



Memorandum

TO: CITY COUNCIL/REDEVELOPMENT AGENCY BOARD **FROM:** Mayor Chuck Reed

SUBJECT: MAYOR'S BUDGET MESSAGE **DATE:** November 20, 2009
FISCAL YEAR 2009-2010
REDEVELOPMENT AGENCY
CAPITAL AND OPERATING BUDGET
AND 2010-2015 CIP

Approved: *Chuck Reed* Date: 11/20/09

RECOMMENDATION

That the Redevelopment Agency Board and the City Council jointly approve the proposed Fiscal Year 2009-2010 Redevelopment Agency Capital and Operating Budget and 2010-2015 Capital Improvement Program, as amended in this Budget Message, with the following limitations:

Until the mid-year budget review in February, the Agency Executive Director is directed to:

- Not make any new commitments for spending on projects out of Capital Expenditures;
- Not spend any Encumbered/Committed Funds unless contractually obligated to do so; and
- Not enter into any new binding agreements to spend Encumbered/Committed Funds.

INTRODUCTION

I present my Fiscal Year 2009-2010 Mayor's Redevelopment Agency Capital and Operating Budget Message for consideration by the Redevelopment Agency Board. The Agency is proposing a one-year Capital and Operating Budget and a 2010-2015 Capital Improvement Program. The Redevelopment Agency Executive Director and his staff have done an admirable job in bringing forward a budget that focuses on leveraging private and public investment, stimulating the economy, generating jobs, and meeting our commitments to improve neighborhoods, which is consistent with the City Council's approved guiding principles. The simple reality is that this budget makes significant cuts in the one-year spending plan adopted by the Redevelopment Agency Board in June. This reduction is due primarily to the State raid of redevelopment funds and the economic downturn.

The Redevelopment Agency budget is being considered at a time when there are great uncertainties that make spending decisions fraught with perils, and demand cautious fiscal vigilance. The economy could drag down revenues for next year. The bond market might not be

receptive to additional borrowing. Short-term debt might not be extended. The State of California might attempt to take more of our money. Obligations to Santa Clara County still need to be renegotiated.

Most of these uncertainties will be resolved in the next 12 months. That's why I am recommending that we take a cautious and prudent approach in approving this budget as described later in this document.

In these challenging times, we must focus our limited resources on our top priorities. This Budget Message and the recommendations herein continue the City Council's commitment to a community-driven process. This Budget Message follows guidance given by the community through a community survey, neighborhood and Council priority setting sessions, numerous public hearings, a Council study session, and a Mayor's Budget Message workshop. While the recommendations contained in this Budget Message do not meet everyone's requests, I have made a strong effort to ensure that the recommendations throughout are consistent with the priorities set by the City Council and the community.

REDEVELOPMENT AGENCY OVERVIEW

Founded in 1956, San José's Redevelopment Agency is the second largest tax increment producing Redevelopment Agency in California; one that is active in 21 Project Areas comprising 20 percent of the city's land mass and 40 percent of total jobs or approximately 120,000 jobs. For 25 years, the Agency has pursued a comprehensive program to revitalize Downtown, our industrial areas, neighborhoods and business districts.

The returns on Agency investments have been impressive and the Agency has made a significant difference in the lives of San José residents and businesses. The \$2.5 billion that the Agency has invested in its core services is estimated to have generated approximately \$7.5 billion in private investment and more than \$32 billion in economic activity throughout the city and region. In adherence with State law, the Agency's 20 percent housing program has generated more than 18,000 affordable housing units since 1988. This is 22 percent of total units produced during that time in all of California. In 2008 alone, the Agency's \$8.5 million investments to retain and attract driving industry corporations have leveraged more than \$1.4 million in Federal and State dollars, generated approximately 3,500 jobs, and an estimated \$5 million in tax increment revenues. This past year the Agency has successfully positioned 123 small, family-owned, retail businesses occupying 630,000 square feet of retail space in the neighborhood business districts and commercial clusters that employ 1,360 people.

The Top 10 Taxpayers for 2009-2010 (including companies like Cisco, Hitachi, Adobe, eBay and Cadence) account for 33 percent of the \$20 billion in assessed value which should give the Agency Board comfort in that the healthy future of these companies is directly connected to the future health of our Agency. In these uncertain economic times, our guiding principles for investment of tax increment revenues will assure the long-term vitality of the Agency, which has often been described as the economic engine of our city. Unpredictable economic indicators and uncertainties in the Silicon Valley real estate markets are a cause for concern. We have an opportunity with this budget to guide the growth of our Agency to fulfill the mission for which it was founded – economic revitalization.

2008-2009 ECONOMIC STIMULUS PLAN ACCOMPLISHMENTS

To maintain our competitive advantage in the face of challenging economic and fiscal times, the Redevelopment Agency Board and City Council jointly approved an Economic Stimulus Plan on December 9, 2008. The Plan focused on strategies to spur business development and public-private partnerships that would positively impact the generation of jobs in our Downtown, industrial areas and neighborhood business districts, and increase General Fund and tax increment revenues.

Some of the accomplishments led by the Redevelopment and City Economic Development teams over the past year include:

- Completing more than 200 retention meetings with leaders of driving industry companies in the last 10 months of 2009.
- Business Appreciation Commendations have been presented to 16 local companies throughout the year.
- Facilitating ongoing site selection and development process facilitation efforts are under way with several local and regional technology companies and ten clean tech companies to advance business expansion plans and the possible construction of manufacturing factories.
- Providing special handling for numerous corporate tenant improvement projects via the Special Tenant Improvement Program, and working with the facilities teams of projects under construction such as Brocade Communications and the Fortune Data Center have taken place, to provide plan check reviews and inspections to meet completion and move-in deadlines.
- Assisting with special events and ceremonies hosted by companies like Toshiba Storage, Ericsson Silicon Valley, Cadence Design Systems, ARM Inc. and BAE Systems.
- Consolidated small business programs into one building on East Santa Clara Street to be called the San José Innovation Center to house the Environmental Business Cluster, US Market Access Center, and the Entrepreneur Center.
- Facilitating permits for two Lowe's Home Improvement stores (Coleman and Cottle Roads) currently under construction. Facilitating tenant improvements for major shopping malls such as Oakridge and Valley Fair and Santana Row.
- Providing business management services for eight Neighborhood Business Associations and technical assistance to their existing businesses and property owners of key sites on issues including zoning, parking and business plan development.
- Completing construction of 16 façade improvement projects for small businesses located in the neighborhood business districts and commercial clusters.
- Facilitating the expansion of Stevens Creek Toyota and the development of the new Beshoff/Infiniti dealership.
- Applying for a National Institutes of Health grant to help expand the San Jose BioCenter. Construction documents for the expansion have been prepared.
- Submitting an application for an Economic Development Administration grant to fund the development of a Clean Tech Demonstration Center at the Las Plumas facility.
- Preparing plans for a clean technologies demonstration and education center in downtown San José with Department of Energy funds secured to support the project.

- Pursuit by Work2Future of several Department of Labor grants for workforce training and development.
- Conducting focus groups, meetings, and interviews with business leaders and the development community to update the Economic Development Strategy.

Silicon Valley Economic and Real Estate Market Outlook

The global economic contraction of the past 12 months is said to be the worst downturn the nation has experienced over the past 70 years. In the Silicon Valley, the "new normal" might mean high unemployment rates (currently at 13.3 percent in San José compared to the 9.8 percent nationwide) and double-digit office and R&D vacancy rates of prime real estate. Since September 2008, Silicon Valley is estimated to have lost over 50,000 jobs, with almost 80 percent of these in high-tech industry jobs. Nearly one-third of Research and Development (R&D) and office transactions have been lease renewals. Silicon Valley R&D vacancy rate is hovering around 20 percent and the office availability rate increased to 25 percent. Average R&D rents are at mid-2005 levels.

In the retail industry, the economic strain saw vacancy rates in Santa Clara County doubling from 2.9 percent in mid-year 2008 to 6.5 percent in mid-year 2009. San José has 122 retail centers totaling 15 million square feet of retail space of which 5.6 percent were vacant in June 2009. San José is doing better than some neighboring cities. Vacant retail space in Palo Alto, Cupertino and Saratoga in comparison ranged from 17-24 percent. These vacancies could result in steep declines in sales tax revenues for San José and Silicon Valley cities.

There are a few promising signs in the Silicon Valley real estate market. Local brokerage firms forecast an improvement in leasing activity at year-end as tenants take advantage of competitive market values. Significant R&D transactions in the last quarter included Fairchild Semiconductors, Toshiba and O'Sullivan Vending. Significant office transactions included leases and renewals by LG Display America, the Law Foundation of Silicon Valley, FusionOne and Xsigo Systems. Brocade Communications is constructing a 500,000 square foot state-of-the-art headquarters facility on North First Street with more than 2,000 employees expected to move in by June 2010. Legacy Partners is aggressively marketing and seeking corporate tenants for both its Downtown River Park Tower II and North San José America Center Class A LEED certified developments. California and the Bay Area continue to attract the largest share of US venture capital investments with a 46 percent increase in funding in clean tech companies. Several clean tech companies await Federal Department of Energy loan guarantees and are working with our City and Redevelopment team to be poised and ready for special handling of their plans to build factories and manufacture products in San José.

The Agency's ability to invest in our community depends upon the growth of assessed values. Growth and assessed values is dependent on employment growth. Continuing our aggressive campaign to retain and attract corporations and small businesses is critical to our economic recovery. We must look for opportunities to reduce our overall development costs, work at the speed of business, and offer business assistance programs and incentives that will give San José a competitive advantage as tenants lease office and R&D space and embark on building manufacturing facilities in preparation for the next wave of innovation.

Development, whether it is Office/R&D, Market Rate Housing, Affordable Housing, or Retail, generates economic benefits and creates jobs locally and regionally. Focusing our limited resources strategically to get the most economic impact will assure the Agency's continued success in growing tax increment and General Fund revenues. The following chart illustrates the return on public investments in an office R&D and an affordable housing project, both of which generate economic benefits; but the R&D project will generate additional money for affordable housing through tax increment.

	Brocade Communications 882,000sf R&D Office Space	Belovida at Newbury Park 185 Senior Rental Apartment Units
Public Investment		
Agency	\$4,000,000	
City		\$21,491,607
State		\$3,460,425
Private Investment		
Brocade	\$430,000,000	
Investors		\$12,654,978
Bank		\$10,970,000
Developer		\$1,358,480
Total Investment	\$434,000,000	\$49,935,490
Construction Jobs		
Direct/Indirect	3,320	400
Permanent Jobs		
Direct	1,800	8
Indirect	5,750	124
Payment of City Fees	\$7,153,000	\$1,164,500
Tax Increment Revenues	\$4,730,000	Not Applicable
Economic Benefits	\$936,000,000 annually	\$18,000,000 in Year 1 \$6,500,000 each year after

As Councilmember Oliverio has repeatedly emphasized, investing in retaining and growing our driving industry companies will generate the largest return on our investments. Generating more tax revenues will generate more money for affordable housing.

I cannot emphasize enough the need to focus our resources on creating jobs in the private sector. At a meeting sponsored by the Brookings Institution on November 19 titled Fiscal Challenges Facing Cities – Implications for Economic Recovery, and later that day at a meeting with White House staff, I expressed my views that the Federal stimulus program, which has had a minimal impact on San José's bottom line up to this point, must focus on generating permanent and long-term jobs that drive economic growth. I promoted programs such as the Department of Energy loan guarantees to clean tech companies for the purpose of investing in the construction of manufacturing facilities, as programs that would have an immediate and lasting economic impact on a communities ability to generate jobs and revenues.

Federal funds typically come with strict guidelines which allow the city to invest in new projects, however these projects do not always help the city address our highest priorities. Therefore, I also suggest the Federal government distribute funds directly to the cities through programs like CDBG which would allow us to direct the funds to our priorities.

OTHER CHALLENGES WE FACE

Tax Increment Projections

Spectrum Economics, the Agency's consultant, has projected flat tax increment (0 percent growth) in Years 2 and 3. The Spectrum Economics report notes that since the County Assessor already reduced values sharply last year, commercial real estate - the source of the majority of the Agency's revenues - should only decline at a modest rate. This modest decline is anticipated to be offset by some new construction and property sales that will trigger reassessments at higher values. The result is a prediction of flat total commercial assessed values over the next several years and flat revenue growth for the next two years. But as we know it's hard to predict the future. So we must proceed cautiously with our spending decisions.

JP Morgan Letter of Credit

Approximately five percent of the Agency's debt portfolio is variable rate bonds. These bonds provide the lowest cost debt financing available to the Agency since first issued in 1996 and are scheduled to mature in 2033; the current balance is \$100 million. The bond agencies require that the Redevelopment Agency have a letter of credit by a reputable bank. Since inception, JP Morgan has provided the letter of credit. Since the onset of the global financial crisis in 2008, JP Morgan and other banks have restricted credit and increased their fees. Despite quadrupling their fees and limiting the term of their letter of credit to one year, the bonds continue to enjoy all-in cost of less than three percent. As to the term of the letter of credit on the \$100 million bonds, it will expire in November 2010 but Agency staff expects to extend this term or find an alternative letter of credit during the next year. This uncertainty also means we have to be cautious with spending.

County Pass Through Payments

For years the County has been receiving funds from the Redevelopment Agency in the form of millions in pass through and other payments as detailed in the chart below.

Payment to County since May 2001 (in Millions)

Pass Through	\$120.4
Delegated Payments	\$129.0
Fairgrounds Settlement	\$22.5
Total	\$271.9

The Executive Director is directed to work with the County to provide an accounting of these payments to the County and how these funds were used.

The County of Santa Clara has been particularly concerned with the pass through payments. Our ability to make these pass through payments is dependent on tax increment growth and they are subordinate to all other obligations. The proposed Redevelopment Agency budget reflects this.

This year is especially difficult because we have significant challenges in the Redevelopment Agency. This budget requires us to make tough choices and to prioritize and I agree with the priorities of our community that economic development and neighborhoods come first. Several Councilmembers and community leaders have suggested that we look at our existing agreements and renegotiate them. The agreement with the County of Santa Clara is where we have started.

We have begun discussions with the County and will continue to negotiate in good faith, but any payments to the County are subordinate to our obligations. The County has rejected the \$1.9 million in AB 1290 pass throughs as a resolution for our obligations. The Executive Director is directed to keep the \$1.9 million in a reserve for future payments on the Diridon Area Agreement. Total payments to the County would be \$10 million this year.

State of California - Redevelopment Agency Raid and the CRA Lawsuit

On July 28, 2009 Governor Schwarzenegger signed a package of 26 bills as amendments to close the \$23.24 billion budget shortfall in the 2009-2010 State Budget. For our Redevelopment Agency, the impact is estimated at \$62 million in 2009-2010 and an additional \$12.8 million in 2010-2011. The funds will be deposited in the county Supplemental Educational Revenue Augmentation Funds (SERAF) to meet the State's obligations to local schools.

If our Redevelopment Agency does not make the SERAF payment, we face a "death penalty" which essentially requires the Agency to suspend all operations other than existing obligations. This includes ending all funding to the City for future affordable housing projects. As such, our Redevelopment Agency cannot simply ignore this requirement.

The courts determined that a similar "taking" by the state of \$350 million in redevelopment funds statewide proposed in 2008-2009 was unconstitutional. In response to this year's unconstitutional taking of redevelopment funds, the California Redevelopment Association has filed another lawsuit to challenge the State's budget action this year. The California Redevelopment Association has asked for a court ruling before May 2010, the date redevelopment agencies must make their 2009-2010 payment to the State. While there is no way to predict how long a court proceeding will take, given the magnitude of the raid and the impact it will have on redevelopment agencies, a ruling by early 2010 is hopeful, however the State will likely appeal this ruling and a final decision may take two years.

2009-2010 Planned Debt Issues

On July 1, 2009 the County Assessor released its report on the Agency's projected growth in assessed valuation for Fiscal Year 2009-2010. Total assessed valuation in the Agency's Merged Redevelopment Area Tax Increment Generating Area increased by 2.7 percent from prior Fiscal Year 2008-2009, with new construction as the main factor for the increase. While this increase is less than the earlier anticipated 4.7 percent growth rate (due to a slowdown of new construction projects and reduction of value of commercial properties such as the downtown hotels), it still shows growth in the tax increment generating areas this year. With the increase in assessed valuation, the Agency's tax increment revenue is expected to exceed \$200 million for the first time. The Agency plans to issue approximately \$30 million in tax allocation bonds, however this issue is dependent on the bond market, which gives us another reason to be cautious.

SOLUTIONS AND ALTERNATIVES

Phased Capital Improvement Program

The Redevelopment Agency budget is being considered at a time when there are great uncertainties that make spending decisions fraught with perils and demand cautious fiscal vigilance. Even though it appears that these uncertainties may be resolved to our satisfaction, the total dollar amount of the uncertainties could exceed our available funds.

The economy could drag down revenues for next year. The bond market might not be receptive to additional borrowing. Short term debt might not be extended. The State of California might attempt to take more of our money. Obligations to Santa Clara County still need to be renegotiated.

Most of the uncertainties will be resolved within the next 12 months. That's why I am recommending the City Council/Agency Board take a cautious and prudent approach in approving the budget as follows:

Approve the proposed revised budget (with the modifications specified below) with the following limitations:

- Until the mid-year review in February, at which point we will also know the status of the \$30 million bond issue, the Agency Executive Director is directed to:
 - a. Not make any new commitments for spending on projects out of Capital Expenditures;
 - b. Not spend any Encumbered/Committed Funds unless contractually obligated to do so; and
 - c. Not enter into any new binding agreements to spend Encumbered/Committed Funds.
- Report to the Council/Agency Board on the status of all projections, assumptions and uncertainties during the City's Mid-Year Budget Review in February, and make recommendations for any actions for spending out of Capital Expenditures or Encumbered/Committed Funds that may be necessary to protect our interests or those based on Council/Agency Board and community priorities before the Council adopts the 2010-2011 Budget in June. Furthermore, the Agency Executive Director is directed to if possible provide a listing of projects that may require spending prior to the mid-year budget review on/or before December 8, 2009.

Housing Loan

To spread out the impact of the State take, the Agency is proposing to borrow \$75 million from the 20 percent set-aside for affordable housing for Years 1 and 2, with payment due in Year 6. The chart below details the Agency's proposal.

RDA Executive Director's Proposal

	<u>2009-2010</u>	<u>2010-2011</u>	<u>Total</u>
Source of Fund			
20% Housing Fund	\$40 M	\$35 M	\$75 M
Use of Fund			
ERAF Payment	\$62 M	\$13 M	\$75M

It is currently uncertain whether State law will permit the Agency to borrow from the Housing Fund in excess of the State's "take." That leaves the Agency with \$22 million less than the \$35 million in budgeted revenues in Year 2. Given this uncertainty and the large burden this places on the Housing Fund, I propose that we look at other sources of funds to help pay the full \$62 million State take in Year 1. My office has reviewed available sources of funds from which the Agency might borrow (below). While there appears to be ample fund balances in some of these funds, I am hesitant to take additional money. We may have to prepare for another State take, lower balances, limit our ability to front-lead funding for grants, or may even need to borrow more from these funds if the impact on the Housing fund is too severe.

The following chart details my proposal to address the State raid, as well as to reduce the amount borrowed from the Housing Fund. This will also free up approximately \$10 million to continue our new construction program and assist the Housing Department with any finance costs it may incur. The City Manager and Executive Director are directed to work together to pursue loaning the Agency funds from the following sources to assist with the Agency's obligation to the State. Repayment of these funds should be a priority.

Mayor's RDA Budget Message Proposal

	<u>2009-2010</u>	<u>2010-2011</u>	<u>Total</u>
Source of Fund			
20% Housing Fund	\$52 M	\$13 M	\$65 M
Park Trust Fund	\$3 M	0	\$3 M
Sewage Treatment Plant Connection Fee Fund	\$5 M	0	\$5 M
Ice Center Fund	\$2 M	0	\$2 M
Use of Fund			
ERAF Payment	\$62 M	\$13 M	\$75 M

There has been much discussion about housing priorities with an emphasis on new construction. There are numerous programs that the Housing Department will continue to offer over the next five years. Many have stated that new construction is a priority. We need to take a look at all the programs the Housing Department offers in detail and determine if there are funds that can be moved within programs or administrative costs that can be used to support our new construction program over the next five years. The City Manager is directed to agendize a priority setting session discussion at which the City Council will consider funding priorities of the Housing Department. This should be done during the May budget hearings. Over the past years, the

Housing Department investment per unit has risen substantially and the number of private sector investors has fallen. An accounting should be provided to the City Council of prior use of 20 percent affordable housing funds. Also, to ensure that our Housing funds are being used in the most efficient manner, the City Auditor is directed to add to her workplan a review of the effectiveness of the new construction program, the first-time homebuyer program, and rehabilitation programs.

Parking Fund

The Agency budget impacts the Parking Fund in two ways. First it recommends deferring the repayment of a past \$6.8 million loan that the Parking Fund had made to the Redevelopment Agency. It also recommends that 2.5 years of debt service (\$8.33 million) on parking bonds be paid from the parking fund rather than the Redevelopment Agency. The latter has the potential of affecting the ability to prepare for possible future parking needs. The Redevelopment Agency has been working collaboratively to resolve those challenges, and the city administration has also stated that they understand the difficult financial situation the Agency finds itself in. The city administration has also stated that parking development is neither needed, nor financially feasible in the core of Downtown in the near future. There are too many uncertainties and other priorities within the budget to include repayment within the five-year CIP. There is the possibility of structuring this and working out a repayment plan as times improve and certainties become known. The Executive Director and the City Manager are directed to discuss a possible repayment plan for the parking fund and other funds, and present them to City Council for consideration during a future budget cycle. Any repayment of this loan will have to be prioritized within the context of overall City and Agency priorities.

City Support Services

The Executive Director's Proposed Budget transmittal letter shows a decline in funding for City support services for 2010-2011. It is expected that the funding levels for these support services will be refined and updated based on discussions between the City and the Agency. The City Manager is directed to include any corresponding budget proposals based on these discussions in the 2010-2011 Proposed Operating and Capital Budgets to be released next spring. To avoid increasing the already substantial General Fund shortfall projected for 2010-2011, any reduction in Agency reimbursements should be accompanied by a corresponding reduction in City support costs.

Strong Neighborhoods Business Plan

The Strong Neighborhoods Initiative (SNI) has become a national model for how cities and redevelopment agencies can partner with residents to improve the quality of life in neighborhoods. The current Strong Neighborhoods Business Plan is five years old and should be revised to reflect changes and new opportunities. For example, when it was written, no one anticipated the current foreclosure crisis impacting many SNI neighborhoods. This update will provide a reassessment of SNI's core mission in light of past program accomplishments, current projects and priorities, and future plans. Also, updating the Business Plan will ensure that SNI's mission and goals are aligned with the resources and funding sources needed to sustain the program. The Executive Director and City Manager are directed to engage stakeholders to update the Strong Neighborhoods Business Plan to produce the following objectives:

- Refocus the mission, goals and priorities of the program;
- Identify potential new funding sources, including partnerships and leveraging opportunities; and
- Review and modify the organizational structure of SNI so that it is aligned with the mission, goals and priorities of the City Council.

Review Encumbrances

Encumbered funds are those in which there are legal obligations to spend the money. Once a contract is signed, a legal expectation of payment is created. Thus, the ability to extract savings in this area is limited. Nevertheless, the Executive Director should attempt to renegotiate all encumbered contracts to achieve savings and report to the City Council/Agency Board at mid-year on the results. The Agency and its partners should do their best to find money saving opportunities. Furthermore, the Agency should liquidate all contracts that are not essential.

Convention Center

We have talked about the expansion of the Convention Center for some time now. Over \$17 million has been spent and encumbered since 2008-2009 to fund renovations and pre-development activities associated with the proposed expansion. Furthermore, San José's hoteliers, in spring 2009, voted to increase their Transient Occupancy Tax to assist in the financing of the expansion in an amount of \$70 million.

The Convention Center expansion is a high priority and needs to stay on track. I support the Agency Executive Director's recommendation to include \$16 million in the Fiscal Year 2009-2010 Proposed Budget and \$14 million in the fourth year of the Proposed Capital Improvement Program towards an expansion. The City Manager and Executive Director are directed to return to the City Council/Agency Board in 45-days with a recommendation to consider whether or not the timeline of the expansion should be accelerated and whether the advancing of the Year 4 proposed budget allocation is justifiable.

COMMUNITY BASED BUDGETING PROCESS

As mentioned previously, this Budget Message continues a process that includes a community survey, neighborhood and Council priority setting sessions, numerous public hearings, a Council study session, and a Mayor's Budget Message workshop.

The successful Mayor's Budget Message Workshop on Monday, November 16 drew over 130 participants to City Hall. Residents were asked to identify their top priority new projects. The top five community priorities are: the Convention Center (63 votes), the Clean Tech Job fund (40 votes), the Civic Auditorium (37 votes), Strong Neighborhoods Initiative Attractive Neighborhoods (24 votes), and City Improvements (24 votes). The funding recommendations in the proposed budget reflect these top priorities.

INVESTMENT STRATEGIES

1. **R&D/Office and Manufacturing Facilities Incentive Program:** Direct the Executive Director, in cooperation with the City Manager, to develop and implement during the current fiscal year an Incentive Program to promote the occupancy of vacant industrial and office buildings in the Downtown and Industrial Redevelopment Project Areas. The Incentive Program could be in the form of providing waivers of construction related development taxes to companies and businesses that locate their R&D/office and/or manufacturing operations in the urban core and innovation districts of San José during the remainder of the fiscal year, without impacting City funds. It is further recommended that the Executive Director report back to the City Council/Agency Board on the effectiveness of such a program during the June 2010 budget process, and evaluate the need to extend the program benefits for a longer timeframe, as appropriate.
2. **CommUniverCity:** CommUniverCity San José brings together the City of San José, San José State University and the communities of Five Wounds/Brookwood Terrace through service and learning. The result is a successful collaboration built around the priorities and goals of the residents, which include improving quality of life, building community, and engaging all participants in civic life. I recommend the Five Wounds/Brookwood Terrace Fiscal Year 2009-2010 BART Station Area Visioning Process funding of \$65,000 be allocated to CommUniverCity in Fiscal Year 2010-2011. (\$65,000) BD #2
3. **Educational Facilities Working Group:** Recommend the formation of a working group comprised of staff members from the City of San José, San José Redevelopment Agency, Alum Rock Union School District, East Side Union High School District, ACE Charter School, Escuela Popular, Rocketship Education, and KIPP Schools where these agencies can coordinate their facilities needs over the next three to four years. (\$50,000) BD #5
4. **Housing Trust of Santa Clara County's Multi-Family Rental Housing Loan and First Time Homebuyer Programs:** The Housing Trust of Santa Clara County works to increase affordability for those wanting to live in Santa Clara County by providing loans to nonprofit developers and first-time homebuyers. The program has a successful history of leveraging private investments for affordable housing. As we move forward with the Housing priority setting sessions for housing programs. We should evaluate and prioritize the use of 20% Housing funds to support the Housing Trust. BD #6
5. **Hillview Park Play Structure:** Hillview Park is located in the East Valley/680 community SNI project area and is home to the Hank Lopez Community Center. Councilmember Campos has recommended that \$200,000 of District 5 Construction and Conveyance Tax Funds be spent to provide a new play structure at this location, which would be repaid in Fiscal Year 2012-2013 with SNI funds. I recommend the City Attorney's Office analyze the legality of this proposal, and if redevelopment funds can be used, the Executive Director should replenish the District 5 Construction and Conveyance Tax Funds in 2012-2013. (\$200,000) BD #7
6. **San José Municipal Stadium:** The San José Municipal Stadium, managed by the San José Arena Authority, has been the home of the San José Giants for the past 60 years and has provided affordable activities for many families. The Fiscal Year 2008-2009 Agency

budget allocated \$600,000 for the first phase of a number of much-needed capital improvement projects to Municipal Stadium. This year, I recommend \$300,000 solely to provide additional, desperately needed major electrical upgrades. (\$300,000) BD #8

7. **Senter Road/Interstate 280 Interchange Connection:** Last year, the Agency and the City authorized a Senter Road/Interstate 280 interchange connection conceptual feasibility study. Using the existing grade-separation structure at the abandoned railroad right-of-way between 11th Street and McLaughlin Avenue, an interchange connection has the potential to relieve traffic congestion and reduce neighborhood noise. For this potential project to conform to Federal Highway Administration (FHWA), Caltrans and Valley Transportation Agency (VTA) procedures, a Project Study and Environmental Report are needed. I recommend \$250,000 of funding be allocated in the Fiscal Year 2013-2014 Capital Improvement Program for further technical and environmental analysis and studies. (\$250,000) BD #9
8. **13th Street Neighborhood Area:** The 13th Street Neighborhood is a downtown community that includes four residential neighborhoods with active neighborhood associations and two business districts, East Santa Clara Street and North 13th Street. I recommend that \$107,000 in savings from the Couplet Conversions Project be allocated to neighborhood improvements, such as façade grants to small businesses in the 13th Street SNI project area. (\$107,000) BD #10
9. **Façade Improvements:** The Façade Improvement Program has generated significant community benefits. I recommend \$132,000 be added to this program to support the Neighborhood Business Districts. (\$132,000) BD #10 & #13

CONCLUSION

For 25 years, the Agency has pursued a comprehensive program to revitalize Downtown, our industrial areas, neighborhoods and business districts.

The returns on Agency investments have been impressive and the Agency has made a significant difference in the lives of San José residents and businesses. The \$2.5 billion that the Agency has invested in its core services is estimated to have generated approximately \$7.5 billion in private investment and more than \$32 billion in economic activity throughout the city and region.

These are tough times, but just as in previous economic downturns, the Agency will weather this storm. By being cautious and prioritizing the Agency's limited resources in ways that the community receives the greatest benefit, we will continue to make progress despite the difficulties we face.

COORDINATION

This memorandum was coordinated with the Executive Director, City Manager, and City Attorney/General Counsel.

Executive Director's Proposed Capital Expenditures

Vote Results from Mayor's Budget Message Workshop

Votes	Project
63	Convention Center
40	Clean Tech Jobs
37	Civic Auditorium
24	SNI Attractive Neighborhood
24	City Improvements
20	Montgomery Theater
15	Edenvale Emerging Tech
15	Planning/Code Enforcement
14	Blight Abatement
14	SNI-CMO
12	Autumn Street Infrastructures
11	SNI-City Attorney Code Enforcement Support
11	Small Business Chamber
10	Façade Improvements Program
8	North San Pedro Housing/Bradenburg
8	SNI-Rental Housing Development Grant Funds
8	Alum Rock Projects
7	Downtown Ice Rink
6	SNI-Outreach and Training
6	Housing Fund
5	Spartan/Keyes
4	Development Opportunities
4	490 & 500 S. First Building Improvements
4	San Jose Enterprise Zone
4	Industrial Work Program Implementation
3	Incubators Building Lease
3	Retail Strategy
3	Japantown- Parking Lot Lease
3	SNI- PRNS Watson Park
3	Winchester
3	Vision N. San Jose Infrastructure and Parks Improvements
3	City Improvements
3	Washington
2	Support Development of Jobs (write-in)
2	Fund Affordable Housing Projects with PD Permits (write-in)
2	Public Transportation Improvements (write-in)
2	City Auditor Services
2	Greater Gardner
2	Tully/Senter
2	Miscellaneous Public Improvement (write-in)

1	Assessment District/Interchange Improvements
1	IDT Lease
1	Arena Employee Parking
1	Asset Management
1	OEA Audit Services
1	Real Estate & Relocation Services
1	NBD- Façade Improvements
1	Five Wounds/Brookwood Terrace
1	Delmas Park
1	East Valley/680 Communities
1	University
1	West Evergreen
1	Mayfair
1	Block 8- Fairmont Annex Retail Improvements
1	Support Neighborhood Strength & Independence (write-in)
1	Defer Housing Development (write-in)
1	Development Fund for Child Care Center (important for job growth) (write-in)
1	Support for Education (write-in)
1	Citywide Internet Network (write-in)
1	Pay County (write-in)
1	Survey Work (write-in)
1	Guadalupe Gardens (write-in)
1	Raise Taxes with Medical Marijuana Facilities like Oakland (write-in)
1	Tabard Theater Building (write-in)
1	Ballpark (write-in)
1	Downtown Retail Strategy
1	Downtown Business Improvements
1	San Jose Downtown Association
1	Competitive Art Capital Fund/Theater San Pedro Fund
1	Diridon/Arena Area Development
1	SNI- KONA
1	Parks Trust Fund
1	Child Care (write-in)
1	SoFA District Improvements/Programming (write-in)
0	Automatic Public Toilets
0	Assessor
0	Litigation Services/Reserves
0	The Alameda: Parking Lease
0	NBD- Program Operations
0	13th Street
0	Block 3- Central Place Parking Garage

Total Votes

110

Balance Sheet

SERAF Payments

Loans

SERAF (FY 09-10)	\$ 62,000,000	Housing Loan (FY 09-10)	\$ 52,000,000
		Park Trust Fund Loan (FY 09-10)	\$ 3,000,000
		Sewage Treatment Plant Fund Loan (FY 09-10)	\$ 5,000,000
		Ice Center Fund Loan (FY 09-10)	\$ 2,000,000
SERAF (FY 10-11)	\$ 13,000,000	Housing Loan (FY 10-11)	\$ 13,000,000
Total	\$ 75,000,000	Total	\$ 75,000,000

Additions

Source of Funds

CommUniverCity (FY 10-11)	\$ 65,000	Five Wounds/Brookwood Terrace (FY 09-10)	\$ 65,000
Hillview Park Play Structure (FY 09-10)	\$ 200,000	District 5 C & C Funds (FY 09-10)	\$ 200,000
San José Municipal Stadium	\$ 300,000	Couplet Conversion projects savings	\$ 700,000
Senter Road/Interstate 280 Interchange Connection	\$ 250,000	Convention Center Expansion termination agreement with Enovity, Inc.	\$ 72,000
Façade Improvements	\$ 132,000	Central Service Yard Improvements Project termination of agreement with Bill Gould Design Art & Architecture	\$ 28,000
13th Street NAC	\$ 107,000	Autumn/Montgomery Demolition Project termination of agreement with TRC Engineers	\$ 26,000
Educational Facilities Working Group	\$ 50,000	Disbursement of funds from the Butcher Brothers Closing	\$ 13,000
Total	\$ 1,104,000	Total	\$ 1,104,000