in San Jose to shape public perception.
- Encourage Citywide measurement of kindergarten readiness, in partnership with philanthropy.
- Consider support for a countywide parcel tax measure to recruit and retain teachers and to improve test scores.

We want local residents to benefit from our community’s economic development.

America's Most Livable Big City

Continue Emphasis on Developing New Housing, Including New Housing Types in a Variety of Neighborhood Settings

San Jose's status as the largest population center in the Bay Area and its commitment to new housing development are economic advantages. San Jose should continue its emphasis on facilitating the development of new housing, with a wide range of housing types in variety of neighborhood settings. The cost of housing is the single most important threat to the competitiveness of the San Jose/Silicon Valley region and to our ability to maintain a diverse job base. San Jose should continue to lead and work collaboratively with other Silicon Valley cities to increase the housing supply.

City Tactics

- Increase recognition of San Jose as the leading provider of housing in Silicon Valley and the largest population center in the Bay Area.
- Publicize sites identified for new housing.
- Leverage the City's housing program with other resources to continue to be a leader in the production of new affordable housing.

The cost of housing is the single most important threat to the competitiveness of the San Jose/Silicon Valley region.

- Encourage the creation of studio condominium housing for young, entry-level engineers in partnership with employers.
- Participate in state-level efforts to reform Construction Defect Litigation rules in order to encourage condominium development in San Jose.
- Encourage the creation of housing/work spaces for artists and lower-income entrepreneurs.
- Encourage high-rise housing in the Downtown core and mid-rise housing near transit stations.
- Encourage a wide variety of housing types Downtown: rental and for-sale; mid-rise and high-rise; small studios, large flats, and townhouses.
- Attract new developers to San Jose who are experienced in housing and mixed-use forms that are new to San Jose.
- Develop retail to its full potential (see recommendation below) in order to maximize the economic benefits of being a housing center.

Revise Key Land Use and Transportation Policies to Reflect the New Realities of the San Jose Economy

San Jose should align land use and transportation policies with the new realities of the economy in order to enable job and productivity growth while enhancing quality of life. Structural change in the San Jose economy creates the need and opportunity to use some land in more efficient, flexible, and integrated ways. It calls for wise stewardship of remaining vacant land and focusing more aggressively on reuse of already developed land. Our economy's "need for speed" calls for continued efforts to forge connectivity among a broad range of travel options.

City Tactics

- Update the North San Jose Area Development Policy to allow increased floor-to-area ratios, more supportive commercial development along and near the First Street rail corridor and the airport, and the introduction of housing in strategic locations.
- Modify General Plan land use designations and zoning districts to reflect the types of land uses and economic activities occurring in each of the active employment subareas, and to improve flexibility to accommodate continuous restructuring.
- Adopt clear policies about what land uses should mix in certain subareas, and what uses should be protected from encroachment.
- Develop a range of tools and policies to encourage the reuse and recycling of vacant buildings that have become functionally obsolete, including a program to allow flexible, nonresidential, interim uses in these vacant buildings in the immediate term.
- Complete a proactive, strategic analysis of the land conversion issue that focuses on the economic role of subareas, rather than a reactive, case-by-case approach focused on individual parcels. Provide the results of the analysis to the City Council before the end of the calendar year.
- Proactively initiate General Plan amendments and rezoning proposals for specific parcels suitable for housing, including opportunities within employment subareas that benefit from the addition of housing (i.e., continue the Housing Opportunity Study).
- Increase residential densities around existing light rail stations to fully capture the potential of these lands for housing production.
- Proactively initiate General Plan amendments and rezoning proposals for specific parcels suitable for retail aimed at serving key subareas of San Jose and adjoining communities (i.e., a Retail Opportunity Study).
- Revise the Citywide Level-of-Service Transportation Policy to enable higher-density development and more walkable environments along transit corridors and in special mixed-use districts (i.e., Specific Planning Areas).
- Expedite completion of the master Environmental Impact Report to facilitate implementation of the Downtown Strategic Development Plan, which concentrates and clusters more employment, residential, and cultural resources Downtown.
- Set priorities for funding of infrastructure in employment areas to retain and attract companies.
- Sustain the focus on bringing BART to San Jose.
- Explore development of Express bus/van service linking CALTRAIN stops in Santa Clara and Downtown to the North First Street corridor.
- Identify key transportation investments—especially in North San Jose, Downtown, and the Airport—that are most important for San Jose’s continued economic development. As a City, advocate for these clear priorities on the update of the region’s transportation master plan (Valley Transportation Plan 2030).
- Develop an interconnected set of bicycle routes on streets and along trails that can become an attractive, viable, and unique transportation method, as well as a significant enhancement to quality of life.

Encourage Sporting Teams, Events, and Facilities, Professional as well as Amateur

As part of its strategy to encourage more visitors and offer big-city amenities, 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 and eleventh largest in the nation. It should upgrade the facilities available for amateur sports activities and organizations.

City Tactics

- Craft a specific strategy for strengthening our ability to keep and grow professional sports teams and events in San Jose.
- Explore partnership opportunities with SJSU for a multiuse sports venue on the South Campus that could serve students and residents, as well as meet needs of amateur and professional sports teams.

Develop Retail to Full Potential, Maximizing Revenue Impact and Neighborhood Livability

San Jose is 20% below its retail potential, given household income and demographics.

San Jose is 20% below its retail potential, given our community's household income and demographics. The City should encourage the addition of grocery and drug stores in currently underserved neighborhoods and the development of community retail centers serving larger subareas of San Jose as well as neighboring communities. Doing so will allow San Jose to capture economic benefit from past and future population growth, adding to City general-fund revenues and improving resident quality of life.

City Tactics

- Identify and market lands that could be developed or redeveloped for retail, and zone these lands appropriately, including the City's neighborhood business districts and Downtown.
- For neighborhood retail, this effort should include 5- to 12-acre parcels for grocery/drug stores in underserved neighborhoods.
 - Target initially the four most underserved neighborhoods that can support both grocery and drugstore sizes meeting contemporary merchandising.
 - In built-out neighborhoods, identify strategic locations for grocery or drugstores that can anchor existing retail districts.
 - Match target store types to local demographics (e.g., gourmet/upscale groceries, ethnic food markets).
- For community retail, identify sites of at least 20 acres to accommodate larger retailers offering home furnishings, general merchandise, consumer electronics, and apparel. These sites should locate strategically at the edges of San Jose and in high-growth areas so that resident dollars will be retained in San Jose and new shoppers will be attracted from nearby cities.
- Engage with retailers to understand their needs regarding access, signage, and cost containment. Avoid adding extra costs to locating a store in San Jose that neighboring cities do not have.
- Release the key findings from the recent Underserved Retail Markets study and make this information available to retailers and developers. Market the City's untapped retail potential and underserved neighborhood areas to retailers.
- Match the demand analysis to potential target retailers and identify ways that city can encourage retail development beyond site identification.
- Identify strategic partners that could help attract retailers to San Jose.
- Foster the creation and growth of local, home-grown, and ethnic retailers.

Capital of Silicon Valley

Communicate a Compelling, Consistent Community Identity for San Jose

San Jose would benefit economically from having a strong, clear image regionally, nationally, and internationally. Raising the visibility and stature of our community will help companies recruit and retain talent and investment in our area. It will also allow us to increase our community's influence with decision makers and opinion leaders outside our region. Working with our economic development partners, we should evolve San Jose's brand, key messages, and visual identity to emphasize our role as a center of innovation (not just technology) and to develop a collaborative approach to communicate consistently with target audiences. We should aggressively identify San Jose with the internationally recognized Silicon Valley.

City Tactics

- Develop a partnership with private-sector individuals and organizations who can work with City government to implement this strategic priority, including providing assistance with strategy, resources, expertise, and contacts.
- Translate the vision themes in this economic strategy into a simple, professional-quality, community brand/identity. Doing so should include:
 - Retaining the “Capital of Silicon Valley” tagline to benefit from the region's brand recognition.
 - Through key messages, defining what it means to be “the Capital,” emphasizing San Jose as a center of innovation and creativity—not just technology—with distinct positive characteristics (global gateway, creative center, most livable big city, entrepreneurial environment, and so on).
 - Updating the visual identity of San Jose (i.e., the sun logo), to emphasize our role as an exciting center of innovation, rather than our sunny weather.
- Launch an aggressive promotional outreach campaign—in partnership with the private sector and economic development partners—to tell the story of San Jose to important target audiences, including companies, investors, and opinion leaders regionally, nationally, and internationally.
- Develop a network of local business and civic leaders who can serve as ambassadors for the message within the region, nationally, and internationally.
- Provide visitors with a positive first impression that reflects San Jose's brand identity in our two most visible community gateways: the airport and Downtown.

Engage Private-Sector Leadership for San Jose's Economic Strategy

Economic development needs to be a public-private, cross-sector team effort in San Jose. Elected officials and City staff across all departments must provide leadership to implement the City's role in ensuring a strong economy. But many other individuals and organizations across all elements of our community—business, education, nonprofit, neighborhood—have important and unique roles to play in advancing San Jose's economic future. A critical component of San Jose's economic strategy must be to cultivate a broad team of civic stewards that can work top-down and bottom-up to create our economic future. This includes developing a focused, public-private advocacy voice in Sacramento and Washington, D.C.

Economic development needs to be a public-private, cross-sector team effort.

City Tactics

- Establish a “Mayor’s Economic Leadership Team”—a top-level team of business advisors (with national and international perspective) to help implement San Jose’s economic strategy and refine it over time.
- Attract and retain company headquarters in San Jose, because they are an important source of civic leadership and commitment.
- Communicate regularly to job providers in San Jose about the City’s initiatives. Invite two-way communication, and dissemination of information to employees.
- Engage economic development partners, business leaders, community leaders, and residents on the findings and recommendations of San Jose’s economic strategy. Identify different roles each commits to play to help achieve shared objectives.
- Launch the Business Appreciation Initiative to recognize San Jose-based businesses for their accomplishments on a systematic, ongoing basis.
- Make San Jose the visible home of prestigious regional institutions (e.g., business associations, philanthropic foundations, major charities, media) to encourage personal connections of Peninsula/East Bay residents to San Jose and stewardship of Downtown San Jose as a regional resource.
- Advocate in Sacramento and in Washington, D.C. to change policies that undermine San Jose’s competitiveness and city revenue base, or that adversely affect San Jose-based businesses.
- Aggressively seek state, federal, and philanthropic resources to implement strategic initiatives, in partnership with the private sector.

IIC. Strategy Implementation

To be effective, this economic strategy needs to be embraced by City government, but also belong to the entire San Jose community. The strategy describes specific tactics that local government should pursue—policy changes, new initiatives, and new operational practices. But all sectors and institutions and many, many leaders have a role in ensuring a strong economic future for San Jose. Implementation will require mobilizing the hearts and resources of the entire San Jose community and beyond. It will also require clarity about desired outcomes and progress measures.

Implementation of the Strategy should have three main tracks:

- Set City Priorities and Make Commitments.
- Build Implementation Partnerships with the Community.
- Track Performance and Progress.

Set City Priorities and Make Commitments

City elected leaders and senior staff should commit to a select number of highest-priority strategies and tactics to implement in the next two years.

The next step will be to translate these priorities into specific administrative action plans. The Council should direct the different City Service Areas (CSA's) to incorporate economic strategy priorities into their CSA business plans, performance measures, and 2004–05 budget requests. CSA business plans should describe how and by when the tactic will be implemented and resource requirements.

As part of this implementation-planning process, the City should continue efforts begun in the 2003 strategy process to share economic information and the strategy itself throughout the organization, with City staff as well as staff of elected officials.

A key message should be that staff needs to focus on implementing initial priorities, yet will also need to be opportunistic as unforeseen opportunities and needs emerge over time. As part of staff development, it will be important to share the economic vision broadly in order to develop shared understanding of what we should all be working toward. This shared information can be a reference tool that communicates “When in doubt, we want our daily actions to move our City in the direction of this economic future.” City leadership should also communicate a set of implementation principles.

IMPLEMENTATION PRINCIPLES

When implementing and refining this strategy over time, City leadership and staff should remember the following principles:

Perspective we have...

- Economic development is a *Citywide business*.
- Economic development and quality of life are *interdependent priorities*.
- *Employers are customers*, just like residents.
- Each City staff member is an *Ambassador* for the entire City.

What we do...

- Support efforts of private-sector employers to *increase productivity*—to add more value or to reduce costs.
- Create *unique competitive advantages* for San Jose.

How we do it...

- *Be in relationship* with San Jose industries for ongoing learning.
- *Collaborate* within and outside the City organization to address shared challenges and access expertise and resources.
- Be *speedy, agile, and adaptable*.
- Focus on a few priority actions, and finish what you start.
- *Be open* to new opportunities that emerge aligned with our economic vision.

Build Implementation Partnerships with the Community

The City of San Jose cannot implement San Jose’s economic strategy alone. The City must encourage many organizations and individuals to champion the vision and strategic initiatives.

City elected officials and staff should take this strategy out into the community, share the key findings, and develop broad-based understanding of the strategy and how implementation will benefit San Jose. They should spark conversations about the roles that different organizations can take and the commitments that they can make. They should actively ask people to assist with specific tasks and align their organizational priorities to the City’s vision and strategy. They should implement the key tactics with a collaborative, problem-solving approach, capturing new ideas or creative approaches that deliver results.

The strategy-development process solicited input from a hundreds of individuals and organizations in San Jose. These people represent a core team that should receive the strategy and engage in its implementation.

The City should also target key sectors and institutions that are critical partners for implementing the strategy.

PRIORITY PARTNERS FOR STRATEGY IMPLEMENTATION

- Entrepreneurs
- Providers of venture capital and support for start-ups
- Real estate brokers and developers
- Driving Industry leaders
- San Jose State University
- Other education, training, and research organizations
- Non-profit and advocacy groups
- Organized labor
- Neighborhood leaders and residents
- Financial institutions
- Mayor's Economic Leadership Team

Track Performance and Progress

The City of San Jose should track and publish three kinds of measures related to implementation of the economic strategy.

- ***Performance on Desired Outcomes***—This strategy identifies some desired outcomes from the San Jose economy: increased economic prosperity, economic opportunity for residents, and City revenue growth aligned with service demands. The City should track measures of how the community is doing overall in meeting these desired outcomes of economic development.
- ***Other Important Economic Indicators***—The City should also track key indicators of San Jose's economic structure and community success factors.
- ***Implementation of Strategy***—The City should track key milestones and results achieved by City government and its partners in implementing the strategy. Doing so means tracking progress in implementing specific tactical initiatives, such as increasing international air service or achieving 100% broadband coverage.

PART III. FACTS AND FINDINGS

IIIA. Desired Outcomes from the San Jose Economy

Our economy is the most important tool we have for ensuring a first-rate quality of life for the people of San Jose. Economic development is not an end in itself, but an important means for creating the highest possible quality of life for residents. Prosperous companies, wide-ranging career opportunities, and robust tax revenue are all prerequisites for building a great community.

The Vital Cycle between Economy and Community

San Jose cannot have a vital community without a vital economy. The quality of our community, in turn, attracts and generates economic activity, creating a “vital cycle” of economic and community evolution.



The people of San Jose can expect three basic outcomes from a vital economy:

- Outcome #1: A *growing economy*
- Outcome #2: Increased economic *opportunity and prosperity* for residents
- Outcome #3: *Revenue growth* to fund City services

The first outcome, a growing economy, is a prerequisite to achieving the other two outcomes.

Outcome #1: A Growing Economy

Our community’s standard of living and quality of life are dependent on sustained growth in our community’s output and productivity. A competitive community increases its standard of living by producing increasingly higher-value goods and services that meet the test of world markets.

What matters most?

Productivity growth is the key factor determining San Jose’s long-term prosperity. Sustained increases in productivity, or output per worker, are a prerequisite for the private sector to increase the wages it can pay to workers.

Advanced economies cannot compete on the basis of low-cost labor; they must compete on productivity.

The most important sources of productivity increases in our economy are:

- Innovation across all sectors of the economy
- Being home to high-value, outward-oriented sectors that compete successfully in national and international markets
- Being home to entrepreneurial, growth-oriented companies that shape new high-value industries and generate accelerated increases in wealth.

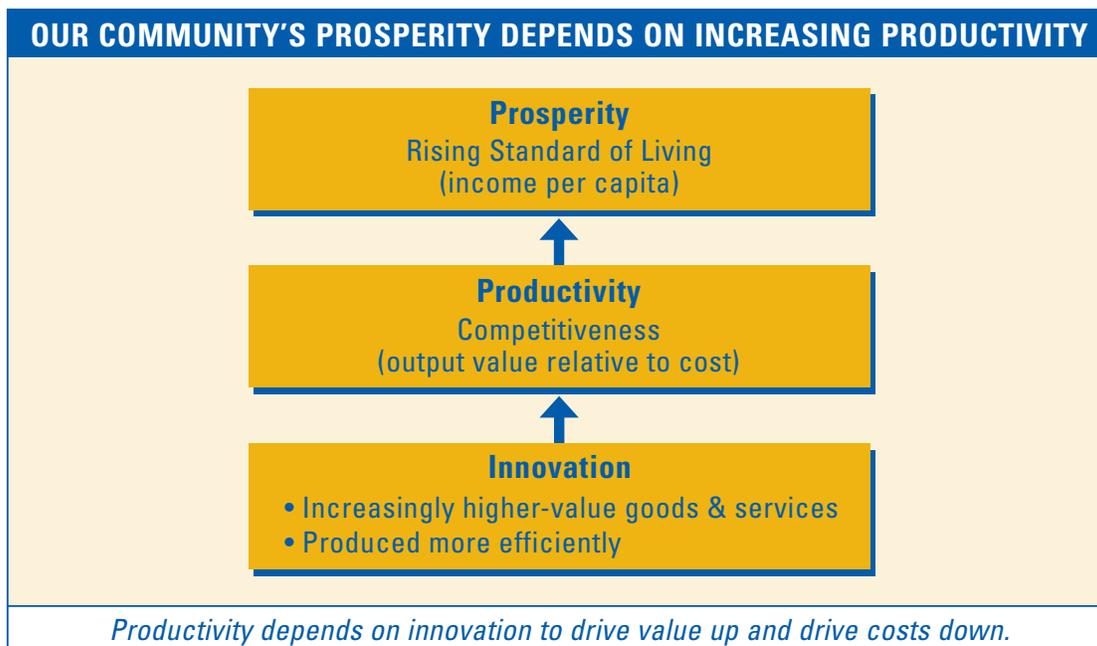
The productivity of any regional economy depends on the sophistication and efficiency of its industries. Through innovation, companies create increasingly higher-value products and services and produce them more efficiently. Community factors, such as education and university research, help local companies drive value up or drive costs down.

*“When you innovate,
there is no competition.”*

—Willem Roelands,
Xilinx

All industries contribute to determining output per worker of our economy. But industries that sell their products and services nationally and internationally play an extra important role driving our community’s productivity growth. These outward-oriented, or “driving”, industries tend to have above-average productivity rates (i.e., they are high-value industries) and enjoy growth opportunities far beyond the local market. Typically, Driving Industries are sectors where a community has specialized expertise and strong concentrations of employment relative to the national average. Driving Industries bring outside dollars into a community and have an important prosperity multiplier effect on the rest of the economy.

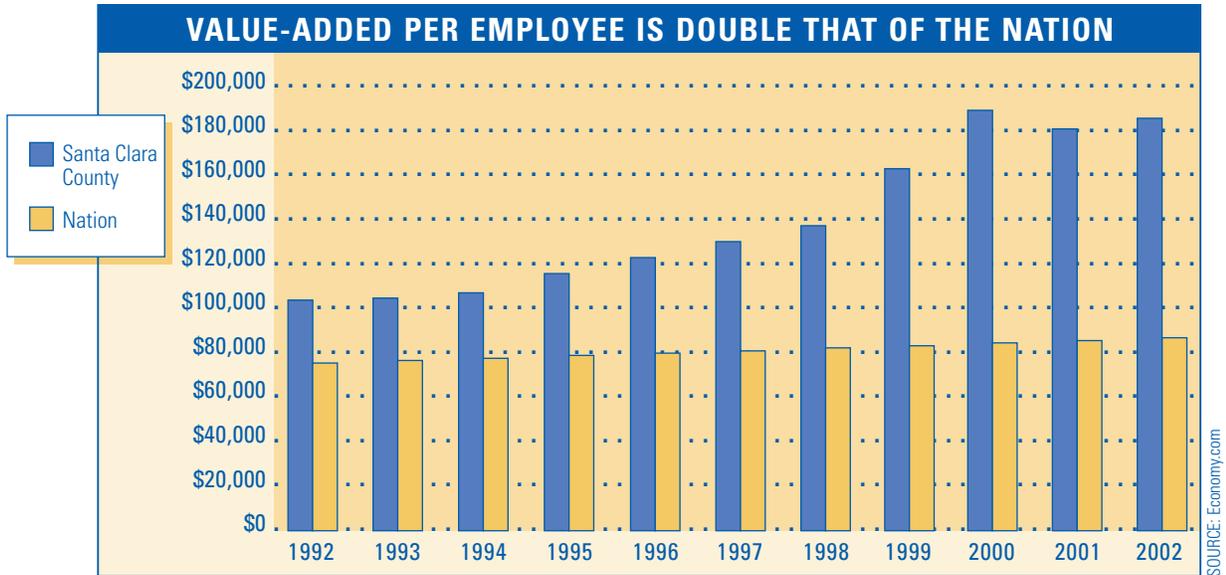
Entrepreneurial, growth-oriented companies contribute ways to overall productivity growth because they often have accelerating increases in output, investment, and jobs.



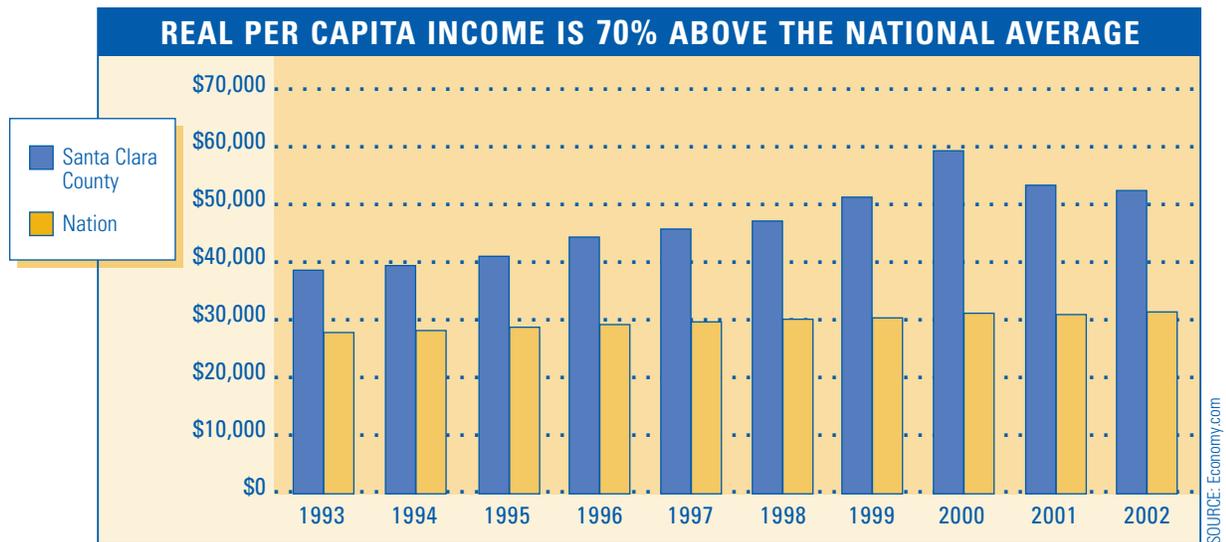
How is San Jose doing?

To remain competitive, we must sustain our current advantages in productivity (as measured by value added per worker) and aggregate wealth creation (as measured by real income per capita).

Value added is a proxy for productivity, and it reflects how much economic value companies create. The San Jose area has value added per employee of \$184,000 which is more than double the national average (\$82,000). Value added derives from subtracting the costs of a company's materials, inputs, and contracted services from the revenue earned from its products.



Growing real income per capita is a bottom-line measure of a wealth-creating, competitive economy. Our community's real per capita income, \$52,000, is far higher than that of the nation (\$31,000). Real per capita income is income from all sources, adjusted for inflation, and divided by the total resident population. Per capita income rises when a community generates wealth faster than its population increases.



Use of technology is a key factor affecting productivity growth across all sectors of the economy. San Jose ranks number one in the nation on the degree to which local companies buy and use technology as part of their business activities (Advanced Research Technologies, LLC).

Outcome #2: Increased Economic Opportunity and Prosperity for Residents

We want our economy not only to grow in productivity and wealth creation, but also to provide opportunities for residents to improve their economic well-being. Research shows that broad-based increases in income and reduction in poverty are important for increased economic prosperity over the long term.

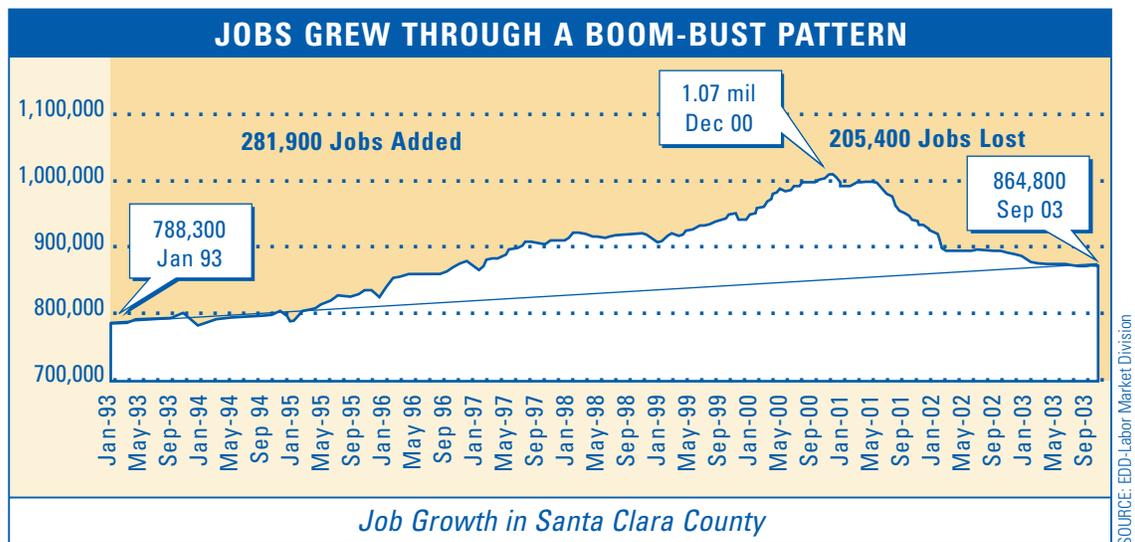
What matters most?

To provide opportunity for residents, we want our economy to grow jobs, increase wages, and create economic mobility from lower to higher income levels. We must have:

- A growing, diverse job base, including middle-income jobs that provide opportunity for career progression
- Quality entry-level jobs that provide good wages and benefits and are gateways to further employment
- Opportunities for small business and self/family employment.

How is San Jose doing?

In the past ten years, San Jose was successful at creating jobs. The City's job base grew 15% from 1993 to 2002. San Jose's share of Countywide employment increased from 38% to 39% during this period. The area's job growth came, though, through a boom-bust pattern that left us with the highest metropolitan unemployment rate throughout the national recession.



(Note: Accurate San Jose data is not available by quarter for all periods 1993-2000, so Santa Clara County data is used as a proxy.)

Our average pay per employee grew 7% since 1993, and is more than twice the national average of \$38,400.

San Jose's job and occupational structure includes jobs at the highest, mid-range, and low end of the income and skill scale.

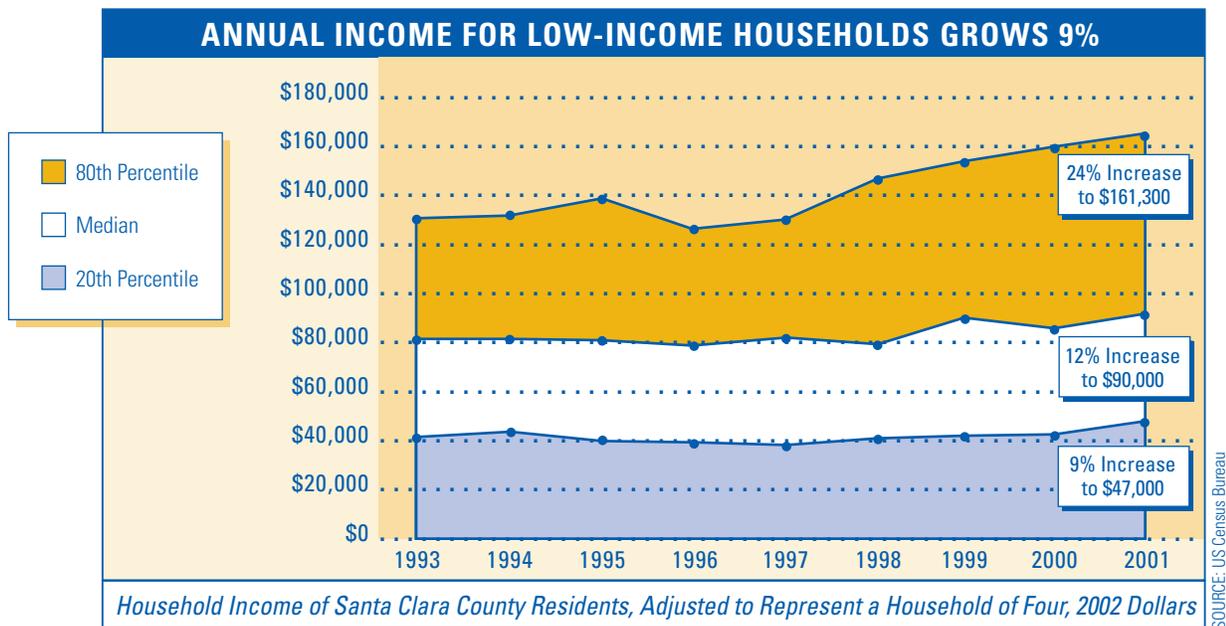
From 1993 to 2000, San Jose gained jobs across the range of high-wage, mid-wage, and lowest-wage occupations.

JOBS GAINED BY BY WAGE LEVEL – SAN JOSE, 1993–2000	
	Top 25 Occupations Gaining Jobs
High-wage occupations (> \$60,000)	+12,400 jobs (29% of new jobs) Avg. wage: \$70,700
Mid-wage occupations (\$29,000-\$59,000)	+17,600 jobs (35% of new jobs) Avg. wage: \$42,800
Low-wage occupations (<\$29,000)	+13,800 jobs (36% of new jobs) Avg. wage: \$21,500

But because of our high housing costs, individuals working full-time in our lowest-paying occupations find it difficult to cover basic needs for themselves and their families. An estimated 25% of jobs in San Jose do not pay \$28,000 for full-time work, the minimum amount Santa Clara County considers necessary to sustain a single adult for one year.

Data on household income growth in the past decade show that the income earned by a representative household at the lowest twentieth percentile increased 9% over the 1993 level. The increase happened only late in the economic boom, though, when the labor market became extremely tight. Key reasons for growth in the gap between high earners and low earners include the decline in earnings potential for workers with no education beyond high school (a national as well as a local phenomenon) and San Jose’s role as an entry community for low-skilled, non-English-speaking immigrants. Unfortunately, it is not possible to measure economic mobility of individuals and families in San Jose over time.

The San Jose area ranks in the top 10% of large U.S. regions on overall entrepreneurial activity, a composite measure reflecting the rate of new firm formation and share of high-growth firms. Relative to San Jose’s share of population (40%) and jobs (33%), a relatively small share of venture-capital investments in Valley start-ups are in firms based in San Jose (20%) and fast-growth “gazelle” firms (20%). And a relatively small share of corporate headquarters of publicly trade firms (20%) are in San Jose, compared with in the rest of Silicon Valley. Fourteen percent of all privately held firms in San Jose with sales more than \$1 million are owned by non-whites. (Advanced Research Technologies, LLC).



Outcome #3: Revenue Growth to Fund City Services

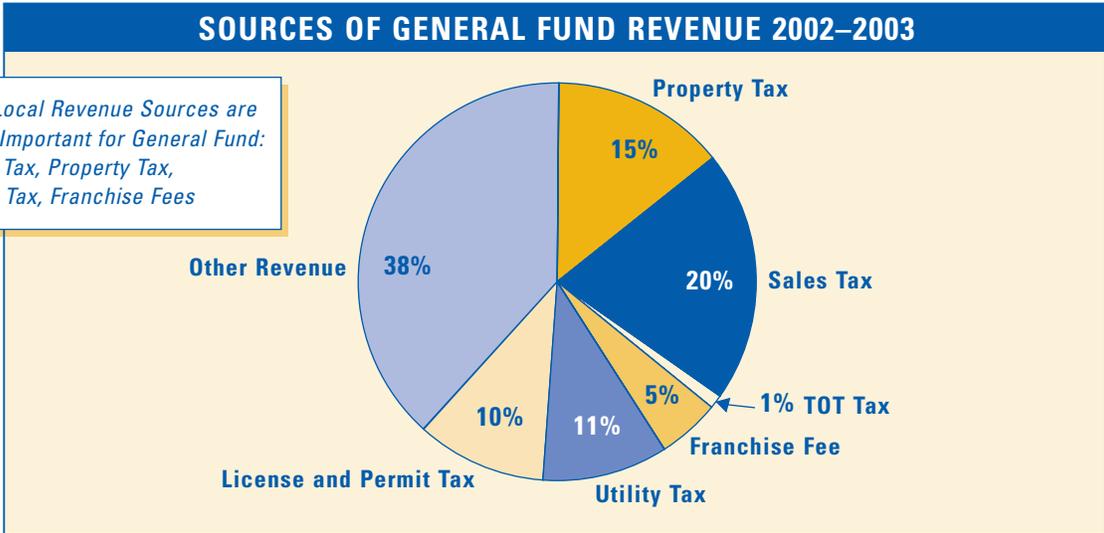
A third desired outcome of the San Jose’s economic development is growth in City-collected revenues that align with efficient delivery of public services at the scale and scope necessary to meet the needs of residents and businesses. A city that consistently generates revenues that are sufficient to support social and physical infrastructure is attractive to high-productivity companies and people.

Meeting this objective, however, will be a particular challenge in the near term, because of uncertainty about the scale and timing of general economic recovery, and the Legislature’s practice of solving State budget problems by usurping city tax revenues. Thus, the City must simultaneously work to improve the condition of the local economy, and to defend local tax revenues from reallocation by the State Legislature, so that the General Fund increases in real terms (i.e., faster than the sum of inflation and population growth).

What matters most?

The most fundamental source of sustained revenue growth for our City is a strong, competitive economy that is generating jobs, rising incomes, and private-sector investment. Four specific, locally-generated taxes and fees are most important for sustaining City revenue growth:

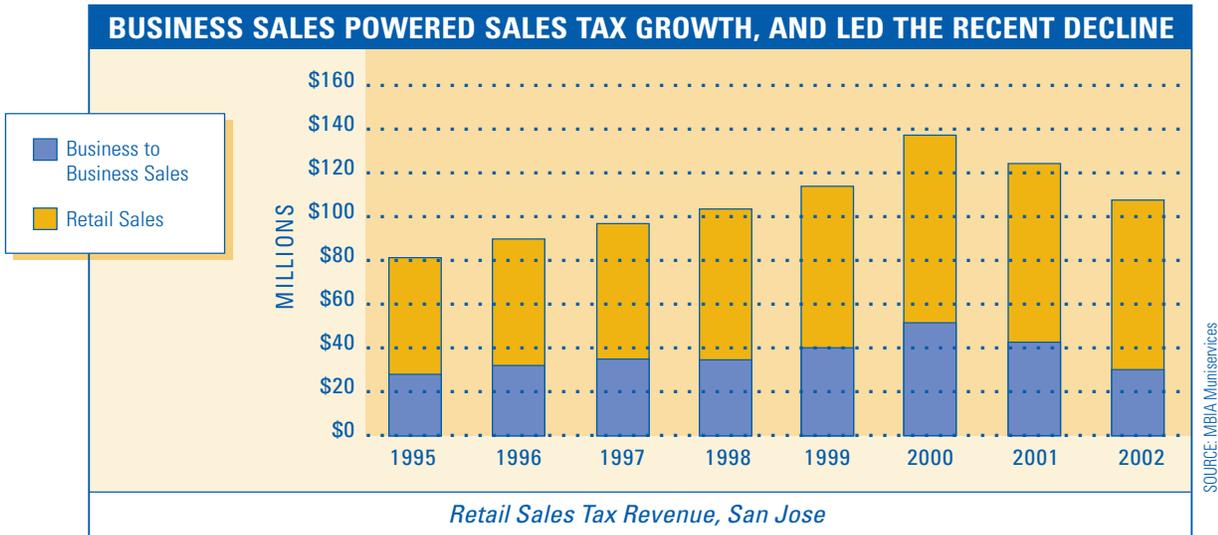
- Sales tax (retail and taxable business sales)
- Property tax (residential and nonresidential property-value appreciation, and the value of machinery, equipment, and other “unsecured” property)
- Utility tax (levied on residential and business charges for electricity, natural gas, water, telephone, and cable TV)
- Franchise fees (fees levied on utility companies).



Note: Half of the category “Licenses and Permits” is general revenue (i.e., the business tax, disposal facilities tax, card room tax); the rest is cost-recovery fees.

How is San Jose doing?

The sales tax is the single largest source of General Fund revenue, accounting for nearly one out of every five dollars. Beginning in 1995, San Jose enjoyed robust increases in sales tax revenue, averaging 11% per year, reflecting a period of exceptional regional and national economic growth. Starting in July of 2001, revenue has fallen for nine consecutive quarters, and fell to 1998–99 levels by July of 2003. Tax revenue from business-to-business sales powered the 1995–2000 run-up in sales tax and led the decline.

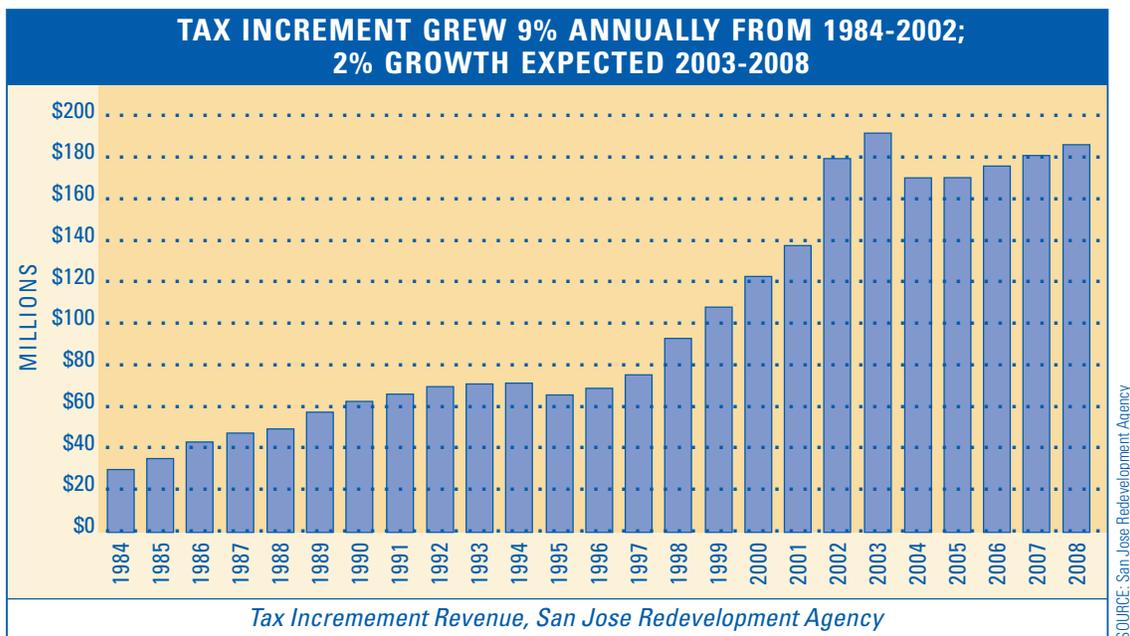


Future increases in this volatile revenue source will depend on the condition of the national and regional economies, consumer confidence levels, and the City’s ability to maintain and/or expand its share of taxable sales by residents and businesses. The City’s sales tax revenues may also be affected by future budget balancing decisions by the State Legislature.

Property taxes account for about 15% of General Fund revenues (\$92 million). They are also very important for the Tax Increment revenue that supports redevelopment functions in defined Project Areas. These revenues are derived primarily from property turnover, increases in property values over time, and to a lesser extent, from increases in the value of business equipment, machinery and other “unsecured” property.

The City of San Jose has benefited from tremendous property appreciation since the mid-1980s. Though still increasing annually, the rate of annual increase for secured and unsecured property tax revenue in the General Fund dropped significantly since the late 1990s. Future growth in property tax receipts are uncertain, due to downward value adjustments requested by property owners during the current economic period, uncertainty about economic recovery, and the tendency of the State Legislature to reallocate local property tax revenues to solve Statewide budget problems.

Tax increment growth in Redevelopment Project Areas (25% of the City’s land area) has averaged 9% annually since 1984. Tax increment dropped 10% in 2003–04, and is expected to grow 2% annually to 2008.



Two revenue sources related to utility usage are the next most significant sources of local revenues (\$99 million): the utility tax assessed on residential and business consumers of electricity, natural gas, water, telephone and cable television; and the franchise fees charged to the companies that provide some of these utility services, plus commercial solid waste and certain other services. Together, these revenues sources are slightly larger than the property tax.

Revenues from both sources peaked at the beginning of this decade, and have declined somewhat in the past two years. Future collections from the franchise fee will depend on the financial performance of the relevant utility companies, including changes in utility rates, collections, and industry practices. Similarly, future utility tax revenues will depend on patterns of residential and business utility consumption and utility pricing.

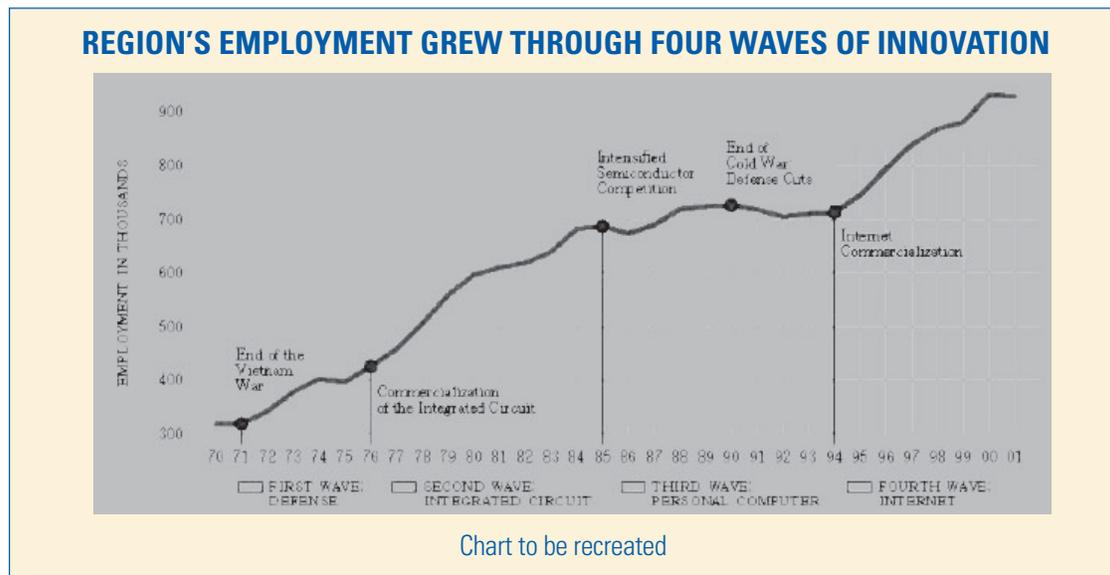
IIIB. San Jose’s Changing Economic Base

Evolution of San Jose’s Economy and Silicon Valley

San Jose’s economy has grown and evolved as part of the broader economic region of Silicon Valley. This region today has as its core Santa Clara County, but extends northward through San Mateo County and also into Alameda and Santa Cruz counties. This geographic area reflects the core location of the Valley’s driving technology industries as well as most of its workforce.

In the past 50 years, Silicon Valley has emerged as the world’s leading center of technology innovation and entrepreneurship. Key factors that propelled the region’s success include Stanford University, federal defense R&D spending that benefited local companies, the invention of the venture capital industry, an open and entrepreneurial culture, and luck.

Four major “waves of innovation” have spurred upward growth in jobs and geographic expansion of technology activity from initial hubs in Palo Alto and San Jose. These waves include defense electronics (1950s, 1960s), commercial integrated circuits (1960s, 1970s), microprocessors and personal computing (1970s, 1980s), and the Internet (1990s).



In this context, San Jose’s goals and approaches to economic development have changed with the times. The past 50 years have seen three stages of strategic thinking:

1950s/1960s: Grow Resident Population. In the 1950s and 1960s, the City’s economic strategy focused on increasing population through residential development in outlying areas. Though this population-driven growth gave the veneer of economic vitality (lots of housing construction and new retail development), by the early 1970s leaders realized that population growth was not a sustainable economic driver. Residential growth without job growth would lead to a declining standard of living and, potentially, a bankrupt city—because of increased demands to provide City services to residents without a commensurate tax base.

1970s/1980s: Bring Jobs for Residents. In the 1970s and 1980s, the City focused on developing a job base to complement its housing stock. A key strategy was to use Redevelopment authority to develop industrial districts and attract growth from the electronics industry, then based on the Peninsula. Leaders also committed to stem the decline of San Jose’s downtown district by initiating civic building projects and convention activity.

1990s: Be the Capital of Silicon Valley, Keep Up with the Boom. The 1990s started out with sharp contractions in defense manufacturing employment and ended with frenzied growth of start-ups, technology jobs, and in-migrating workers. The City aimed to be the “Capital of Silicon Valley.” It aggressively facilitated corporate locations and expansions into industrial districts and launched its first initiatives to nurture new, growth-oriented businesses, especially in software. It stepped up support for convention and arts/entertainment industries Downtown.

The question for today is “how can San Jose succeed in Silicon Valley’s next evolution?”

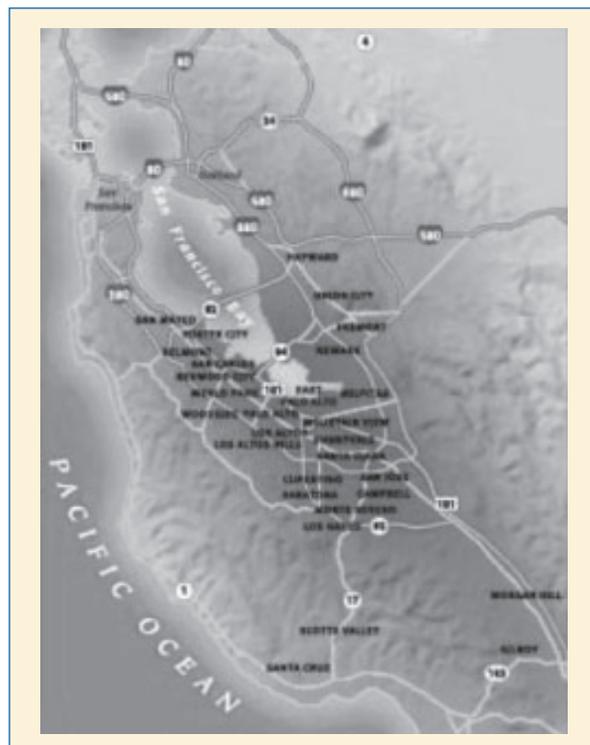
Today, San Jose makes up nearly 40% of Silicon Valley’s population and one-third of its job base.

San Jose’s population is 4.5 times larger than the next-largest Silicon Valley city, Fremont.

San Jose residents rely on the broader region for employment. The 2000 Census showed that 50% of San Jose residents work in San Jose; an additional 40% work in the rest of Santa Clara County, with the remaining 10% working elsewhere.

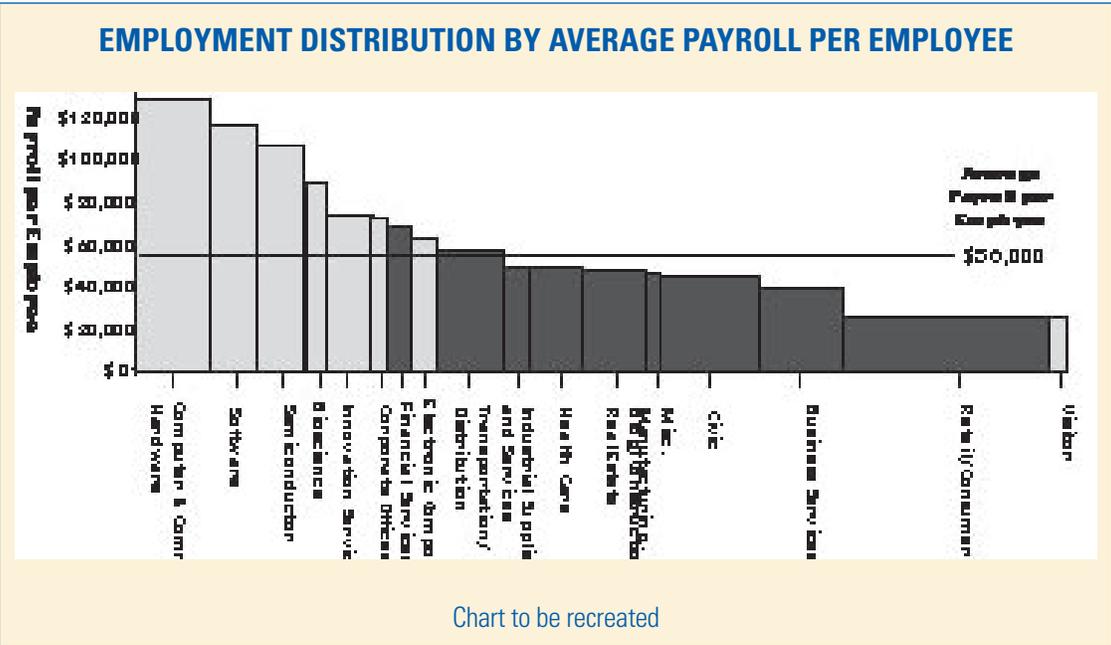
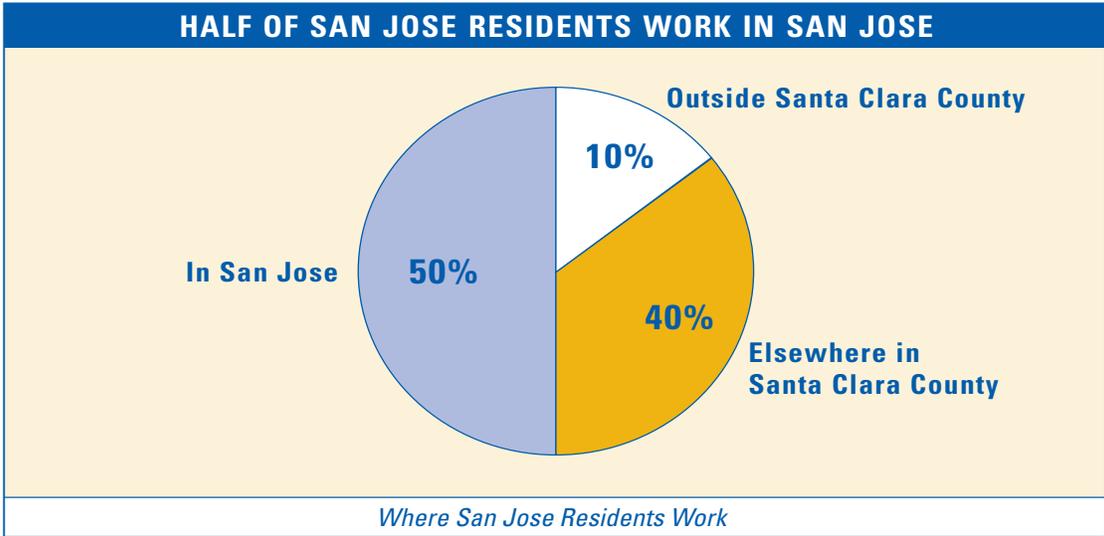
The future of San Jose and the future of the broader Silicon Valley region are intertwined. San Jose cannot succeed without a strong Silicon Valley economy, and Silicon Valley cannot succeed without the strength of its largest community.¹

San Jose is 40% of Silicon Valley’s Population, and One-Third of Its Job Base



Map to be enhanced

¹ Though San Jose’s economic strategy effort focuses on better understanding the San Jose economy and what we in San Jose can do to ensure a strong economic future, it has been conducted in parallel with a regional Silicon Valley strategy effort. “Building the Next Silicon Valley: Regional Strategy and Action,” released by Joint Venture Silicon Valley in September 2003, provides current regional context for San Jose’s strategy (www.jointventure.org). See also *Projections: Silicon Valley 2004*, 10-year forecast of the demographic changes that will impact the Silicon Valley region by the Silicon Valley Manufacturing Group (www.svmg.org).

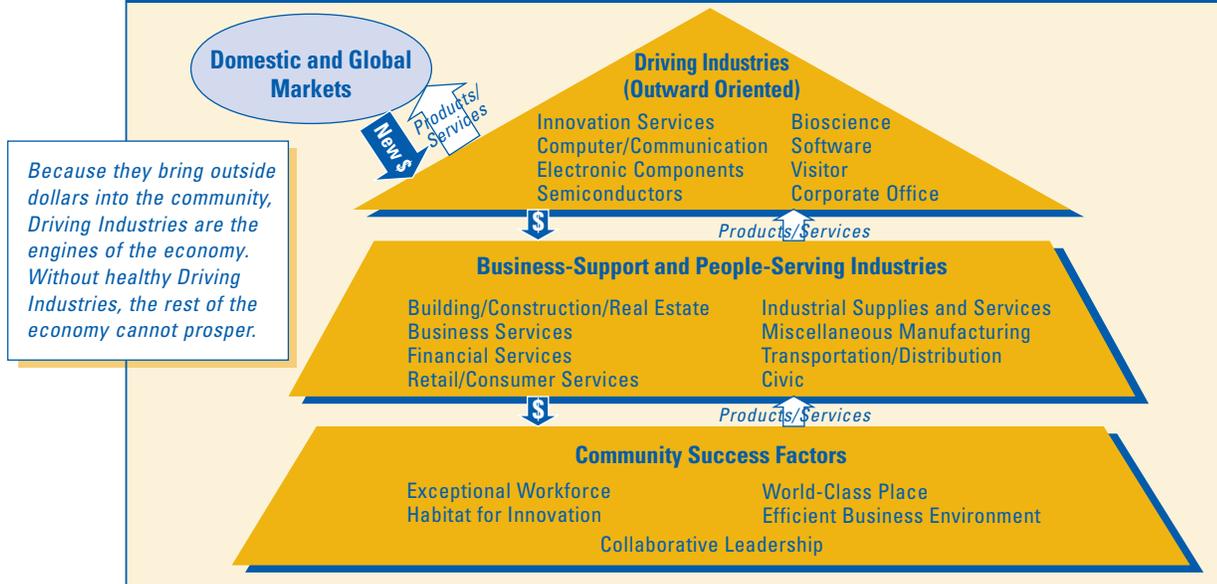


San Jose’s Economic Base Today

San Jose’s economy includes both Driving Industries and Business-Support/People-Serving Industries.

Although Driving Industries constitute only one-third of San Jose’s employment base, they play an important and unique role as the economic engine of our economy. Driving Industries serve customers nationally and globally, bringing new income into the community. This new income is spent on local wages, products, and services. Typically, Driving Industries include sectors where our community has specialized expertise and strong concentrations of employment relative to the national average. These sectors tend to have relatively high rates of productivity and value added, and pay above-average wages. One job in our Driving Industries supports the creation of two or more jobs in the Business-Support and People-Serving Industries.

OUTWARD-ORIENTED INDUSTRIES DRIVE THE REST OF THE ECONOMY



The majority of San Jose’s employment is in Business-Support and People-Serving Industries—similar to other metropolitan areas nationally. Overall, average wages in these industries tend to be lower than in the Driving Industries because wage rates in the for-profit sector tend to correlate roughly with levels of value added by the workforce (output per employee).

Business-Support Industries are an important source of mid-tier jobs; these industries include Financial Services, Transportation/Distribution, Industrial Suppliers/Miscellaneous Manufacturing, and Construction/Real Estate. Two People-Serving Industries also are important providers of mid-tier jobs: Health Care and the Civic sector (i.e., education, nonprofits, utilities, government.)

Approximately 5% of San Jose’s workforce is self-employed and is not included in these employment statistics.

The rest of the Silicon Valley region has a larger share of employment in Driving Industries than San Jose has: 43% versus 33%. San Jose is the regional center for government, for transportation/distribution, and for industrial support services. San Jose’s share of employment in Driving Industries is comparable to that of other metropolitan regions nationally.

Our economy is composed of small and medium-size firms; large employers are rare. The average firm size for all but two of our industries is less than 100 employees. Only 25 companies have more than 1000 employees in San Jose. These large companies employ only 15% of the workforce.

Thirty percent of employment is in small businesses—those with fewer than 35 employees. The largest share of employment (55%) is in medium-size companies—those companies employing 35 to 100 (21%) and 100 to 1000 (34%) people.

EMPLOYMENT BY INDUSTRY GROUP 2002			
<i>Driving Industries</i>	Employment	% Workforce	Payroll Per Employee
Computer & Communications	28,668	8%	\$122,700
Semiconductors	17,937	5%	\$101,100
Software	17,812	5%	\$109,900
Innovation Services	17,504	5%	\$70,600
Electronic Components	9,738	3%	\$59,300
Bioscience	8,016	2%	\$84,500
Visitor	6,398	2%	\$24,500
Corporate Offices	6,341	2%	\$68,800
	112,413	32%	
<i>Support Industries</i>	Employment	% Workforce	Payroll Per Employee
Retail/Consumer Services*	77,934	22%	\$25,100
Civic (gov't, nonprofit, utilities, education)	36,391	10%	\$43,100
Business Services	32,932	9%	\$37,100
Transportation/Distribution	26,051	7%	\$54,800
Bldg/Construction/Real Estate	24,420	7%	\$45,200
Health Care	20,227	6%	\$46,289
Industrial Supplies and Services	9,302	3%	\$46,600
Financial Services	9,092	3%	\$64,700
Miscellaneous Manufacturing	5,621	2%	\$44,700
Other	962	0%	\$28,200
	242,932	68%	
Total	355,345	100%	

*Note: Since an estimated one-half of jobs in the retail sector are part-time, payroll per employee data likely understate the average annual wage for full-time work in retail, which is estimated to be \$30,000.

ONE-THIRD OF EMPLOYMENT IS IN SMALL FIRMS; 55% IN MEDIUM FIRMS, 15% IN LARGE FIRMS					
	Small		Medium		Large
	<10	10–35	35–100	100–1000	1000+
Share of Workers	12%	18%	21%	34%	15%
Share of Companies	70%	19%	7%	3%	1%
Number of Workers	43,810	63,580	74,960	120,290	52,930
Number of Companies	13,070	3,440	1,320	540	20
<i>Distribution of Employment And Businesses by Company Size</i>					

SOURCE: EDD 2002 ES202

25 FIRMS HAVE 1,000+ EMPLOYEES IN SAN JOSE

Adobe Systems	eBay Inc	MMC Technology
Albertson's	E-Tek Dynamics	Novellus
Altera Corporation	Flextronics International	Rosendin Electric
American Airlines	Fry's Electronics	Safeway
Atmel Corporation	IBM Corp	San Jose Mercury News
Brocade Communication	Infineon Technologies	Sanmina Corp
Cadence Design System	KLA-Tencor	Therma
Cisco Systems	Lockheed Martin	Xilinx
Cypress Semiconductor		

SOURCE: San Jose Silicon Valley Business Journal

AVERAGE FIRM SIZE FOR SAN JOSE INDUSTRIES

Computer & Communications	278	Business Services	19
Semiconductors	93	Miscellaneous Manufacturing	17
Electronic Components	79	Software	17
Corporate Offices	75	Health Care	14
Bioscience	72	Retail/Consumer Services	14
Visitor	48	Bldg/Construction/Real Estate	11
Transportation/Distribution	22	Innovation Services	10
Industrial Supplies and Services	22	Financial Services	10

SOURCE: EDD ESZ02, 2002

Cyclical and Structural Economic Change in the Past Decade

Today, San Jose's economy is experiencing both cyclical and structural change. Cyclical change is the normal ups and downs of the national and international business cycle—reversible responses to lulls in demand. Historically, the United States has experienced economic recessions every six to eight years. Structural change is a more permanent, fundamental shift in how we earn our living and where people are employed. The four prior waves of innovation are examples of structural adjustments that have shaped Silicon Valley.

From 1993 to 2003, the San Jose area experienced a complete boom-bust cycle. From the end of the previous downturn in 1993 to the end of 2000, the San Jose metropolitan area (i.e., Santa Clara County) added 282,000 jobs. The run-up in jobs was especially dramatic after the 1995 kick-off of the Internet boom. From 1996 through 2000, job growth averaged 4% annually. Because the number of skilled people demanded by companies exceeded our local workforce capacity, commuters and migrants flocked to our region.

Cyclical adjustment: Industries lay off workers during a recession when a lull occurs in demand, and they rehire workers when business activity picks up.

Structural adjustment: Industries eliminate jobs permanently, forcing workers to seek employment in new positions or in other sectors.

Job creation during this period was driven by the start up and growth of new firms.

Since the end of 2000, we have lost nearly one-fifth of our peak employment base. During the recession, San Jose has had the highest unemployment rate in the nation among metropolitan areas.

The extreme boom-bust pattern was a deviation from an upwardly sloping trendline. Even accounting for the job loss, the area's job base grew 10% since 1993—a 1% average annual growth rate.

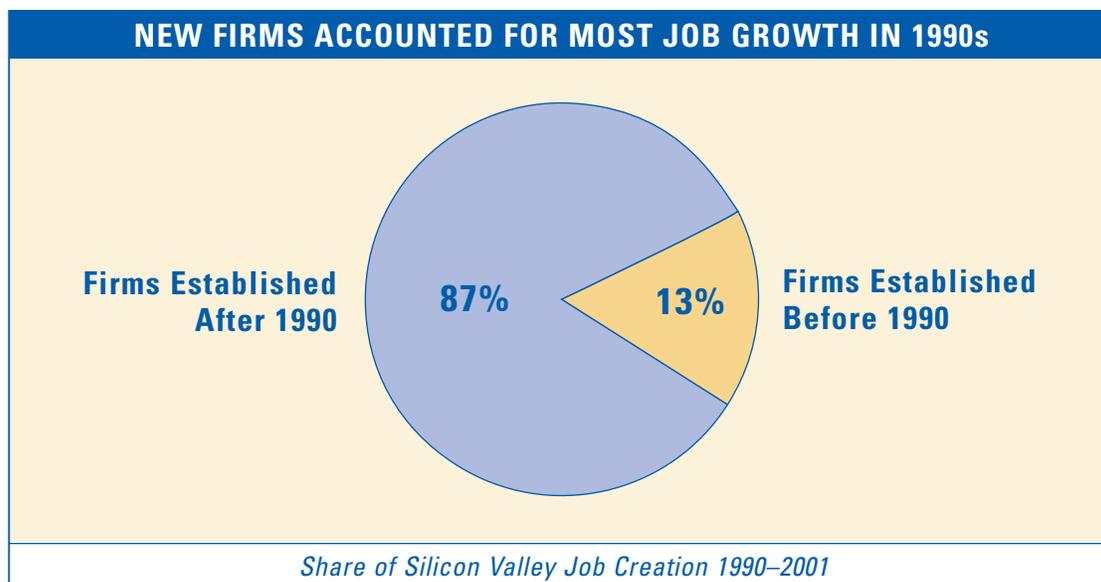
JOB CREATION IN 1990s WAS DRIVEN BY NEW AND YOUNG COMPANIES

Firms founded after 1990 created almost all the job growth in Silicon Valley between 1990 and 2001. Eighty-seven percent of job growth during this period came from companies that did not exist before 1990. (The author of this research, Junfu Zhang of the Public Policy Institute of California, believes that this pattern is true for the City of San Jose as well as for Silicon Valley.)

The major job creators in Silicon Valley were the one-fourth of the new firms that hired five or more employees. A large proportion of every cohort of new firms in the Valley, 75%, never hired more than five people.

The 136% growth of the software industry in Silicon Valley was all attributable to new firms. San Jose examples include eBay (1,010 employees), BEA Systems (770 employees), and WebEx (500 employees).

If the future is like the recent past, San Jose/Silicon Valley will grow jobs from the start-up and initial growth phase of new companies, rather than the expansion of more mature, established companies or the attraction of companies from other regions. The evolution of the global business model (see next Chapter) reinforces the likelihood that job growth will come from our younger firms rather than our well-established firms.



Where did our “lost” jobs go? Several factors account for job loss during the downturn.

- **National economic downturn**—Annual technology spending dropped 5% since 2000, and the United States is experiencing the weakest national economic recovery in 50 years.
- **International economic downturn**—Our international trading partners fell into a slump at the same time that domestic tech demand crashed. Exports from the Bay Area have fallen by 50%.
- **Overhiring/bankruptcies**—Companies hired more workers during times of strong revenue than they could sustain; companies have scaled back headcount and lost jobs to consolidation; some have gone bankrupt.
- **Productivity increases**—Companies are producing more output with fewer workers in order to control costs and improve profitability.

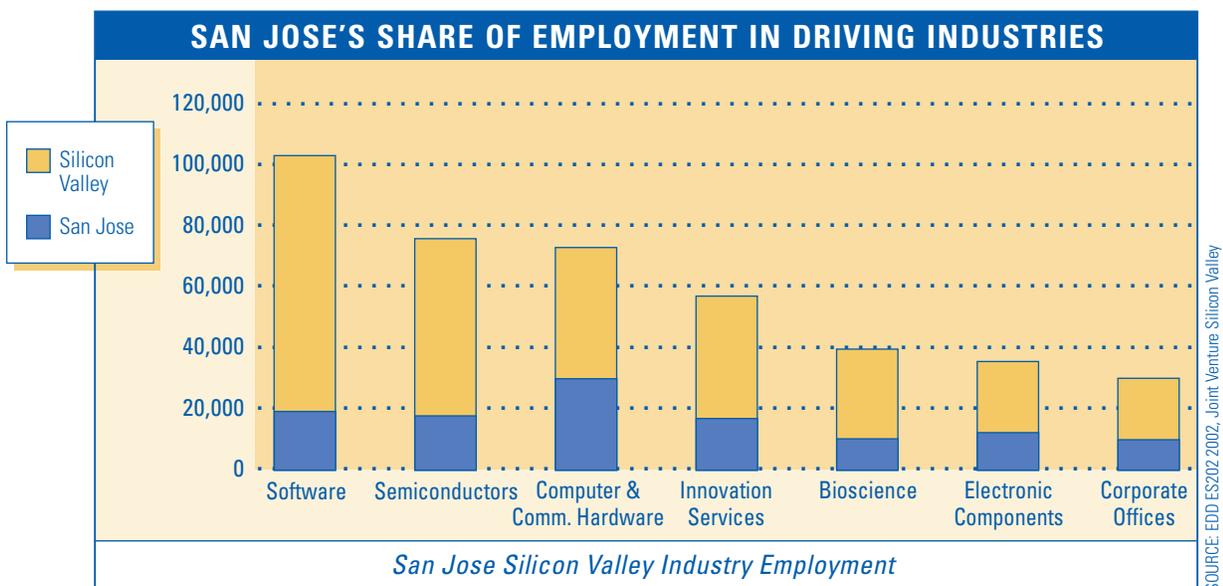
The current downturn demonstrates the importance of strong national and international economic performance to San Jose’s economic health because this performance stimulates demand for our products. National and international economic recovery—in jobs as well as in output—is essential for renewed job generation in San Jose.

Most critically, the rate and nature of future job growth locally will be affected by structural economic change. Through both the boom and the bust, our employment base has been shifting in some fundamental ways.

In our Driving Industries, employment has been shifting toward software and away from the more hardware-oriented sectors of semiconductors, computers/communications, and electronic components. Software was San Jose’s fifth-largest industry in 1993; today it is our third largest.

This pattern is even more extreme for the Silicon Valley region, where software became in the 1990s the fastest-growing and single-largest Driving Industry. Compared to Silicon Valley’s employment, San Jose’s Driving Industry employment remains more concentrated in traditional sectors of computers/communications and semiconductors. Though starting from a small base, bioscience has also been a growth industry for the broader region, though San Jose’s current presence in this industry is small.

Because of these structural shifts in Driving Industries, when the current recession is over, San Jose’s economy is unlikely to return to that of the 1990s in terms of job growth and job structure. Our future will look different from our past.



Structural economic shifts are also apparent from looking at changes in San Jose’s occupational structure during the boom. Even as employment grew during the 1993-2000 period, certain occupations were gaining employment more rapidly than others.

- The high-wage occupations that gained employment were all in technical fields requiring at least a college degree (e.g., computer engineers, computer programmers, electrical engineers, technical sales people).
- The largest share of new jobs was in mid-range occupations. Half of these occupations require a college degree (e.g., accountants, computer support specialists, managers), half do not (e.g., secretaries, bookkeepers, technicians).
- One-third of the new jobs were in low-wage occupations that require only short term or on-the-job training (e.g., assemblers, retail sales clerks, janitors).

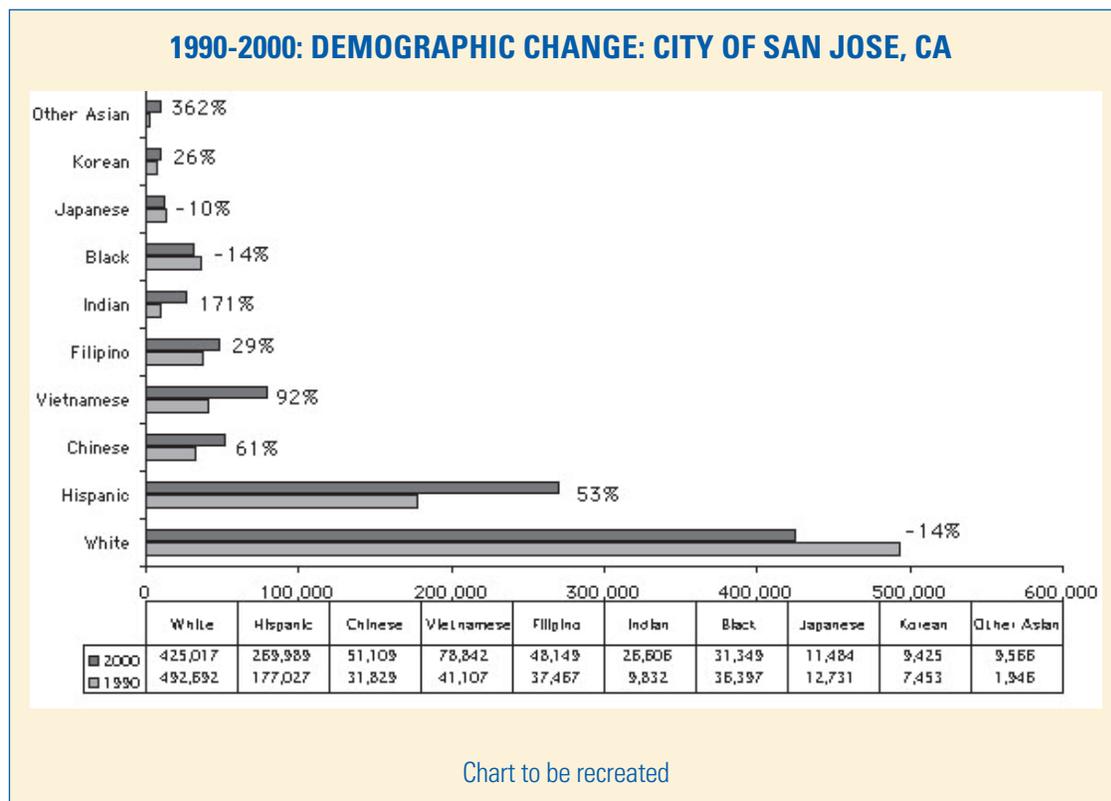
The layoffs that have occurred since 2001 have affected workers across the range of wage and skill levels.

San Jose’s Resident Workforce

In the 1990s, San Jose’s residential population became more international, more Asian, and more highly educated. Migration flows fluctuated considerably, primarily in response to economic cycles and the rising cost of housing.

In 2000, 37% of San Jose residents were born outside the United States, up from 26% in 1990. Of the foreign-born population, roughly 55% are from Asia; 35% are from Latin America.

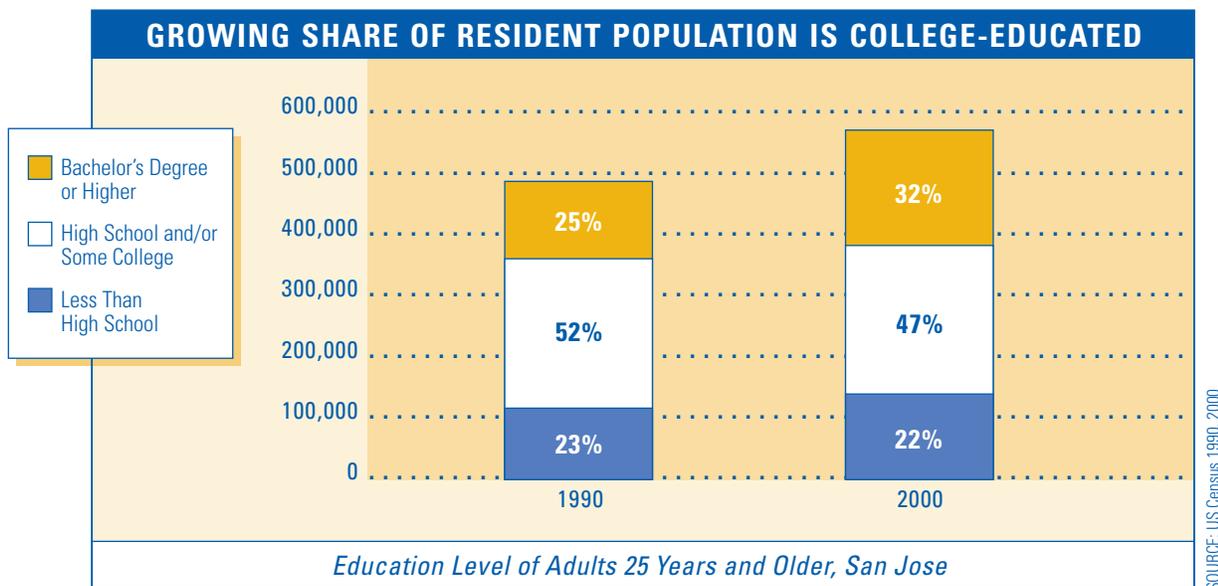
In 2000, San Jose’s population was 37% White, 30% Latino, 27% Asian, 3% African American, and 3% two or more races. The under-18 population is 39% Latino.



The four largest Asian populations are Vietnamese (71,000), Chinese (51,000), Filipino (48,000), and Indian (26,000). The most significant shift among ethnic groups in the 1990s was the increase in Vietnamese population (a 92% increase from 49,000 to 71,000). The Indian population increased 171% from 10,000 to 26,000.

From 1990 to 2002, the population of San Jose increased by 142,750, from 782,250 to 925,000 residents. The main driver of San Jose’s population growth was natural population increase (births minus deaths). Nearly 95% of additional population was attributable to natural increase in the residential population. The remaining 5% was attributable to the difference between foreign in-migration and domestic out-migration. Migration patterns caused a significant turnover in population, affecting education levels and ethnic composition.

The share of San Jose residents with a bachelor’s degree or higher increased from 25% to 32% between 1990 and 2000. The share of residents with less than a high-school diploma remained the same, at about one-fifth.



CHAPTER SUMMARY

SAN JOSE'S CHANGING ECONOMIC BASE

Evolution of San Jose's Economy and Silicon Valley

- San Jose is part of the Silicon Valley economic region.
- San Jose's approach to economic development has changed over time.

San Jose's Economic Base Today

- Driving Industries are the economic engine of our economy.
- The majority of our employment (68%) is in Business-Support/People-Serving Industries.
- Thirty percent of employment is in small businesses (fewer than 35 employees). The largest share of employment (55%) is in medium-size companies: those companies employing 35 to 100 (21%) and 100 to 1000 (34%) people.
- Fifteen percent of employment is in 25 firms that employ more than 1,000 people each in San Jose.

Cyclical and Structural Economic Change in the Past Decade

- San Jose's economy is experiencing both cyclical and structural change.
- We have lost 20% of our job base since 2000, but overall employment is up by 15% since 1993.
- Job creation in 1990s was driven by new and young companies.
- Job growth in 1990s occurred across high-, mid-, and low-wage occupations.
- The rate and nature of future job growth will be affected by structural economic change.

San Jose's Resident Workforce

- In the 1990s, San Jose's residential population became more international, more Asian, and more highly educated.

IIIC. San Jose’s Portfolio of Driving Industries

To a large extent, the success of the Driving Industries in San Jose/Silicon Valley will shape our economic future.

Although Driving Industries constitute only one-third of our City’s employment base, they are the economic engines of our economy. Driving Industries serve customers nationally and globally, bringing new income into our region. They are sectors where we have specialized expertise and strong concentrations of employment relative to the national average. One job in our Driving Industries supports the creation of two or more jobs in the Business-Support and People-Serving Industries.

SAN JOSE’S DRIVING INDUSTRIES	
Industry	Employment (2002)
Communications/Computing	28,668
Semiconductors/Equipment	17,937
Software	17,812
Innovation Services	17,504
Electronic Components	9,738
Bioscience	8,016
Corporate Offices	6,341
Visitor	6,398
Driving Industries Combined	112,413 (32% of total employment)

A unique characteristic of Driving Industries is that they generally are not tied to our particular community for location. People-Serving Industries and most Business-Support Industries need to be here because their customer base is here. It is hard to deliver dry-cleaning, health-care, or janitorial services from an outside location. Because they serve customers nationally and globally, Driving Industries are different—they can locate anywhere they choose.

For this reason, we must understand the world that our Driving Industries operate in and what they need to succeed in our community.

Each of San Jose’s Driving Industries follows a different dynamic. Each industry has a different structure, innovation pattern, and stage of evolution. All “tech sectors” are not the same.

Nonetheless, San Jose’s technology-based Driving Industries also share some common trends and realities. Among the most important considerations in the next three to five years:

1. “Creative Destruction” Is the Norm.
2. Today’s Business Model Is Truly Global.
3. Companies Constantly Question Our Community’s Value-Cost Proposition.
4. Technical Talent Is the #1 Requirement; Housing Cost Is the #1 Deterrent.
5. Workplace Requirements Are Changing: Cleaner, Vertical, Smaller Scale.
6. New Waves of Innovation Are Possible.

These findings—see below—are based on the results of executive-level interviews with 50 companies, three focus groups, secondary research, and expert input.

“Creative Destruction” Is the Norm

Our Driving Industries operate in a world of continuous, unpredictable, often volatile change. Nothing is fixed or certain. Successful companies constantly adjust to changes in markets, technology, and competition. They change, advance, and decline at a very fast pace. Tremendous creativity and destruction occur side by side within companies, industries, and our overall economy. Companies expect that this dynamism will only increase in the future.

Consider the following findings from the Public Policy Institute of California:

- 87% of the region’s job growth in the 1990s came from firms that did not even exist before 1990.
- Almost 46% of firms that started in the 1990s were out of business by age ten years.
- Of the 40 largest tech companies in Silicon Valley today, more than half did not even exist in 1982.
- Only 4 of the 40 largest tech companies in Silicon Valley today were on the Top 40 list in 1982.

For firms to survive and prosper in this environment requires creativity in generating new viable ideas, speed in taking these new ideas to market, and flexibility in adjusting to market circumstances. To catch upturns and minimize downturns in driving technology industries, our region must accommodate rapid structural change.

This includes supporting people as they cope with fluctuating incomes, job and career changes, and uncertainty.

What does this finding mean for San Jose’s future?

“At any given time, 75% of our people are working on tomorrow’s revenues.”

—CEO, fabless semiconductor firm

- We should expect constant, unpredictable change. We will not have a fixed set of industries, companies, and jobs.
- High rates of business start-up and closure will go hand in hand.
- The City must be timely, responsive, and flexible in our interactions with industry.
- The City should provide certainty wherever possible, to counter companies’ uncertain world.
- Our community’s long-term advantage must be adaptation.

Today’s Business Model Is Truly Global

Driving Industry companies today operate globally and succeed by harnessing the strengths of different regions. This description is true for companies with thousands of employees as well as for many start-ups. San Jose–based companies report that they are accelerating their experimentation with global location and outsourcing, especially in India and China. Today’s global business model goes beyond routine manufacturing and customer-support functions to include R&D and design conducted globally.

Three key forces are driving this next evolution of the global business model:

- **Lower-cost technical talent**—Companies can access computer programmers, electrical engineers, and chip designers at one-fifth the cost of a local worker. China, for example, graduates 600,000 engineers and scientists each year, compared with 162,000 in the United States.

- **Fast-growing Asian markets**—Companies want to have a presence near concentrations of international customers, and the largest and fastest-growing markets are in Asia.
- **Global entrepreneurship**—Immigrants—especially Indian, Chinese, and Taiwanese immigrants—are a source of advice, investment, and contracts for companies in their host countries, including for start-ups. People, information, and capital flow back and forth between San Jose/Silicon Valley and other regions globally, often on a small-scale, bottom-up basis.

This change in San Jose’s external context, which accelerated during the talent shortages of the late 1990s, has important implications for our community’s economic future.

“The world is now very, very small.”

What does this finding mean for San Jose’s future?

San Jose/Silicon Valley no longer has a clear monopoly on technical talent and innovation. We need to view our community as a player in a global network where other communities are carving out their niche. We are no longer the unrivaled center of the high-tech universe, but we play a unique role in a network of technology regions.

San Jose faces more competition than ever from other high-tech regional economies, international and domestic. This increased competition creates urgency for San Jose to determine how it will compete and differentiate itself from other regions as a home for the highest-value kinds of economic activities.

The number of U.S. regions with concentrations of technology-based sectors and technically trained people has risen dramatically since the early 1990s. At least 13 other U.S. regions have cultivated companies and talent concentrations in technology-based sectors. Although none of these regions has the breadth, depth, and innovation capacity of Silicon Valley’s current economic base, these regions are aggressive in pursuit of their goals and enjoy cost and, in some respects, quality-of-life advantages over Silicon Valley.



The longer-term competitive threat is from developing countries—especially India and China—that have invested extensively in technical education and are emerging now as centers of R&D and innovation. In the past, these countries were low-cost imitators of American innovation; now, they are starting to provide on a large scale the key success factors required by advanced, innovation-based firms: highly educated people and a world-class research base. India, for example, is committed to being the software superpower of this century. China has ambitions to be a major global R&D center and is developing exceptional brainpower, producing more than 600,000 engineers each year. And in Asia especially, the rules of the game are often quite different from America’s free-market theories. Taiwanese and Chinese governments, for example, will coinvest with companies and build facilities in order to capture U.S. firm presence.

Although China and India have cost advantages and a growing talent base, they also have significant barriers to entrepreneurship and innovation. These barriers include unreliable infrastructure, inadequate legal systems, excessive government regulation, immature market conditions, and political uncertainty.

“Silicon Valley must not stick its head in the sand and believe that it has a monopoly on talent and innovation. The Valley has to see itself competing on a world stage.”

—Carly Fiorina
Hewlett-Packard

Many San Jose–based companies will have the majority of their employees outside our community. Increasingly, the work of our local companies will transcend our local community. Already today, for many firms founded or headquartered here, local employees represent only a small proportion of the firm’s total workforce. The top 40 Silicon Valley firms (by sales) together have only 32% of their employment in the Bay Area, with the remaining 68% in other locations nationally and internationally. In addition to having employees in other global locations, companies will also manage multiple supplier and partner relationships with firms in other countries.

We can anticipate an increase in international business travel originating from San Jose–based companies. Though the Internet is a tremendous communication tool, the most creative, collaborative, and customer-centered work requires face-to-face interaction. Increasingly, this interaction will need to take place in international settings and through visits of international workers and customers to San Jose.

We may see new occupations linked to leadership of global businesses. Though we may lose jobs to regions with lower cost structures, we may develop new occupations and skill sets in areas like global R&D management, global logistics, or global sales and customer support.

“You can’t get all the talent in the world to move to Hyderabad. You can get them to move to Silicon Valley.”

—Steve Ballmer
Microsoft

Companies Constantly Question Our Community’s Value-Cost Proposition

Because they have other location options and face pressure to control costs, companies within Driving Industries constantly reevaluate San Jose/Silicon Valley’s value proposition as a business location.

This reevaluation is especially true for established firms.

To stay competitive as a community, companies must perceive that the advantages of operating in San Jose—in terms of productivity and innovation—outweigh the cost disadvantages. Cost disadvantages include both direct costs (labor costs, real estate costs, taxes and fees) and transactions costs (traffic congestion, recruiting costs, permit uncertainty and delay).

Several established firms mentioned their fear that San Jose/Silicon Valley’s value proposition has been eroding. Especially in slow economic times, they face the need to justify their headcount in our region to investors, internal management, and outside headquarters. Productivity in San Jose needs to be high for companies to justify paying the relatively high salaries to local workers. Government and community affect the ability of companies to keep raising productivity levels.

What does this finding mean for San Jose’s future?

Only the most high-value, sophisticated business activities are likely to remain here. San Jose will succeed if employees here can do work that can’t be done anywhere else, or that can be done more effectively or quickly here. For every business function, San Jose can be a location for activities requiring the highest technical, entrepreneurial, and leadership skills. This category includes headquarters leadership, global R&D management, front-end design, cutting-edge R&D, and high-end customer care. Because of our community’s high relative costs, we will not be a competitive location for routine or lower-value activities. The likelihood, then, is that the increasing majority of jobs in the IT-related Driving Industries will require a college education, particularly a technical education.

“We can justify paying more to be here today because people here can do it better and faster. But the minute this advantage disappears, this area is finished.”

— CEO, user interface firm

The emerging bioscience industry—less subject to the global business model—is not likely to have this job structure. A greater proportion of jobs in bioscience, such as lab technicians, may be available for workers with some education beyond high school but not a four-year college degree.

GLOBAL BUSINESS MODEL: 2003+		
Business Function	San Jose/SV Role	Other Regions Internationally
Strategy/Leadership	Start-Up Headquarters	
R&D	R&D leadership/project mgmt. Cutting-edge, creative R&D Front-end design/architecture Prototype development/ engineering	Well defined, routine R&D/engineering Software development Chip design centers
Manufacturing	Sophisticated light assembly Prototyping linked to engineering Internal “boutique” fabs	Routine production, assembly, test Electronic systems, subassemblies Contract chip foundries Chip test/program
Marketing & Sales	Marketing/sales leadership High-end customer care Face-to-face interaction with local HQ	Telemarketing/Internet marketing Regional marketing/sales/distribution close to customers
Customer Support/ Business Operations	Operations suppliers/services outsourced locally	Business back office Customer support Technical support Routine HR/finance/admin

SOURCE: City of San Jose, based on 50 employer interviews

We should expect slow job growth, especially in mature companies. At this point, many of our largest, established companies plan to add jobs disproportionately in lower-cost locations, especially overseas. They will focus on increasing productivity locally, so corporate revenues will continue to grow at high rates, but not necessarily jobs.

We need to preserve San Jose’s value-cost proposition and support local companies in driving value up and driving costs down. An eroding value proposition is a point of vulnerability. We must provide productivity and innovation advantages that outweigh cost disadvantages by having an exceptional workforce and community infrastructure. We must control the direct and indirect costs of operating in our community.

UNIQUE STATE-IMPOSED COSTS OF DOING BUSINESS

The cost of operating in San Jose is affected by some unique costs imposed by the State of California on in-state businesses. Among these:

- California has the highest workers’ compensation rates in the nation, at 53% above the national average. Costs have escalated by double digits the past three years.
- California is the only state in the nation that requires overtime pay after an individual 8-hour workday, rather than a 40-hour workweek. This makes it more expensive for California companies to offer their employees flexible work schedules.

Technical Talent Is the #1 Requirement; Housing Cost Is the #1 Deterrent

Companies within Driving Industries say that their top requirement for future success in San Jose is the ability to attract, retain, and develop the best technical talent, especially engineers.

Companies need a steady stream of young talent and to attract and retain technical superstars. Even in times of economic downturn, companies compete aggressively for top talent—technical as well as managerial.

The primary deterrent to attracting and retaining needed technical talent is our area’s high cost of housing. According to numerous executive polls, the affordability of housing—especially ownership housing—deters talent from moving here and raises salary requirements that companies must pay. People also have concern about other quality-of-life factors, especially K–12 education and traffic congestion.

Quality of life is also important for entrepreneurial vitality and the start-up of new firms. Previous research has shown that a primary factor determining a high-tech start-up’s location is where its founder would like to live (Cooper and Folta, 2000).

Chapter III E outlines the community success factors valued by Driving Industries and how Driving Industries perceive San Jose’s strengths and weaknesses.

What does this finding mean for San Jose’s future?

Our community’s quality of life is our most important economic asset. San Jose must be the community where the most talented technical and entrepreneurial people in the world want to live. We must continue welcoming the world’s brightest and most industrious into our community.

We must continue to increase the supply of housing in San Jose in order to keep our community attractive to the talent that drives value creation in our technology industries. Increasing the supply of housing in high-quality living environments, especially products for first-time buyers, is the best weapon against rising housing costs. Although “affordable” housing initiatives are very important for the broader community,

they do not help ensure that we can continue to attract technical talent. Continued emphasis on high-quality, higher-density housing in interesting settings will make our community especially attractive and affordable to young talent.

We have an opportunity to develop the current and future local technical workforce. Even as we welcome the world's best talent to San Jose, we should emphasize continuing education of the resident workforce and preparing our young people for science and engineering careers.

Workplace Requirements Are Changing: Cleaner, Vertical, Smaller Scale

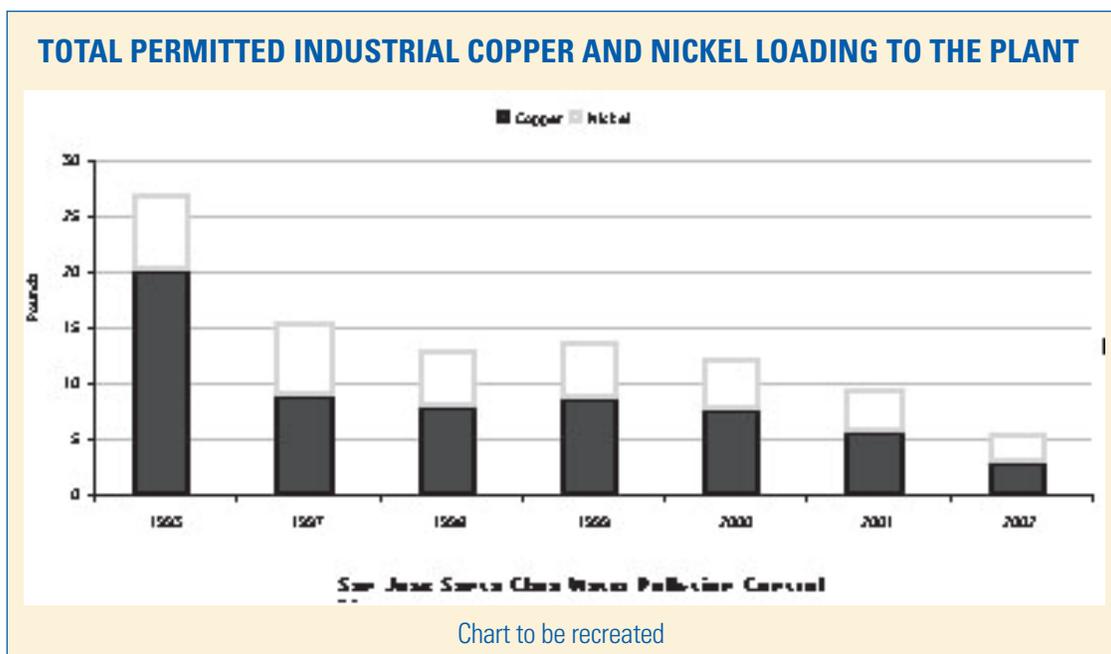
Structural shifts in the economy have been changing the kind of work that takes place in Driving Industry companies and the kind of work environments that they want in the future. Three changes are most important.

First, our Driving Industry base is shifting toward “cleaner” activities. Our current Driving Industry base is less “industrial,” using and emitting fewer toxics than its predecessor. This change is because of the employment shift among industries (e.g., toward software and leadership functions), as well as the shift in business activities within industries (e.g., less semiconductor production, more semiconductor design).

Consider the following:

- Only three semiconductor fabrication facilities remain in San Jose, down from five in 1993. (There are nine in the rest of the Silicon Valley region.)
- Industrial copper and nickel discharges to the waste water treatment facility declined by 86% and 65%, respectively, since 1993.
- Between 1987 and 2000, toxic releases by manufacturers in San Jose declined by more than 90%.

Discharges and toxic releases have declined substantially because of a changing industry base and changing business practices.



More and more, the emphasis for Driving Industries is on “office”-type workplaces, rather than manufacturing or even R&D space. R&D activities in a software or communications equipment company, for example, are likely to take place at cubicle workstations. Although these activities may have special energy and air-circulation requirements, they do not require the floor area and safety precautions of high-tech’s industrial past.

Second, some of our Driving Industry companies want to make more efficient use of land by “going vertical.” To control costs and create more collaborative work environments, a growing number of Driving Industry companies envision more mid-rise work environments. They have learned to create work environments suitable for engineers, developers, and even prototype manufacturing in a multistory environment. Companies report that the City’s floor-to-area ratio requirements in the North San Jose are a constraint to developing the next-generation high-tech workplace.

Third, the smaller size of software companies (average employees: 17) and start-up companies brings different workplace requirements. Small companies can integrate well into downtown locations and other higher-density centers. Downtown San Jose already has the largest concentration of software employment among subareas of San Jose: nearly 20% of citywide software employment is in Downtown. Small companies want to be in environments where they can access amenities nearby that they are not going to create within their walls—restaurants, copy centers, fitness centers, child care. Even larger companies report that their employees want more walkable, transit-connected work environments with access to amenities.

What does this finding mean for San Jose’s future?

We should move from the old “industrial campus” model to an “innovation district model,” especially in North First Street. It becomes possible, and desirable, to increase densities near light rail and to integrate more restaurants, support services, amenities, and perhaps housing (aimed at young technical professionals) into or near work areas.

Driving Industries can fit into Downtown and contribute to and benefit from its vitality. Opportunity exists to build on the success of Adobe Systems and software start-ups to position Downtown as a location for more start-up and software firms.

We have the opportunity to use and reuse land more efficiently for jobs. Doing so may free up some land for housing, retail, or civic uses if companies build at higher densities.

COMPANIES SEE CHANGING WORK ENVIRONMENT, PROMPTED BY STRUCTURAL CHANGE	
Today: Industrial Campus	Tomorrow: Innovation Community
<ul style="list-style-type: none"> • One- or two-story buildings 	<ul style="list-style-type: none"> • More efficient use of land (mid- and high-rise workplaces)
<ul style="list-style-type: none"> • Single use: work 	<ul style="list-style-type: none"> • Multiple, more integrated uses: <ul style="list-style-type: none"> —Workplace amenities: restaurants, child care, “dailies” shopping —Speciality housing for young engineers nearby
<ul style="list-style-type: none"> • Light rail underused 	<ul style="list-style-type: none"> • Tiered density from transit corridor

New Waves of Innovation Are Possible

San Jose, Silicon Valley, and the Bay Area have the opportunity to benefit from a next wave of innovation and entrepreneurship. This next wave could generate more venture investment, companies, and, ultimately, jobs.

Several specific opportunities emerge from our region's current areas of technology expertise, both within companies and in universities and research institutions.

- ***“Build Out” of the Internet, especially mobile and wireless Internet access***—Strong signs suggest deepening of information and communications technology as we move past the first phase of the Internet to the mobile Internet.
- ***Software middleware and enterprise applications***—We can expect continued advances in software middleware and applications that help people and organizations reap productivity advantages from the Internet.
- ***Bioscience***—Across the Bay Area, drug and diagnostic companies are moving through their life cycles from R&D to commercialization. Biotechnology and pharmaceutical industries are converging to bring more drug and health products to growing markets. Demand for manufacturing and commercial capabilities will increase.
- ***Convergence of information technology and biotechnology***—Major advances in biotechnology can intersect with information technology and create new commercial opportunities in areas like individualized medicine, bioinformatics, biomaterials, biochips, and biologically based computers. Medical devices (bioengineering) require a multidisciplinary talent pool suited to Silicon Valley expertise—biologists, computer scientists, engineers, chemical and physical scientists.
- ***Nanotechnology***—The eventual commercialization of nanotechnology could result in revolutionary product innovations across a range of industries, including computer and chip manufacturing.
- ***Convergence of information technology and art/design/media***. Product innovation at the intersection of computer science and the creative arts, including design and media, is growing. This growth builds on advances in the 1990s in areas like computer graphics, computer-aided design, computer games, digital video, new media, virtual environments, and electronic publishing, to name a few. Creative interaction can result in new products, companies, industries, and cultural experiences.

Our region's ability to harness these waves depends on recognizing new realities, redefining our role, and renewing our strengths.

Venture-backed start-ups and research institutions will play important roles in driving innovation in next-wave fields. To date, San Jose has not had even a proportional share of venture-backed start-ups, relative to its population and job base. Through the 1990s, only 20% of the region's venture-backed firms were based in San Jose. And, of the 191 companies that received venture investment in the first half of 2003, only 17 were in San Jose.

The leading Bay Area research institutions pioneering work in nano-, bio-, and info-technology are not in San Jose. These institutions include Stanford University, NASA Ames, University of California-Berkeley, University of California-San Francisco, SRI International, and Lawrence Livermore National Laboratory. San Jose State University is becoming more research-oriented and has world-class expertise in niche areas.

What does this finding mean for San Jose's future?

New waves of innovation can help diversify San Jose's economy. They will come from encouraging creativity across disciplines through new kinds of forums and places for interaction.

- *Software will be at the core of the next economy, and San Jose can be a global hub for intellectual property development in software.* We can build a critical mass of software expertise and extend into medical and other applications. We could be home to companies at the crest of the sea change to open-source software.
- *San Jose has the opportunity to encourage bioscience activity related to software and electronics.* This activity includes bioinformatics, medical devices, and tool suppliers. Opportunities may also exist to be the home for R&D activities of companies developing specialty pharmaceuticals. San Jose offers proximity to leading information technology companies, land available for expansion, and access to a sizeable workforce. Developing the bioscience area will diversify San Jose's economic base and counterbalance the extreme highs/lows of our semiconductor-related industries.
- *San Jose could have a natural advantage in fostering entrepreneurship at the intersection of information technology and art/design, including new media and creative services.* Companies in this field report being challenged, though, to attract creative talent to areas south of Palo Alto.

Job growth in San Jose can be powered by growth-oriented new and young companies creating new products and industries. We need to focus attention on creating new businesses and facilitating their growth. The City of San Jose, working with business and economic-development partners, should step up efforts to be a center for venture-backed start-ups.

San Jose needs to leverage the innovation resources of San Jose State and connect to those of other Bay Area institutions. San Jose can develop partnership with institutions such as Stanford and NASA, as well as tap the growing capabilities of San Jose State University.

VISITOR INDUSTRY CAN BE A MORE POTENT ECONOMIC DRIVER FOR SAN JOSE

Traditionally, San Jose's Visitor Industry has been defined narrowly (around convention and business travel) and has not been a significant Driving Industry.

When anyone from outside our community, including people from the Peninsula or North Bay, comes to San Jose and spends money on entertainment, food, or lodging, this person brings new dollars to our community that have a stimulative effect.

Today, the largest component of our Visitor activity (approximately 85%) is business travelers who come to attend meetings with area companies and industries. The second largest component of Visitor activity is people from the region who visit San Jose's arts, cultural, and entertainment venues. Total estimated visitor spending for fiscal year 2002 was \$1 billion dollars. In 2001–02, the economic impact of arts and cultural attractions in San Jose alone totaled nearly \$200 million.

Today, San Jose has an underdeveloped "leisure" travel segment because we are missing distinctive, world-class attractions. Hotel stays on Friday and Saturday nights will remain soft unless we improve the offerings for leisure visitors to San Jose.

To derive more economic benefit from our Visitor Industry, we need to:

- Tap a larger and more diversified market for convention and meeting-related business
- Develop the critical mass of cultural and entertainment attractions that extend the stay of the business visitor, attract the tourist traveler, and encourage the repeat Bay Area visitor.

The key requirements are to:

1. Upgrade and expand the Convention Center and ensure competitive offerings and cost. Continue implementing convention diversification plan.
2. Scale up existing arts/cultural institutions Downtown and transform them from mid-tier to big-city size.
3. Develop a select number of new cultural/entertainment attractions in and near Downtown, including performance venues, museums, sporting venues, and a nationally/internationally significant festival.
4. Consistently communicate a clear, compelling message about the distinctive attractions of San Jose.

IIID. San Jose’s Business-Support and People-Serving Industries

The majority of jobs in San Jose—68%—is in Business-Support and People-Serving Industries.

At a fundamental level, the growth and stability of these jobs are tied to the success of the Driving Industries. As the economic engines of our economy, Driving Industries affect the income and population growth essential for healthy People-Serving Industries. And Driving Industries are key customers for Business-Support industries, such as Business Services and Distribution.

Business-Support and People-Serving Industries are particularly important for achieving the goal of economic opportunity for all residents because more jobs in these sectors—compared with jobs in Driving Industries—tend not to require a college degree. These sectors also present opportunities for small-business ownership.

SAN JOSE’S BUSINESS-SUPPORT AND PEOPLE-SERVING INDUSTRIES	
Industry	Employment (2002)
Retail/Consumer Services	77,934
Civic (gov’t, nonprofit, utilities, education)	36,391
Business Services	32,932
Distribution/Transportation	26,051
Construction/Real Estate	24,420
Health Care	20,227
Industrial Supplies and Services	9,302
Financial Services	9,092
Miscellaneous Manufacturing	5,621
Agriculture/Other	962
All Combined	242,932 (68% of total employment)

San Jose’s Business-Support and People-Serving industries face some particular trends, challenges, and opportunities. In thinking about the next three to five years, among the most important considerations are:

1. Support Industries Are Challenged to Increase Productivity, Remain Viable.
2. Health Care Can Play a Stronger Role as Job Generator.
3. Real Estate Development Industry Struggles to Be Agile and Adaptable.
4. Small Businesses Seek Support and Opportunity.
5. San Jose’s Full Retail Potential Remains Untapped.

Support Industry Is Challenged to Increase Productivity, Remain Viable

Like their Driving-Industry counterparts, support industries are challenged to increase productivity by providing increasingly higher-value goods and services and controlling costs. They too face competition from lower-cost regions in the United States and internationally. Industrial support sectors include suppliers of industrial products, proto-typing support for technology industries, building/construction related materials, and other light-/heavy-manufacturing industry.

“Our main competition is firms in the Central Valley that pay their employees 30% of what we pay our workers. The only way we make this work is intense automation of our facility. But profitability is a constant struggle and, at some point, the offer to move to Fresno becomes the strategy for business survival.”

— President,
sheet-metal manufacturing
company

“To survive in this high-cost location, we increase our efficiency through new technology and organizational methods to produce more output with fewer workers. In the past three years, we doubled our output at this plant without adding any workers. In this way, we retain jobs here and remain competitive with our lower-cost operations elsewhere in the United States.”

— Site Manager,
industrial cleaning
products company

In the 1990s, San Jose’s employment in industrial support sectors declined slightly, largely because of competition with lower-cost locations. In some cases, firms moved out of San Jose to lower-cost areas of Northern California, such as Gilroy and Salinas. In other cases, corporate customers started sourcing inputs and service from lower-cost providers nationally and globally.

What does this finding mean for San Jose’s future?

We need to find new sources of mid-tier jobs. Job decline in industrial support sectors is most likely permanent, as is loss of production jobs in Driving-Industry sectors. This broad trend is not affecting just our community, but the entire United States and other advanced economies. We must work proactively to create new mid-tier jobs in other industries.

Prototyping in San Jose will remain an important support function for Silicon Valley’s tech industry, and these capabilities should be preserved. Driving Industry companies in the semiconductor, communications, and electronic components fields report that they

source product inputs globally but rely on local rapid-prototyping capability to support engineering/R&D. Key capabilities in San Jose include printed-circuit-board prototyping, engineering test shops, failure-analysis services, machining, plastics, and component wholesaling. During the recession, these activities experienced consolidation and are not likely to experience strong job growth in the next three to five years. One new potential stimulus to job growth would be to leverage this prototype capability to support bioscience firms.

Local companies will continue to outsource building and operations-related services, such as janitorial services, landscaping, food service, security, and printing. This model ensures that companies can focus on what they do best and have a highly flexible workforce and cost structure. Keeping these services geographically close ensures speedy customer responsiveness but will continue to create cost challenges for firm owners.

We need to make sure that City policies and regulations are not contributing to loss of industrial support jobs. In some cases, companies fear and experience encroachment on their work areas by residential and other uses. Other companies see themselves fitting into a broader range of work environments, because technology has transformed the very nature of their “industrial” activity. For example, the IT revolution has transformed the printing business into an information-age service business.

“Recently, our local customers have started sourcing their embroidered logo apparel from India, rather than from us. It has become clear to me that we will need to compete on speed, customization (short and flexible production runs), and customer support; there is no way we can be competitive on cost.”

— Owner,
‘logo’ apparel company

ALIGNING INDUSTRIAL USE CATEGORIES WITH CHANGING INDUSTRY BASE

Out with the Frightening Toxics, in with the Fiber Optics

The rapid transformation, or de-industrialization, of the printing industry shows how important it is for zoning districts to realign to today's industry realities or to ensure flexibility as industries continue to change.

If asked, most of us would consider the printing business a down-and-dirty industry. We might envision hazardous colored inks, ammonia-laced blueprint machines, and photochemical processes discharging chemicals and silver through City sewage treatment systems.

However, in the 1990s the software revolution transformed the printing industry from an "industrial" activity to a digital, information-age service business. Printing companies are now "digital-imaging service businesses." Their key inputs are now bits and bytes transferred through miles of fiber optics and computer-server racks onto software-enabled equipment.

Barker Blue Digital Imaging, formerly Barker Blue Reprographics, has served Bay Area builders, planners, and architects since 1961. In 2002, the company refurbished a 46-year-old unused skating rink in San Mateo into its new central service facility. The company installed miles of fiber optics; an "ePlanRoom" for digital drawings, specifications books, and plan archiving; a Web-enabled conference center; and other workspaces. Production crews no longer work with dangerous chemicals and processes, but program and monitor software-enabled machines in a clean environment.

Explained BarkerBlue President Gene Klein, Jr., "We might be considered too 'dirty' for a mixed-use environment because of an outdated notion of what the printing business is. But we'd also be concerned that if companies like ours were considered a strict business service, we might not be allowed in an area zoned for light industrial. We are, in effect, an information-age service company that requires a one-story 'industrial space' but are basically clean and would make a good neighbor to most other uses." And companies like BarkerBlue provide jobs with solid middle-income wages.

Health-Care Industry Can Play a Stronger Role as Job Generator

The health-care industry will be a major economic force nationally in the years ahead and has potential for major impact on metropolitan economies. The elderly population is growing, people are living longer, and demands for better health care are sparking new innovations in medicine. Health-care spending as a share of GDP has risen from 7% in 1970 to 14% today; it is likely to reach 17% by 2011 as the Boomer generation advances in age.

Health care is a significant industry in San Jose today, employing more than 20,000 people. During the recession, employment in health care remained steady. But concerns exist that our region does not have enough skilled health-care professionals to take care of a growing and aging population.

At the present time, San Jose does not rank among the Top 25 metropolitan regions for concentrated employment in health care, (America's Health Care Economy, the Milken Institute, 2003). Significant growth is possible because of the presence of a sophisticated and wealthy senior population, the strong capabilities of area hospitals, and proximity to the Bay Area-wide bioscience industry. Harnessing these factors to upgrade and expand health services could benefit our economy and our quality of life.

What does this finding mean for San Jose's future?

The health care industry has potential to be an even stronger generator of jobs for San Jose residents, especially for mid-tier occupations. The Labor Department's 2000-10 projections list health care and residential care as the No. 2 and No. 3 industries for fast-growing wage and employment rates. Many jobs in health care require education beyond high school but not all require a college degree. The opportunity is to develop a strategic approach, in partnership with the County of Santa Clara and other organizations, to encourage growth of health-services jobs and capabilities—including workforce development (such as training, recruitment, and career-path development), strategic partnerships to increase health-services capabilities, and supportive land-use and other regulatory policies.

Real Estate Development Industry Struggles to Be Agile and Adaptable

More than 24,000 people are employed in San Jose's real estate/construction industry. This sector plays an important role in supporting economic vitality and in enhancing our community's quality of life.

Like their counterparts in Driving Industries, the real estate development community is challenged to respond to continuous change in its market environment. To succeed, it needs to be able to react quickly to the ups and downs of economic cycles and to changing client needs. It needs to anticipate the costs that will be associated with completing a particular development. Investment capital moves quickly in this industry and will flow to communities most eager to receive it.

Developers require more speed and predictability in San Jose's development approval process.

When unplanned costs escalate because of delays or unanticipated requirements, valuable development becomes unprofitable. When General Plan parameters are superseded by other processes, potentially valuable developments lose their viability. The practice of adding "wish list" requirements as a condition for permit approval contributes to cost escalation and delay. Speed and transparency are especially important in a high-cost community like San Jose.

Developers seek zoning that improves their flexibility to respond to changing needs over time and supports convergence of different types of uses. They see the structural shifts taking place in the economy and want to be able to accommodate their clients' interest in mixed, flexible uses. This pressure is particularly acute now because of the current oversupply of office space.

"My clients speak to me in terms of 'weeks,' but local governments speak to me in terms of 'months' or 'years'."

In the next five years, the uncertainty about where San Jose's development industry is heading is likely to be significant. The ultimate turnaround in the regional economy will have a lagging effect on the development industry.

What does this finding mean for San Jose’s future?

The City of San Jose needs to encourage and enable the real estate–development community to invest locally in the context of a well-conceived general plan for the community. We need to connect land supply with strategic economic development and long-term–growth needs. San Jose needs its private-sector developer community to continue to play the lead role in the physical development of facilities in our community. We need to direct land uses to appropriate locations and then facilitate and expedite development. Doing so will be especially important if Redevelopment Agency revenues decline or remain stagnant in the next several years.

Our work for the future is to create a more timely and transparent development review process. We must not take developers’ interest in our community for granted. Most developers and their client companies have other viable options regionally and nationally of communities that could benefit from their investment and expertise.

Small Businesses Seek Support and Opportunity

In San Jose, more than 107,000 people—30% of our workforce—work for small businesses with fewer than 35 employees. Small businesses are most predominant in retail consumer services, innovation services, and building and construction services. Outreach to develop this economic strategy found that small businesses face some common challenges of operating in San Jose.

Support Resources for Small Business Are Extensive, but Awareness Is Low. The City of San Jose—in partnership with Cisco Systems, the federal Small Business Administration, and West Valley Community College—has developed extensive capacity to train, coach, and support small-business development through the Entrepreneur Center. The City also oversees three loan-financing programs and a one-stop center for business through the Silicon Valley Workforce Investment Network. Other resources exist throughout our City and region. Awareness of these resources appears to be low, as does their perceived accessibility to businesses that are not near these locations or that operate in Spanish or Vietnamese.

Companies with small facilities (less than 3,000 square feet) struggle particularly to interact with the City on facilities and regulatory issues. They report confusing requirements and costly fees.

Small businesses experience great frustration with state-driven cost escalations, especially workers’ compensation insurance. The extent and uncertainty of these costs make businesses reluctant to hire.

Small businesses that want to pursue local government as a customer find opportunities limited. They express frustration at being able to participate in government procurement and contracting opportunities and compete with out-of-town and larger companies. They encourage San Jose to break City contracts into smaller sizes suitable for small businesses and to encourage prime contractors to engage small, local subcontractors. Some encourage “preferences” for small local businesses or a larger cost differential for local companies. (San Jose’s current policy allows local business a 1% cost differential over out-of-town competition. A recent scan of other communities in Northern California found this policy to be typical.)

Nonprofit businesses that provide contract services to the City require prompt payment and streamlined paperwork to make doing business with the City economical. Nonprofit businesses in San Jose employ more than 15,000 people and are an important contributor to the economic success factors underlying our

community. Like their for-profit counterparts, nonprofit businesses are looking for ways to increase efficiencies, decrease administrative overhead, and focus on core service delivery. In doing business with the City, nonprofits face delayed payments for services completed (averaging three to six months), slow contract approval processes, uncoordinated paperwork, and excessive reporting requirements. Administrative costs could be reduced for the nonprofits and the City through streamlining processes, reducing paperwork and workload, while still ensuring accountability.

San Jose has a particular opportunity to spawn businesses owned by immigrants, including culturally based businesses. The challenges of starting and operating a small business are exacerbated for owners who have moved here from other countries. But the initiative and insight that immigrants bring to entrepreneurship can be an even more powerful catalyst for San Jose’s economic growth. The region is home to several companies—now significant operations—that started small serving the needs of a particular ethnic community. These companies include Mi Pueblo Supermarket, Marquez Brothers, and Lee’s Sandwiches. Such culture-based businesses add to the diversity of San Jose’s economy and contribute to our distinct, international quality of life.

What does this finding mean for San Jose’s future?

- Opportunity to increase accessibility of small-business support resources
- Need to be customer friendly, and control costs, for our smallest employers
- Opportunity to weigh in on Sacramento-imposed cost issues
- Opportunity for government spending to encourage development of local businesses
- Opportunity to develop immigrant entrepreneurs and culturally based businesses.

San Jose’s Full Retail Potential Remains Untapped

San Jose’s resident population is capable of supporting more retail, which would increase sales tax revenue to the City and also enhance quality of life and neighborhood livability.

A special study commissioned for the economic strategy effort found that San Jose is 20% below its potential retail sales, given its household income and demographics. This untapped potential includes both neighborhood-serving retail as well as community retail that serves larger subareas of the city.

The analysis identifies 13 neighborhoods that appear underserved by basic retail to meet daily or weekly needs, such as grocery stores and drugstores. Three of these neighborhood trade areas—Greater Downtown (including Japantown/Northside/Naglee/Campus), College Park/Bascom, and Ramblewood/Hellyer—could support a grocery/drugstore combination. The others could support either a grocery store (seven district neighborhood trade areas) or a drugstore (three neighborhood trade areas). Quality groceries serving niche healthy, ethnic, or upscale food markets could be particularly successful.

In addition to supporting neighborhood-serving retail, San Jose could support more community retail that serves larger subareas of San Jose and residential areas of neighboring cities. This would include additional square feet of home furnishings and appliance stores, new department/general-merchandise stores, and new apparel stores. These stores—many of them of the “big box” type—would need to be strategically located and merchandised to attract sales from surrounding cities as well as local residents and workers. These kinds of stores could generate significant sales tax revenue for the City.

The major barriers to attracting retailers include:

- ***Availability of large, assembled land parcels.*** San Jose lacks readily available land parcels of sufficient size to create efficient shopping centers. Speciality shopping centers and “box” retailers typically require sites of 20 or more acres in accessible, visible locations. Neighborhood retail centers require sites of 5 to 12 acres.
- ***Willing sellers and feasible land/construction costs.*** The high cost of land and competitive pressures from tech companies and housing developers who can pay more constrain new retail development. Lengthy entitlements and high construction costs push retailers to other lower-cost or easier-to-develop competing cities.

What does this finding mean for San Jose’s future?

San Jose has the opportunity to support increased retail sales, and the commensurate improvements to quality of life and the City’s retail tax base. The main barrier to realizing this potential is the identification and zoning of sites that are appropriately sized and located.

III.E. San Jose's Competitive Advantages and Disadvantages

Successful communities recognize and cultivate their unique assets and use them for economic advantage. They overcome or minimize the damaging effects of competitive disadvantages.

Most typically, companies decide to start up, locate, or invest in a particular metropolitan region, such as the Bay Area or Silicon Valley. They then consider which particular community in that region they want to call home. Over time, they may consider expanding or relocating into entirely different regions.

Different factors matter to companies in different industries at different stages of development. But, in general, national research and local outreach show that innovation-based businesses value a shared set of community factors. Their perceptions of these success factors matter to community's economic future.

Five key factors for success in the economy can be influenced by the community:

- **Exceptional Workforce.** Access to talent has become a major determinant in determining where firms start up and grow. In a recent survey, 85% of technology executives in Silicon Valley cited access to talent as a key factor in explaining their firm's presence in Silicon Valley. Places that can develop and attract an exceptional workforce and that have a reputation for adaptability and social cohesion will succeed.
- **World-Class Place.** Quality of place matters more than ever to economic competitiveness; to thrive, cities need to be attractive places to live and work. The technical, entrepreneurial, and creative talent that drives the economy today is highly mobile. Young professionals, active Baby Boomers, and talented immigrants, in particular, are looking for different ingredients in a quality place beyond traditional notions of housing and entertainment.
- **Habitat for Innovation.** High-cost regions that want to maintain and increase their standard of living must compete on innovation and entrepreneurship. Doing so involves creating an environment where innovative, entrepreneurial companies of all sizes can start up and thrive. This environment includes access to venture capital and intellectual resources at universities and research institutes.
- **Efficient Business Environment.** Successful communities are aware that they compete internationally to be the home to great companies. They aim to reduce direct and transactions costs of operating in their community and to provide competitive infrastructure and public services that aid business efficiency.
- **Collaborative Leadership.** Transforming community assets into competitive advantage requires leaders that are willing to work across sectors. Communities must have capacity to pursue a strategy over the long term, adjusting for changing circumstances and individual leaders.

The presence or absence of these factors will shape the competitiveness of the community as a home for successful companies and place of opportunity for people. Perception and impression matter in addition to actual performance.

SUCCESS FACTORS FROM THE COMMUNITY

What matters for economic success?

Exceptional Workforce

- *Technical, entrepreneurial, and creative talent*—attracting and retaining the best and the brightest from all over the nation and world
- *Educated, learning-oriented people*—high levels of educational attainment and people oriented toward life-long skill acquisition
- *Higher education and training opportunities*—education and training systems attuned to the needs of the economy, that connect people to careers
- *Quality Pre–K through 12*—strong fundamental education system to develop the next generation and attract/retain talented parents
- *Civic infrastructure for economic participation*—support that helps people increase their well-being and productivity, such as affordable housing, public transportation, child care, and health care.

World-Class Place

- *Variety of quality neighborhoods*—including a variety of housing and lifestyle options, from downtown living to historic neighborhoods to family-oriented suburbs to gated golf communities
- *Vibrant downtown and commercial centers*—walkable, sociable, mixed-use centers that encourage interaction and spark creativity; neighborhood centers that enhance the quality of life and vitality for residents
- *Outdoor recreation and environmental quality*—pleasant climate, beautiful scenery, outdoor recreation that is easy to get to and readily available near workplaces and housing
- *Distinctive arts, culture, and entertainment*—not only traditional amenities such as stadiums, museums, and parks, but also distinctive, smaller-scale offerings that open the door to interaction and creativity, such as music venues, lively cafes, quality restaurants, unique galleries, and boutiques
- *Compelling community identity*—a community's self-image and external reputation as an exciting place that has clear, high aspirations for its future and plenty of passion and forward momentum.

Habitat for Innovation

- *Innovation assets and networks*—research and development capacities, commercialization support, higher-education institutions (community and commercial oriented), informal and formal networks for business development and information sharing
- *Entrepreneurial support*—culture and concentration of entrepreneurship, support for entrepreneurial start-ups, venture financing, experienced start-up professionals and service providers
- *Anchor headquarters companies*—a critical mass of headquarters operations in Driving Industries that spawn new ideas and entrepreneurs and partner with new companies
- *Policies and initiatives that enable evolution of economic base*—encouraging the evolution economic base in the desired direction through strategic initiatives, land use policy, workforce development, and other tools
- *Support for small business and the self-employed*—support to help people start up and operate a small business/lifestyle business, including self- and family employment.

SUCCESS FACTORS FROM THE COMMUNITY (CONT'D.)

Efficient Business Environment

- *Timely, transparent regulatory procedures*—the clarity, ease, and speed with which the City carries out its planning, regulatory and permitting roles
- *First-rate public infrastructure and services*—the ease with which people can move around and in and out of the community, including airport, road network, public transportation, and other infrastructure that promotes speed and efficiency such as high-speed Internet access
- *Appropriate land and facilities*—the availability of employment lands and facilities aligned with company needs and ability to pay
- *Responsive, capable government*—the adaptability of government and other civic institutions to changing employment and population base, and external pressures and opportunities; participation in collaborative networks of individuals and organizations
- *Public finance system aligned with economy*—a state-local fiscal system that grows steadily with increased prosperity, jobs, and population and that is supportive of healthy community and economic development.

Collaborative Leadership

- *Cross-sector team*—shared commitment among diverse leaders and interest groups to work together to maintain a healthy economy and quality community, strong ongoing communication between business, government, education and community
- *Openness to new ideas and people*—open, tolerant organizations and social structures that welcome newcomers and embrace new ideas
- *Long-term stewardship*—the capacity to pursue a strategy over the long term, adjusting for changing circumstances
- *Vigilance about competition*—widespread understanding of how the economy works and what is necessary to succeed, never taking success for granted; keen awareness of intense national and global competition
- *Regional collaboration*—strong awareness that the City's fate is tied to the region, regional approaches to opportunities and problems.

SOURCE: Collaborative Economics

Regional Advantages and Concerns

From a top-level view, San Jose benefits from the perceived advantages of the Silicon Valley region, and suffers from its disadvantages.

Despite current concerns about the region's competitiveness, companies and entrepreneurs still view Silicon Valley as a unique habitat for innovation and entrepreneurship. The region still has strong advantages compared to other technology regions worldwide.

- **Geographic concentration of technology companies**—Silicon Valley is home to the largest concentration of technology expertise in the world—more than 7,300 technology companies employing more than 300,000 people. The dense concentration of headquarters, customers, competitors, partners, and support institutions fuels innovation.
- **Venture capital**—One-third of all U.S. venture capital is invested in the Silicon Valley area—three times the share of the next closest region. This share has held constant during the current downturn.
- **Technology innovation and entrepreneurship**—Silicon Valley businesses have unique competencies both in generating new ideas and in turning them into new products, businesses, and industries.
- **Breadth of technology expertise**—The Brookings Institution found that the Silicon Valley has seven principal areas of technology specialization, a significantly wider range than any other high-tech region in the United States. These areas include semiconductors, semiconductor-manufacturing equipment, computers, software, communication equipment, electronic design automation, and data storage.
- **Global “best and brightest”**—Silicon Valley has attracted the best and brightest talent from around the world, including highly skilled immigrant technologists and entrepreneurs. One-third of the engineering workforce is Indian or Chinese. One-third of all technology start-ups in Silicon Valley are started by Indian, Chinese, and Taiwanese immigrants.
- **Research institutions**—Silicon Valley is home to Stanford University, NASA Ames, and SRI International and benefits from proximity to UC Berkeley, UC San Francisco, and UC Santa Cruz. Bay Area universities conduct more than \$1.4 billion in research annually.

“In Silicon Valley, you can attract talent that can serve your company’s interests across borders—this benefits both foreign and U.S.-based companies.”

Companies report four main negatives for operating in Silicon Valley and the Bay Area.

- **High labor costs, high housing costs**—The cost of living in the San Francisco/San Mateo Area is 84% above the urban average for the United States—more expensive than New York City. Santa Clara County is 64% above the urban average. Although other major cities tend to be expensive, the Bay Area region stands out because of its cost of housing. High demand for a limited number of homes has driven prices extremely high, putting upward pressure on wages—especially for out-of-town recruits.
- **Congestion, incomplete transit network**—Residents of Silicon Valley and the Bay Area have to deal with traffic congestion and a poorly integrated transit system. Fully 88% of Bay Area residents agree that worsening traffic congestion seriously threatens quality of life (Bay Area Poll).
- **California-specific regulatory costs**—The costs of workers’ compensation insurance in California is 53% above the U.S. average. California is the only state where overtime pay kicks in at 8 hours/day, rather than 40 hours/week.

- *Unstable, expensive energy supply*—Energy costs in California are 40% higher than in other Western states. Transmission improvements are necessary in California to support Silicon Valley’s energy supply.

COST OF LIVING (THIRD QUARTER 2002)	
Metropolitan Area	Cost of Living Composite
San Francisco Area (counties of San Francisco, San Mateo, Marin)	184.1
New York Area	175.1
San Jose Area	164.0
Newark, NJ Area	148.3
Seattle Area	148.2
Oakland Area	139.5
San Diego Area	137.8
Chicago Area	135.7
Boston Area	135.5
Nassau-Suffolk, NY Area	135.3
Los Angeles-Long Beach Area	135.2
Average of 300 Urban Areas	100

Source: ACCRA

DRIVING INDUSTRY PERCEPTIONS OF SILICON VALLEY	
Advantages	Concerns
Geographic concentration of technology companies	High labor costs because of high housing costs
Venture capital	Traffic congestion, and incomplete transit network
Technology innovation and entrepreneurship	California-specific regulatory costs
Breadth and depth of technology expertise	Unstable, expensive energy supply
Global “best and brightest,” experienced talent	
Research institutions	

Source: City of San Jose, interviews with 50 employers

San Jose’s Distinctive Advantages and Untapped Assets

As a city in the Silicon Valley region, San Jose has some distinct advantages relative to neighboring jurisdictions. *Many of these advantages our community has yet to be harnessed fully for economic benefit; they represent untapped assets.*

Population and housing center—With 925,000 residents, San Jose is the population center of Silicon Valley and the Bay Area. San Jose is unique in the Valley in its stock and mix of housing, variety of neighborhoods, and commitment to new-home construction. More than 60% of Silicon Valley’s new housing is being built in San Jose. The opportunity is to create more economic advantage from this commitment.

RATE OF HOME OWNERSHIP	
San Jose	62%
Santa Clara County	60%
Bay Area	57%

Source: 2000 Census

Vacant land for greenfield development, at relatively lower cost—Unique in Silicon Valley, San Jose still has vacant land available for development of greenfield employment centers, especially for corporate headquarters. As of July 2003, San Jose has nearly 4,500 acres of vacant land zoned for nonresidential uses (3,390 acres for industrial uses, 159 acres for commercial uses). Some of these areas, such as Edenvale, are already masterplanned and ready for immediate development.

Lower lease rates than the Peninsula—Compared with leasing space in Peninsula locations, leasing space in San Jose, particularly South San Jose, is less expensive.

RENTAL RATES, THIRD QUARTER 2003			
	Office	R&D	Manufacturing
Redwood City	\$2.17	\$1.26	.78
Palo Alto	\$3.18	\$1.93	.63
Mountain View	\$2.22	\$1.15	1.08
North San Jose	\$1.90	\$.98	.63
Downtown San Jose	\$2.19	N/A	N/A
South San Jose	\$1.65	\$.98	.50

Source: BT Commercial

International Airport—Mineta San Jose International Airport is an attraction for companies to locate in and near San Jose. But the airport does not meet the current—much less the future—needs of area companies for domestic, international, and corporate jet travel. High-tech companies within 30 minutes’ driving time of San Jose’s airport have more sales volume than companies near San Francisco and Oakland combined. And San Jose’s service area includes the highest incomes in the Bay Area. Nevertheless:

- San Jose captures only 19% of the Bay Area passenger market, rather than the potential 25%.
- Though the San Jose area produces 80% of Bay Area air cargo traffic, the San Jose airport ships only 10% of it.
- San Jose is the eleventh-largest city in America, but our airport ranks thirty-fifth nationally in passenger activity.
- San Jose’s airport currently offers only three international flights: Tokyo, and Guadalajara and Morelia in Mexico.

This situation represents lost economic opportunity for San Jose and lost efficiency for local companies. The City began implementing a Master Plan to improve the airport in 2000. The Plan, scheduled for completion in 2010, will transform the airport’s terminals, roadways, garages, and airfield to meet increased demand and improve customer service and airport operations.

Cosmopolitan people, ethnic diversity—In terms of global diversity, as one focus group participant remarked, “San Jose is Silicon Valley, only more so.” Thirty-seven percent of San Jose residents were born in a foreign country, providing unique immigrant energy and perspective. San Jose can do more to leverage the home-country connections and cultural competences of its foreign-born resident and worker population for economic benefit.

San Jose State University—San Jose State University is an asset unique for San Jose and Silicon Valley as a center of teaching, research, and community service. The Engineering School is the number one provider of engineers to Silicon Valley, and SJSU educates service professionals in areas like health care, education, public administration/planning, and social work. The City of San Jose has just completed an exceptional partnership project with the university: the first joint municipal-university library in the country. Building on this experience, opportunities exist for additional partnerships in fields such as bioscience, entrepreneurship, art/design, hospitality, health/wellness, athletics, and international business.

City Center/culture and entertainment—San Jose’s improving city center can provide a distinctive economic advantage—especially to the extent that it distinguishes itself from other shopping-oriented downtowns and centers. Companies perceive the growing concentration of arts, cultural, and entertainment attractions and restaurants Downtown as a unique advantage. San Jose’s Downtown can be a unique cultural and creative center of Silicon Valley, with cultural, entertainment, commercial, civic, residential, and retail uses converging.

Light rail—The extent of light rail development in San Jose is a potential advantage. In 2003, 28 miles of Santa Clara County’s 30-mile light rail system extend through San Jose, with another seven miles to be completed within one year. The opportunity is to harness this advantage by continuing to increase residential and workplace densities near transit centers and linking the light rail network with other forms of transit. A specific locational benefit to Downtown is that it is the only place in Silicon Valley where all main modes of public transportation converge.

“In San Jose, we have been able to hire a combination of Westerners and people raised in Taiwan, to marry the marketing/technical knowledge of Western education with culture and perspective of Eastern upbringing. This is very unique and powerful.”

Our Competitive Disadvantages

Companies in and outside San Jose also perceive some downsides to locating in San Jose as a community within Silicon Valley.

Perception of poor-performing K–12 system—Compared with other cities in Silicon Valley, San Jose is perceived as having a lower-performing K–12 system. As a large city, San Jose has tremendous variation within the 15 districts that make up its large school system. Overall, schools in San Jose perform slightly below the Santa Clara County average, but outperform or are on par with schools in California and the nation.

K–12 EDUCATION PERFORMANCE				
	Drop-Out Rate*	Completion of Courses Required to Enter UC/CSU	SAT Math	Academic Performance Index (API) 2002
San Jose	7.0%	38%	518	690
Santa Clara County	5.2%	45%	556	731
California	10.9%	35%	517	689
United States	10.7%	N/A	516	N/A

*Four-year derived drop-out rate

Energy costs relative to Santa Clara—Because the City of Santa Clara operates its own municipal-utility company, this neighboring community is able to offer more reliable power at 20-30% below neighboring Valley communities.

Incomplete broadband coverage—Companies note that geographic areas still exist in the City of San Jose where residents, small businesses, and institutions cannot access either DSL or cable-modem service. This lack makes it nearly impossible to realize the current and coming productivity advantages of the Internet. As of October 2003, 80% of City geography is covered by DSL (SBC); 35% is covered by cable Internet (Comcast). Cable Internet coverage is planned to increase to 95% by the end of 2004.

“Broadband—high-speed, constantly-on Internet access—is our most important new utility.”

— Senior VP,
communications company

Technology orientation of local government—Companies and residents expressed surprise to find that, as the “Capital of Silicon Valley,” the City of San Jose is not a visible user and champion of technology in government and the broader community. The City has had several visible successes at using technology to improve access to government—namely, the eBranch library initiative and San Jose Permits On Line. But in general, San Jose City government shows visible signs of outmoded information technology infrastructure, especially in its use of the Internet/networking technology for external engagement and internal enterprise operations. (For example, San Jose City government has multiple URLs, 19 e-mail servers, 340 servers, and 136 different networks. An estimated 44% of existing computer equipment needs to be replaced.) Few visible signs indicate that our community pioneers new technology and embraces it in community life.

Unclear community identity—The strength and clarity of San Jose’s identity in the Bay Area, nationally, and internationally do not match its rank as the eleventh-largest City in America and the dominant city of Silicon Valley. San Jose suffers from low brand recognition and also outmoded perceptions generated earlier when

“San Francisco is widely understood. Stanford is understood. The Silicon Valley phenomenon is understood. But San Jose is not understood by many—even those who should know better.”

San Jose was a different community. Executives report that they often have to explain where and what San Jose is.

Urban lifestyle only emerging—Companies report difficulty attracting in nontechnical talent to commute or live south of Palo Alto. They report a perception that San Jose has little to offer people who aren’t strictly into technology or suburban family living.

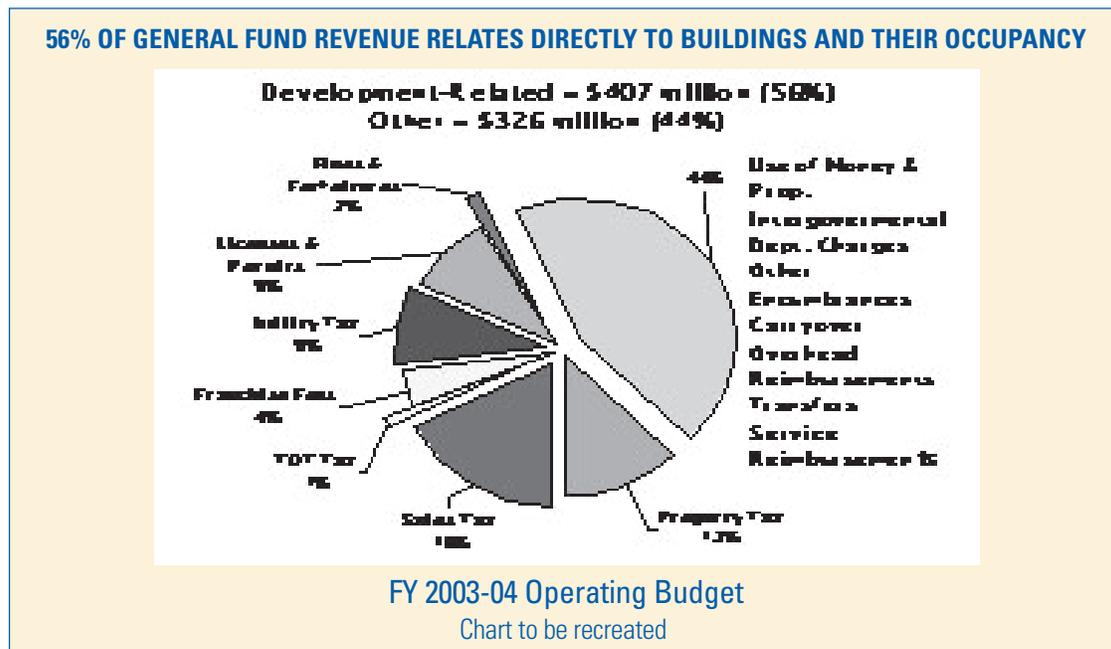
Slow, unpredictable development process—As a large City, San Jose faces comparisons in its development review process with smaller communities. Developers find that the slow speed and unpredictability of San Jose’s process leads to higher perceived “cost” of developing in San Jose relative to neighboring cities.

IIIF. The San Jose Economy, Land Use, And The City's Fiscal Health

The Overall Strength of the Economy is the Most Important Factor Affecting General Fund Revenue

The most fundamental source of sustained revenue growth for our City is a strong, competitive economy that is generating jobs and rising incomes, and fostering private-sector investment. This leads to growth in major local revenue sources, including sales tax, property tax, tax increment revenue, utility tax, and franchise fees. First and foremost, to be fiscally stable, San Jose must remain economically vital. San Jose's economic vitality is related to the local environment, as well as to the overall strength of the regional, national, and international economy.

In total, 56% of General Fund revenue is generated by buildings and their occupancy. Building-related revenues (property taxes, franchise fees, utility taxes, and licenses such as the business license) account for 37% of General Fund revenue. An addition 19% of revenue is generated by people and companies who occupy the buildings (sales and transient occupancy taxes). This implies that it is in San Jose's fiscal interest to keep its job base growing.



Cost challenges are as important as revenue challenges to the City's fiscal health. Employee salary and benefits are 70% of the City's General Fund budget. Over the last three years, employee salary increases have outpaced growth in City revenues. The City faces steep increases in health insurance costs and workers compensation claims. The City also faces a severe spike in costs for employer contributions to retirement funds, driven primarily by lower investment earnings compared with those achieved during the boom years.

In this context, the revenues and costs associated with individual, small-scale development projects are unlikely, at the margin, to have significant fiscal implications—whether positive or negative—for the City. The exceptions could be very large-scale projects, a significant number of conversions in one specific area, or a significant number of cumulative conversions over time.

Land Use Decisions Will Affect Our City's Economic Competitiveness and Prosperity, and Our Ability to Implement the Economic Strategy

This Economic Strategy puts an emphasis on four areas that have direct land supply implications:

- Remaining competitive as a home for Driving Industries, including young companies, growing businesses, and established firms that operate nationally and internationally from a San Jose base.
- Preserving and creating mid-tier jobs in Support Industries such as transportation/distribution, building/construction, and industrial suppliers/manufacturing, as well as in health services and the civic sector.
- Continuing our emphasis on developing housing, especially new housing types in a variety of neighborhood settings.
- Developing retail to its full potential to maximize revenue impacts and neighborhood livability.

To implement the economic strategy, land supply clearly needs to be available for employment uses. Appropriate lands need to be planned for Driving Industries and for Support Industries. But land also needs to be available for other uses (housing, retail, civic uses) that sustain long-run economic vitality. For example, the cost of housing is the single-most important issue undermining the competitiveness of San Jose/Silicon Valley. (Nearly 60% of San Jose's land area with the Urban Service Area is currently planned and used for housing.)

As discussed later in this chapter, there are some opportunities to mix active employment lands with housing, civic, and other uses in compatible, exciting new neighborhood forms. But for some other types of businesses it will be important to be separated from housing, civic, and institutional uses.

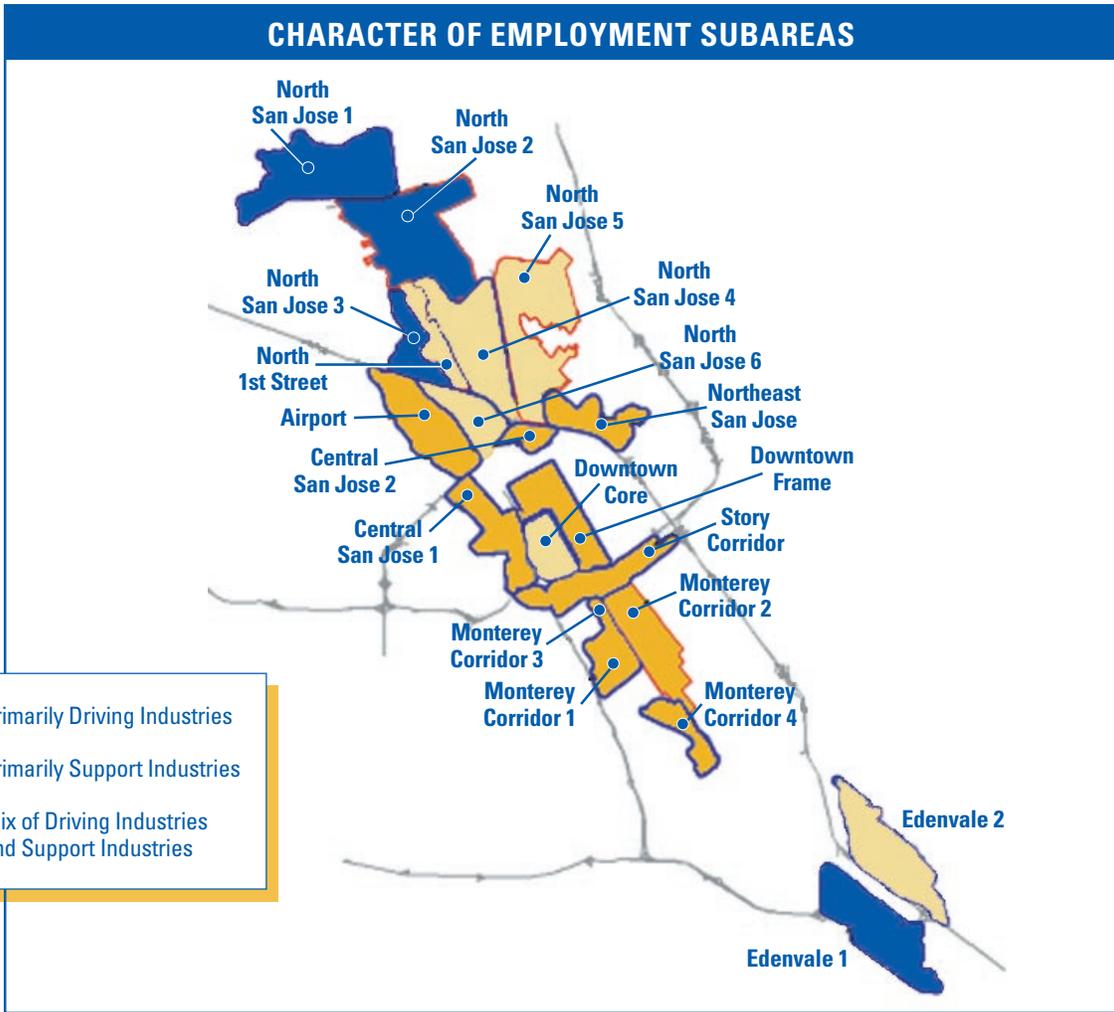
Different Employment Areas in the City Support Different Types of Jobs and Industries

San Jose has 13,000 acres of land in active use for employment. These employment lands can be divided into 20 key subareas (see map). These subareas host the majority (55%) of the City's overall job base and 73% of its Driving Industry jobs.

Each of these subareas has a different industry base and mix of economic activities and building types. In five of the 20 subareas, for example, Driving Industries are the strong majority of employment. These are North San Jose 1, North San Jose 2, North San Jose 3, and Edenvale 1.

Other areas, such as Monterey Corridor 1, Monterey Corridor 2, North San Jose 5, and Northeast San Jose are the home for Support Industries such as building materials, distribution, industrial suppliers, and miscellaneous manufacturing. These industries are important providers of mid-wage jobs.

It is interesting to note that there are two areas that have almost an equal number of jobs in Driving and Support Industries: North First Street and the Downtown Core.



The San Jose Area Is Expected to Have 140,000 More Jobs in 2020 Than In 2001

From 2001 to 2020, the City of San Jose is expected to add 140,000 additional jobs (based on ABAG projections). This will amount to a demand for workspace totaling 51,000,000 square feet, or 2,700 acres.

This job growth can be accommodated in three main ways:

- In currently vacant buildings that are not functionally obsolete
- In new buildings built on vacant lands
- In new buildings built on previously developed lands (re-use at current or higher intensity).

ANTICIPATED JOB GROWTH (2001-2020)	
	Anticipated Job Growth
Driving Industries	50,000
Business Support/People-Serving Industries	90,000
TOTAL	140,000

SOURCE: ABAG, Strategic Economics, Whitney and Whitney

BUILDING SQUARE FEET REQUIRED (2001-2020)				
	DRIVING INDUSTRIES	BUSINESS-SUPPORT/ PEOPLE-SERVING INDUSTRIES	TOTAL	SHARE OF DEMAND
Industrial/Warehouse	2,113,107	10,458,558	12,571,665	25%
R&D/"Heavy"	2,945,524	1,377,320	4,322,844	9%
Low-Rise Office	7,226,498	2,749,178	9,975,676	20%
Mid-/High-Rise Office	2,476,718	4,180,188	6,656,905	13%
SUB-TOTAL	14,761,847	18,765,244	33,527,090	67%
Retail	37,183	10,227,505	10,264,689	20%
Institutional/Other	234,256	6,530,667	6,764,922	13%
TOTAL	15,033,286	35,523,415	51,000,000	100%

SOURCE: ABAG, Strategic Economics, Whitney and Whitney

As of September 2003, San Jose has 19.6 million square feet of total vacant building space. This includes 3.2 million square feet of office space, 10.9 million square feet of R&D office space, 2.6 million square feet of industrial/manufacturing space, and 2.9 million square feet of warehouse space.

Silicon Valley has 54.9 million square feet of vacant space. Of this, 20 million square feet is estimated to be functionally obsolete vacant space (i.e., "tear down space") that is not likely to ever lease again. (Note: this does not include occupied buildings.)

San Jose has an estimated 15%, or 3 million square feet, of the obsolete space (per Colliers International and CPS). Of this, 300,000 square feet is office, 1.8 million square feet is R&D office, 450,000 square feet is industrial/manufacturing space, and another 450,000 is warehouse space.

San Jose has 1,200 acres of vacant employment lands in currently developed areas (excluding 1,400 undeveloped acres in North Coyote Valley and 375 vacant acres in Evergreen.)

Structural Change in the Economy Points to Increased Opportunity to Use Land and Buildings More Efficiently in the Future for Some Industries

There is more opportunity for vertical workplaces with increased floor-to-area ratios and employment densities in certain subareas that host Driving Industries, such as North San Jose and Downtown.

In the future, Driving Industries as a whole anticipate relatively greater need for office buildings (mid-/high-rise, as well as low-rise), and relatively less need for industrial and heavy R&D buildings. In addition, they anticipate needing fewer square feet per employee, as they drive toward more efficient use of workspace. This creates the opportunity for San Jose to encourage more efficient use of employment lands, and the recycling and/or reinvestment of functionally obsolete buildings.

EFFICIENCY ASSUMPTIONS BY BUILDING TYPE (2001-2020)						
	INDUSTRIAL AND WAREHOUSE	R&D/ "HEAVY"	LOW-RISE OFFICE	MID/ HIGH-RISE OFFICE	RETAIL	INSTITUTIONAL/ OFFICE
Square Feet Per Employee						
2001-2010	500	350	300	300	500	350
2011-2020	500	300	250	250	500	350
Floor-to-Area Ratio						
2001-2010	.5	.35	.5	.8	.25	.25
2011-2020	.5	.45	.55	1.2	.35	.35

SOURCE: Strategic Economics, Whitney and Whitney, City of San Jose

In general, Support Industries are not as suitable for intensification of use. To have a strong employment base, San Jose needs to retain the capacity for land-intensive operations that serve people and companies and provide mid-wage jobs, in areas like distribution, industrial suppliers, building materials, and repair services.

The amount of real recycling that occurs will depend on the market and the specific location of the subarea. Those areas that are served by transit and already are home to a strong base of Driving Industries are more likely to see intensification for other employment uses. Buildings in other areas may not be recycled, but they will continue to accommodate a variety of businesses. And, over time, it may be possible that entire subareas will be more productive if they converted to completely different land uses. But this conversion process should happen as a result of proactive policy changes, not on a parcel by parcel basis.

Over time, San Jose’s employment and industry base will continue to change. The City needs land use flexibility to accommodate a range of business types, activities, and facilities.

Assuming More Efficient Use of Some Employment Lands, the City Has Adequate Employment Lands to Absorb Projected Job Growth Through 2020

The table below depicts how the demand for employment space could be met, assuming more efficient and higher-intensity use of some employment lands. Absorption of existing vacant space would occur during this period as well as the construction of new buildings on vacant land, assuming more efficient utilization of land.

DEMAND FOR BUILDING SPACE AND LAND (2001–2020)				
BUILDING TYPES				
	INDUSTRIAL AND WAREHOUSE	R&D/"HEAVY" AND LOW-RISE OFFICE	OTHER OFFICE	TOTAL
ANTICIPATED DEMAND THROUGH 2020 (sq. ft.)	12,571,665	14,298,520	6,656,905	33,527,090
Vacant Space Currently Available (sq. ft.)	5,564,644	10,926,269	3,154,805	19,645,718
Minus Obsolete Vacant Space (sq. ft.)	900,000	1,800,000	300,000	3,000,000
VACANT USABLE SPACE (sq. ft.)	4,664,644	9,126,269	2,854,805	16,645,718
ADDITIONAL SPACE DEMAND (sq. ft.)	7,907,021	5,172,251	3,802,100	16,881,372
ESTIMATED NEW DEVELOPMENT ON VACANT LAND (acres)	400	500	100	1,000

SOURCE: Strategic Economics, City of San Jose

But, It Is Important to Have a Range of Land/Building Options Available, and to Preserve the Integrity of Certain Unique Employment Subareas.

Despite opportunities to recycle and intensify already-developed sites, some companies will want the option of developing larger campuses on greenfield sites (e.g., North Coyote Valley). It is important to retain vacant lands for this opportunity, which San Jose offers uniquely among Silicon Valley cities.

It is also very important to preserve the integrity of certain employment subareas, even as others change character over time. The location and characteristics of employment subareas matter for thinking about their ability to support job growth in the future. All employment lands are not equal and are not interchangeable. While there is a need to adapt some areas for the future, retaining the current character will be important for others in order to preserve jobs and prior private and public investments.

The City Should Take a Proactive, Strategic Approach to Considering Land Conversion Proposals in Employment Areas, Focusing on the Economic Characteristics and Contribution of Subareas as Context for Considering Individual Parcels.

The first consideration should be the contribution that the subarea makes to San Jose’s economic base in terms of jobs, ongoing City revenues, and opportunities to accommodate projected demand for job growth.

- What role does this employment subarea play in the economy currently—number and kinds of jobs, type of buildings provided, revenue contribution to the City?
- Does the subarea play a particularly unique role that would be compromised by allowing other uses?
- Could the addition of other uses in this subarea increase its attractiveness and enhance the unique role the subarea plays in San Jose’s economy?

If it is determined that the subarea’s contribution to the economy would be compromised by allowing other uses, the City should guide conversion projects to more appropriate areas.

If it is determined that other uses could be allowed without compromising the integrity of the employment sub-area, then the following should be considered:

For potential site conversion to residential

- Would the potential new housing be adjacent to existing neighborhoods and proximate to neighborhood services?
- Would the potential new housing be within one-half mile of transit service?
- Would the type of housing proposed in this subarea have a neutral or positive impact on the City revenue and service costs?

For potential site conversions to retail

- Would development of this site contribute to the City’s stated need for community-serving (i.e., big box) retail or neighborhood-serving retail?
- What would be the net fiscal impact on the City of using this parcel for retail instead of the current use?

Increased Housing in Some of the Employment Areas Could Have a Neutral or Beneficial impact on the City’s Fiscal Health, depending on price, density, amount, and location. The conventional wisdom is that housing “does not pay for itself.” However, housing can pay for the ongoing cost of services required by the housing (through property and sales tax revenues) when infrastructure and services already exist and when home prices and/or densities are relatively high.

In some employment subareas, the introduction of housing can complement the employment uses and increase the attractiveness of the subarea for additional jobs. This is particularly true when the employment uses occur in typical office environments.

Although conversion of some employment land to residential uses could help San Jose increase its housing supply, it is important to remember that the City’s full housing needs cannot be fully met through conversion of employment lands; thus the City should stay the course in terms of its current strategy to increase housing supply in all parts of the community, particularly near transit facilities.

APPENDIX

Recommended Economic Indicators

ECONOMIC OUTCOMES	
Growing Economy	
Real Income per Capita	The bottom-line measure of competitiveness/a rising standard of living
Output per Employee	A measure of labor productivity or value added per worker
Increasing Prosperity	
Job Creation	Job creation relative to labor force growth
Average Pay per Employee	Provide data on average pay overall, average pay for each industry
Household Income	Show growth of household income over time, especially median and lowest 20%
Economic Mobility	Individual employment and wage mobility; household mobility
Revenue Growth	
Sales Tax Revenue	Growth in sales tax revenue, split by business-to-business and other retail sales
Property Tax Revenue	Annual value of property tax revenue for city general fund
Tax Increment Revenue	Annual value of tax increment revenue
Utility Tax/Franchise Fee	Annual value of utility tax revenue and franchise fee

ECONOMIC STRUCTURE	
Sources of Economic Growth	
Driving Industries	Track San Jose and Silicon Valley employment by driving industries, and by business-support industries and people-serving industries.
Number of Publicly Held "Gazelle" Firms	"Gazelles" are companies that have grown at least 20% for each of the last four years, starting with at least \$1 million in sales. Show the number of gazelle firms in San Jose since 1995 and as a share of Silicon Valley total.
Venture-Backed Companies	Number of venture-backed companies in San Jose and value of venture investment, compared with regional total
Anchor Companies	The number of publicly traded companies headquartered in San Jose, and as a share of Silicon Valley
Sources of Prosperity and Opportunity	
Occupation Structure	Show occupation structure for San Jose in most recent year, and occupations where new jobs are being added and lose. Show average annual wage for fastest-growing occupations.
Establishment Size	Show average establishment size for each industry. Identify the share of businesses/employment that is in businesses with fewer than 35 employees.
Minority entrepreneurs	Share of firms owned by non-White entrepreneurs, compared to their proportion of the population.
Sources of Revenue	
Retail Potential	Actual retail sales in San Jose compared to potential, given household income and population

COMMUNITY SUCCESS FACTORS

COMMUNITY SUCCESS FACTORS	
World-Class Place	
Transit-Oriented development	New housing units and jobs within <u> </u> mile of rail stations and major bus corridors
Sprawl	Average units per acre of new residential development
Vital, Mixed-Use Centers	National ranking on mixed-used centers
Housing	Share of region’s housing stock that is in San Jose; share of region’s new housing units being built in San Jose
Open Space	Acres of permanently protected open space
Home Ownership	Home ownership rates compared with other Bay Area cities, home ownership by ethnicity
Housing Affordability	The percentage of San Jose households that can afford to purchase the median-priced home
Rental Affordability	Show the weekly wage required to rent 1- and 2-bedroom apartments at a price that is no more than 30% of the median family income in each year
Exceptional Workforce	
Technical/Professional Workforce	Share of workforce in technical/scientific and professional occupations
Adult Education Attainment	Educational attainment of residents 25 years and older
Quality of K–12	Share of students who graduate from high school; share who take courses required for entry to UC/CSU
Health Insurance Coverage	Percentage of San Jose residents with basic health insurance coverage
Population and Labor-Force Growth Rate	Show overall population and labor force size and growth for the past ten years
Migration	Show net domestic and international migration for San Jose
Demographic Diversity	San Jose population by race/ethnicity, and share of residents that are foreign born, share speaking foreign language
Innovation Habitat	
Engineering Graduates	Number of graduate in engineering, science, mathematics, and computer science from area schools
Patent Activity	U.S. patents issued to residents or businesses, per capita
Net Company Creation	Show new business incorporations by industry
University Research Capacity	Value of federal R&D in universities by granting institution
Industry R&D in Universities	Value of R&D dollars invested by the private sector in local universities
University Technology Licensing	Number of technology licenses issued by major universities, hospitals and nonprofit research institutions
Foreign Direct Investment	Percentage of workforce employed by foreign companies
Efficient Business Environment	
Cost of Operating a Business	Show operating costs for San Jose businesses compared to other regions nationally and internationally
Quality of Airport	Number of direct or non-stop national and international flights from San Jose to other cities
Lease Rates	Show R&D and office lease rates for San Jose

Characteristics of Employment Subareas

Information reflects data for calendar year 2002.

See www.sjeconomy.com for detailed industry definitions.

SUBAREAS WHERE DRIVING INDUSTRY EMPLOYMENT IS THE STRONG MAJORITY	
<p>North San Jose 2 24,200 jobs 78% of jobs are in Driving Industries</p>	<p>This subarea is the second-largest employment sub-area, following North San Jose 5.</p> <p>42% of employment in this subarea is in computers/communications; this area is the largest single concentration of computer/communications employment in the City (35% of all employment in computer/communications). 17% of employment in this subarea is in semiconductors; this area is also the largest single concentration of semiconductor employment in San Jose (22% of all employment in semiconductor employment citywide).</p>
<p>North San Jose 3 7,100 jobs 79% in Driving Industries</p>	<p>32% of employment in this subarea is in computers/communications; and 20% is in semiconductors, and 15% is in transportation/distribution. 11% is in bioscience.</p>
<p>Edenvale 1 11,700 jobs 67% in Driving Industries</p>	<p>49% of employment in this subarea is in computers/communications, and 16% is in retail. The remaining employment is a diverse mix across all remaining industry categories.</p> <p>This subarea is home to 20% of City employment in computers/communications—the second highest share of computers/communications in San Jose (next to North San Jose 2).</p>
<p>North San Jose 1 2,600 jobs 90% in Driving Industries</p>	<p>About 70% of employment is related to semiconductors.</p>

SUBAREAS WHERE SUPPORT INDUSTRY EMPLOYMENT IS THE STRONG MAJORITY

<p>Monterey Corridor 1 3,700 jobs 80% Support Industries</p>	<p>The largest employers in this subarea are building/construction (20% of employment), retail/consumer services (16%), industrial suppliers (15%), and transportation/distribution (14%)</p>
<p>Monterey Corridor 2 9,200 jobs 92% Support Industries</p>	<p>The largest employers in this subarea are transportation/distribution (25% of employment), building/construction (14%), retail/consumer services (14%), business services (12%), and industrial suppliers (11%)</p>
<p>Monterey Corridor 3 1,400 jobs 86% Support Industries,</p>	<p>The largest concentrations of employment in this subarea are in retail (43% of subarea employment), building/construction (20%), and transportation/distribution (16%).</p>
<p>Monterey Corridor 4 1,300 jobs 94% Support Industries</p>	<p>The largest-employing industries are retail/consumer services (26%), building/construction (23%), and business services (23%).</p>
<p>Northeast San Jose 9,300 jobs 80% Support Industries</p>	<p>This subarea is home to the largest single share of corporate office employment in San Jose: 15%. It is the second-most important home for industrial suppliers (following North San Jose 5), hosting 15% of all employment in industrial suppliers.</p> <p>The largest share of employment in Northeast San Jose is in building/construction (23%), followed by industrial suppliers (15%), retail/consumer services (11%), transportation/distribution (11%), and corporate offices (11%).</p>
<p>Central San Jose 1 11,000 jobs 91% Support Industries</p>	<p>This subarea is home to the single largest concentration of building/construction-related employment found in the employment subareas. 27% of employment in this subarea is in building/construction. 23% is in retail/consumer services, and 15% is business services.</p>
<p>Central San Jose 2 3,500 jobs 97% Support Industries</p>	<p>The largest share of employment in this subarea is in business services (40%), followed by retail/consumer services (19%), and transportation/distribution (11%).</p>
<p>Story Road 2,400 jobs 95% in Support Industries</p>	<p>The largest sectors in this subarea are retail (48%) and transportation/distribution (20%).</p>
<p>Downtown Frame 10,300 jobs 86% in Support Industries</p>	<p>The largest two sectors in this subarea are civic (31%) and retail/consumer services (25%).</p>
<p>Airport 3,000 jobs 97% in Support Industries</p>	<p>The largest sectors in the Airport subarea are transportation/distribution (43% of employment in this subarea), retail/consumer services (27%), and business services (21%). This subarea is home to the second-largest concentration of retail located in employment areas, 27% of retail employment found in employment subareas.</p>

SUBAREAS WHERE EMPLOYMENT IS A MIX OF DRIVING AND SUPPORT INDUSTRY

North First Street

9,200 jobs
54% in Driving Industries,
46% Support Industries

The largest employers in this subarea are innovation services (27%), business services (14%), and software (12%).

Downtown Core

20,500 jobs
53% in Driving Industries,
47% in Support Industries

Downtown is home to 20% of all software employment in San Jose—the largest concentration of software employment among all employment subareas. Downtown is also home to the single-largest share of innovation services employment: 26%.

Downtown's largest employment sectors are innovation services (23% of Downtown employment), software (18% of Downtown employment), and retail/consumer services (18% of Downtown employment).

Edenvale 2

1,800 jobs
57% in Driving Industries,
43% in Support Industries

36% of employment in this subarea is in computers/communications, and 13% is in software. 12% of employment is in retail/consumer services and 11% is in transportation/distribution.

North San Jose 4

22,900 jobs
60% in Support Industries,
40% in Driving Industries

North San Jose 4 is home to the largest share of miscellaneous manufacturing found in employment subareas of San Jose: 15% of jobs in miscellaneous manufacturing. This area is home to the second-largest share of electronic component employment in San Jose: 28%. This area is one of two that tie in importance as the largest concentration of transportation/distribution employment in San Jose, hosting 13.8% of employment in this field.

Employment in North San Jose is distributed across transportation/distribution (16% of jobs), business services (15%), electronic components (12%), and retail/consumer services (11%).

North San Jose 5

25,900 jobs
57% in Support Industries,
43% in Driving Industries

This subarea is the largest employment subarea in San Jose.

North San Jose 5 is home to the largest single share of electronic component employment in San Jose: 37%. This area is one of two that tie in importance as the largest concentration of transportation/distribution employment in San Jose, hosting 13.5% of employment in this field. It is also home to the largest single share of industrial supplier employment in San Jose: 21%. The area is also home to the largest single share of business services employment in San Jose employment areas, 12%.

The largest employers in this subarea are business services (16%), electronic components (14%), transportation/distribution (14%), and semiconductors (13%).

North San Jose 6

13,300 jobs
62% in Support Industries,
38% in Driving Industries

This area is home to the largest single share of bioscience employment in San Jose: 11%.

The largest employers in this subarea are business services (20%), transportation/distribution (12%), retail/consumer services (10%), and software (9%).

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Thank you to the following people for contributing their ideas and insights through participation in interviews, focus groups, and study sessions.

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