SHARED PROSPERITY AND INCLUSION
The Future of Economic Development Strategies in Silicon Valley

written by
Sarah Muller, Sarah Zimmerman, Bob Brownstein,
Amy B. Dean and Phaedra Ellis-Lamkins

WORKING PARTNERSHIPS USA
SHARED PROSPERITY AND INCLUSION

The Future of Economic Development Strategies in Silicon Valley

written by
Sarah Muller, Sarah Zimmerman, Bob Brownstein, Amy B. Dean and Phaedra Ellis-Lamkins
SHARED PROSPERITY AND INCLUSION
The Future of Economic Development Strategies in Silicon Valley

written by
Sarah Muller, Sarah Zimmerman, Bob Brownstein,
Amy B. Dean and Phaedra Ellis-Lamkins
# TABLE OF CONTENTS

**FORWARD** v

**LETTER FROM THE FAITH COMMUNITY** ix

**LETTER FROM MEMBER OF CONGRESS** xi

**SHARED PROSPERITY AND INCLUSION**
THE FUTURE OF ECONOMIC DEVELOPMENT STRATEGIES IN SILICON VALLEY

- **EXECUTIVE SUMMARY** 1
- **INTRODUCTION** 9
- **THE PROBLEM** 13
- **THE CHALLENGE** 19
- **THE RECORD OF PUBLIC SUBSIDIES IN SAN JOSE:** 23
- **THE SAN JOSE REDEVELOPMENT AGENCY: A SUMMARY**

- **THE SOLUTION** 29
- **CONCLUSION** 41

**APPENDIX A: THE RECORD OF PUBLIC SUBSIDIES IN SAN JOSE:** 45
**THE SAN JOSE REDEVELOPMENT AGENCY**

- **CASE STUDIES** 79

**APPENDIX B: COMMUNITY IMPACT REPORT** 105

**NOTES** 123

**ACKNOWLEDGEMENTS** 133
Shared Prosperity and Inclusion is part of Working Partnerships USA’s eight-year effort to reform and improve government economic development policies. Our main goals are to broaden public participation and to assure that economic development programs create real, measurable community benefits.

This innovative campaign has encompassed a series of policy initiatives, each breaking new ground on the path towards accountable and effective economic development. In 1995, Working Partnerships successfully pushed for the inclusion of worker-oriented criteria in a Santa Clara County program that offered property tax rebates to manufacturers. Our proposal called for preferences for firms that paid wages equal to or higher than industry averages, provided health insurance, and offered child care programs. In 1998, Working Partnerships focused its efforts on the successful campaign to pass San Jose’s Living Wage Policy. The adoption of that landmark ordinance served as an official recognition that people who work and live in San Jose should be able to do so with dignity and a decent standard of living.

The Community Benefits Initiative called for in this document builds on this progress. It promises to move our region toward practices that more carefully and consistently link economic development programs with the well being of all our residents.

Silicon Valley’s leading businesses move capital, labor, technology, and information across borders with ease, and often with little or no regard to the impact their actions have on local communities. Yet many of these same corporations often have a disproportionate influence when it comes to formulating local economic development policies. This imbalance calls for reforms that place the real needs of our communities ahead of the service of any particular special interests.

As this report demonstrates, large public subsidies can sometimes generate tax returns and an illusion of economic activity without providing any significant benefits to working families and neighborhoods. This failure of public sector action is often a result of closed and restricted public processes. All too often, economic development decisions benefit the few rather than the many because those few were the only ones invited to participate in the decision-making.
In *Shared Prosperity and Inclusion*, Working Partnerships proposes to address both the substantive and the procedural flaws in government economic development programs. Implementation of a Community Benefits Initiative will not automatically reduce government subsidies to development. But it will require that future subsidies be both environmentally sound and economically fair.

Of equal importance are the proposed changes in the decision-making process that guide economic development. The current process usually allows for only token community representation, brought in after critical parameters for a project have already been set. The result may be input from just a few “handpicked” individuals, compliant but often unrepresentative, who claim to be speaking on behalf of the larger community but in reality make deals behind closed doors with little or no community input. Working Partnerships proposes transforming this exclusionary process into one that encourages authentic participation. The changes outlined in this report will create a system that engages the full community in setting economic development objectives.

The principles underlying the Community Benefits Initiative also add a new perspective to the broader debate about the role of government in this period of rapid technological, organizational, and economic change. At present, the two major political parties often disagree on the appropriate role of government. Some call for lower taxes and less emphasis on entitlements that are designed to protect the poor. Others seek new efforts to assist and subsidize businesses as a way to reduce poverty. The critical question usually left out of this often-polarized debate is: “what is best for our overall community?”

With this report, Working Partnerships seeks to create a process that will make the consideration of community benefits a standard and routine part of official economic development plans and actions. When that happens government agencies will be required to do more than just dispense economic favors to special interests. They will also have to consider issues of concern to the larger community, such as the maintenance of decent wages, the accessibility of affordable health care and housing, the availability of training and career path development, and the leveraging of public resources to steer growth in directions compatible with community well being.

These questions are not unique to the Silicon Valley. The practices we put in place here will serve as a model that will be of interest anywhere people and governments are trying to harmonize economic development with community needs in the face of rapid change.
History has shown time and again that social contracts do not arrive as unsolicited gifts bestowed by either business or government. Instead, they must first be envisioned, debated, fought for, refined and finally enacted before society can derive their benefits. Our country has risen to meet this challenge many times in the past, whether it was the New Deal, the drive for women’s suffrage or the still-unfinished quest for civil rights and gender equity. In each of these struggles and in many others, workers in unions, citizens in meetings, neighbors in civic groups, students and teachers, clergy and religious communities have joined together in ways that have demonstrated that change is possible, that courage and a commitment to good public policies can and do prevail and that justice, while often delayed, cannot be indefinitely denied.

Amy B. Dean
FOUNDING PRESIDENT AND CHAIR OF THE BOARD
LETTER FROM THE FAITH COMMUNITY

Faith leaders have long urged government to enact policies that protect human dignity with the moral imperative to ensure that basic human needs are met.

In these times of economic difficulty, especially for our most vulnerable residents, the faith community urges San Jose’s leaders to closely examine their expenditure of public dollars.

As city leaders contemplate using tax proceeds to guide the redevelopment of San Jose, we urge that they take into consideration how this use of resources affects the well being of all our community’s residents.

A Community Impact Report (CIR) policy for large scale development projects requiring public subsidies is a good first step in objectively ensuring that city resources are being used to meet the community’s most pressing needs.

A CIR policy would help officials determine whether publicly subsidized development projects provide ample benefits to San Jose such as living wage jobs, affordable housing and access to healthcare. It will be an invaluable tool in helping officials ensure the health and well being of all our residents.

Our community of faith holds earnest convictions toward ensuring economic and social health for all people. Hence, our support for government policies must be consistent with our social teachings. That is why we are urging the establishment of a CIR policy—an innovative tool that will help guide officials in enacting government actions that defend human dignity.

Blessings and Peace,

Bishop Patrick J. McGrath
CATHOLIC DIOCESE OF SAN JOSE

Rabbi Janet Marder

Rev. John Freesemann
THE INTERFAITH COUNCIL ON RELIGIONS, RACE, ECONOMIC AND SOCIAL JUSTICE

Bishop Beverly Shamana
CALIFORNIA-NEVADA CONFERENCE, UNITED METHODIST CHURCH

Imam Tahir Anwar
SOUTH BAY ISLAMIC ASSOCIATION

Dick Roe
COUNCIL OF CHURCHES
I am writing to highlight my support for the South Bay Labor Council’s visionary proposal to bring broader community benefits to publicly funded projects. This approach promotes a transparent, economic development process that allows for input by all stakeholders early in the process. Maximizing the use of public funds to ensure a positive outcome for all is a challenge we understand and face as well in the U.S. Congress. Because redevelopment of the City of San Jose affects all of Silicon Valley — successful outcomes are vital to all of us.

More information about proposed projects with increased input from residents, small and large business, neighborhood associations and others, would produce projects that will be more likely to meet the needs of the entire community.

I hope that you will consider the ideas for greater return on investment suggested in the community investment benefits initiative. Inclusion of stakeholders, fairness and transparency in public processes and cost effectiveness are sound principles that we all as elected officials (public servants) aim to achieve.

Hon. Mike Honda  
MEMBER OF CONGRESS
SHARED PROSPERITY AND INCLUSION
The Future of Economic Development Strategies in Silicon Valley

WORKING PARTNERSHIPS USA
The purpose of this report is to re-evaluate San Jose’s economic development programs from the perspective of two basic values. The first of these is the belief that economic programs should be inclusive and open. A wide variety of people with diverse interests should be involved in designing the structures, plans, and operational guidelines for these efforts. Ongoing economic development activities should be accessible to public review and susceptible to public participation. The days in which city officials allow only a small group of handpicked “stakeholders” to shape decisions involving millions of dollars in taxpayer funds must come to an immediate and permanent end.

Secondly, economic development strategies should pursue the goal of shared prosperity. All types of economic growth are not of equal value to the people of a city. Most San Jose residents are now familiar with the distinction environmental organizations have drawn between “smart growth” and sprawling development that destroys open space and imposes massive costs on the taxpayers. Similarly, it is possible to choose between developments that produce quality jobs with benefits, increase housing opportunities for residents from varying income levels, and improve the quality of life in nearby neighborhoods and those that leave a few interests extremely well off and the rest of the community with ongoing bills—for clinics to treat low wage workers and for subsidized housing to prevent homelessness. When economic development emphasizes shared prosperity, it means that the community as a whole receives a fair return on the investment that the whole community funds.

In order to examine the city’s approach to economic development from the point of view of these values, Shared Prosperity and Inclusion is divided into three sections: the problem, the challenge, and the solution. The problem discusses why free market dynamics are failing to meet numerous economic needs and why existing social and political models are proving increasingly outdated and ineffective. The challenge investigates the potential of economic development strategies to remedy these problems. The solution section offers a new policy framework—the Community Benefits Initiative—that can enable economic development to do a better job—for working families, for businesses, and for taxpayers. Each of these elements of the report will be described briefly below.
THE PROBLEM
If a pundit wanted to describe income distribution in the economy of the 1950’s, he might remark — it looks like Santa Claus. A small circle of the very rich on top, a huge and expanding mid-section, and two short legs representing those struggling to escape from poverty. The metaphor for the New Economy of Silicon Valley is utterly different; it’s an hourglass. There are more high paid, high skill jobs than ever before. The middle class is shrinking away. Massive numbers of workers are trapped in low wage, no benefit, dead-end service jobs. The gap between the affluent and the working poor is larger than ever before.

Life in this hourglass economy presents extraordinary problems for working families. Despite the impressive growth of the state economy in the 1990s, real wages for average workers stagnated. In Santa Clara County, from 1979-1999 the top 20% of wage earners experienced wage increases of more than 10%, but the bottom 20% saw their wages fall by 15%. Moreover, a higher percentage of workers in California lack health insurance than in most other states. The difficulties of coping with low wages and inadequate benefits are compounded by economic insecurity. In 1999, 45% of all California employees had less than two years of tenure with their current employer, and median job tenure was only three years. In addition, new forms of contingent and temporary work forced numerous individuals to take short term “jobs” with no assurances of income once an assignment had been completed.

For most of the last century, the American populace has agreed that the government should step in when economic or technological changes cause undue levels of hardship. However, the current mechanisms of government intervention, many of which were developed during the “New Deal,” are no longer useful in the hourglass economy. Unemployment insurance, for example, was designed to assist workers who had stable employment, experienced layoffs during a recession, and were re-hired when the times improved. The system’s creators never envisioned the conditions facing modern temporary workers—having a job for six days, being out of work for three days, having a job for another day, etc. For the government to effectively respond to the critical problems of the new economy, it must re-design its policies or create alternative models to restore a situation in which economic growth leads to widespread community well being.

THE CHALLENGE
One common type of government policy that may prove capable of responding to the flaws of the hourglass economy is the use of public subsidies to leverage private development.
Increasingly, state and local governments have attempted to intervene in the market to achieve outcomes that would not likely result from investment decisions by firms or individuals. The cumulative scale of these subsidies is massive, costing state and local governments as much as $49 billion nationally. In 2000-2001, California spent $7.8 billion on subsidized development projects. Over the last 25 years, the San Jose Redevelopment Agency spent $2.3 billion.

Whether these expenditures historically have generated outcomes of value to working families is open to question. In some cases, the objectives of subsidies may be limited to increases in tax revenues without regard to other community effects, such as impacts on the quality of available jobs or the demand for, or supply of, affordable housing. In other situations, the firm benefiting from the subsidy may fail to deliver the promised results. One Connecticut study showed that companies that received subsidies produced only 47% of the jobs that they promised to create. In California, the outcomes from subsidies may be largely unknown and unknowable. The California Budget Project's study of economic development programs, *Maximizing Returns*, concluded it is difficult, if not impossible, for policymakers to determine whether the $39.3 billion spent since 1995-96 has had any measurable impact on the well being of the state's residents.

In order to determine the potential value of employing public subsidies in Silicon Valley, this report has examined the record of the Redevelopment Agency of the City of San Jose (RDA), the largest grantor of subsidies in Santa Clara County. On balance, there is no question that the RDA has accomplished objectives of value to the people of the city. It has played a primary role in the revitalization of a downtown that had been largely abandoned by private investors. It helped create a convention center/hotel industry in the city. It funded numerous public facilities or quasi-public facilities including the HP Pavilion (arena), the Tech Museum, The San Jose Repertory Theatre, and the soon-to-be-opened City of San Jose-San Jose State Joint Library. Its resources assisted in financing major transportation projects, such as Route 87. Through the Neighborhood Business District Program, it improved the prospects for small firms in virtually every district in the city.

However, a thorough analysis of the RDA's performance also reveals significant flaws in its activities.

**INADEQUATE RETURN ON INVESTMENT**

The RDA focused on an excessively narrow concept of a community return on investment. Specifically, the Agency failed to actively evaluate or seek returns in the following areas:
Jobs

Minimal efforts were paid to determine the quality of jobs that would be generated in subsidized firms or to require that high wage, high benefit jobs would be generated.

Housing

The RDA did not calculate the affordable housing units that would be needed to shelter workers holding low wage jobs at subsidized projects, nor did it examine the effects of its subsidies on demand for housing in the valley and on housing price increases.

Family Needs

Services that low-income families require, such as childcare and health clinics, were not included in the RDA’s analyses or requirements.

Small Businesses

With the exception of the Neighborhood Business District program, the Agency did not make the growth of existing small businesses in San Jose a priority.

LOSS OF COUNTY SERVICES

The growth of the RDA redirected property taxes from county government to the Agency. This shift prevented tens of millions of dollars from being available for health services and other social services. Also, the RDA has received a disproportionate share of its revenues from the industrial project areas, which arguably would have been developed without the Agency’s intervention. Therefore, it cannot credibly be argued that most of the property taxes lost to the county resulted from growth that the Agency had engendered.

LACK OF OPEN PUBLIC INVOLVEMENT

Often Agency negotiations with firms regarding subsidies have taken place behind closed doors. The Agency’s Board would then bring complex development and disposition agreements forward for approval. Serious input by community members or organizations would be limited to brief testimony at these public hearings.

INSUFFICIENT ACCOUNTABILITY

Although the RDA did take some action to protect the public’s investment, the language employed in Agency agreements was often insufficient to prevent significant losses. The office building at 303 Almaden that had planned to showcase the IBM logo but was never occupied by that major corporation and the still vacant United Artist Theatre buildings are concrete monuments to this inadequacy.
In conclusion, it appears that public subsidies, through the RDA or some other agency, can accomplish valuable objectives for the people of a city and may have the capacity to help alleviate the kinds of challenges a community experiences in the New Economy. To play that positive role, however, the RDA must be reformed. It must modify its practices in order to avoid the failings noted in the past and improve its outcomes for the future.

THE SOLUTION

The use of public subsidies in San Jose can be transformed through the implementation of a Community Benefits Initiative. Essentially, this innovative program would retain the strengths of the past economic development strategies while preventing its limitations and failures. It would seek to generate a system that encourages economic growth, provides developers with predictability and efficient procedures, encourages deliberations in the open with widespread public involvement, and produces a return on the taxpayers’ investments that genuinely serve the broad interests of the community.

Several aspects of the existing approach to economic development should be continued. The city should maintain a strong redevelopment program. The RDA should focus on a pump-priming mission. Its investments should be those that the private sector is unwilling to undertake today but which will lead to substantial private financial commitments in the future. To accomplish this goal, the RDA should continue to think and act in an entrepreneurial fashion.

However, the RDA will have to change—in a number of significant ways. These include:

Openness
The public must be allowed full involvement in the determination of Agency goals and the planning of projects to meet those objectives. Obviously, that new direction means wresting decision-making away from handpicked stakeholders and creating mechanisms for more people to play a genuinely meaningful role in setting policy and defining project objectives. More than that, it requires creating systems that provide people with information they need to make informed choices—information about Agency budgets, about project finances, and about the extent to which developments can meet community needs.

Return on Investment
A new principle will have to guide Agency priorities. When it invests community resources, it must generate returns that improve the community’s well being.
Development agreements would no longer be proposed that create poverty level jobs, leaving tax-funded programs the responsibility of sustaining suffering families. Project proposals that increase demand for housing would have to discuss the supply of housing. Investments in San Jose neighborhoods would no longer routinely ignore the needs of working families.

**Accountability**

The outcomes expected from developments should be realistic and feasible. Their actual accomplishment should also be assured with strong measures imposing accountability on the recipients of public funds. If a developer commits to the creation of quality jobs, that commitment must be honored—or sanctions need to be imposed.

Describing a new strategy in concept is only an initial step in the design of a city policy that will effectively function as intended. If possible, the innovative ideas should first be tested in practice on a limited scale. Such a preliminary effort took place when the RDA advocated a $36 million dollar subsidy for a mixed-use project on three sites in downtown San Jose to be developed by the CIM group.

At first, this development proceeded in accordance with the Agency’s traditional aversion to public involvement. As a column in the Business Journal noted, “Ms. Shick (RDA’s Executive Director) says she wants [CIM] officials to meet with City Council members, the San Jose Silicon Valley Chamber of Commerce and the Downtown Residents Association. If all goes well, a final agreement could come in two months.” As usual, handpicked stakeholders would be at the table; everyone else would watch from the outside.

On this occasion, however, a labor/community coalition intervened. CIM had to meet with other groups—affordable housing advocates, unions, and small business representatives. The project was re-analyzed from a community perspective, a perspective that questioned the pay scale for the jobs of janitors and parking lot attendants, the extent to which housing would be affordable to projected retail employees, the impact on local small businesses. A new set of Community Benefit proposals was placed before the City Council. When the final development agreement was adopted, the project included commitments for living wage jobs, additional affordable housing, and a reservation of space for potential small business tenants.

The CIM experience led to two conclusions. First, the change in RDA practices should be accomplished through a modification of policy rather than on a case-by-case basis. Secondly, the procedures for determining community benefits should be known to prospective developers at the earliest possible stages of their interaction with the RDA. The process
should be comprehensive and systematic, designed to avoid any delays in a project’s timetable.

Based on the experience from the CIM case and from attempts to increase the community return from developments in other regions, a new policy for public subsidies in San Jose can be outlined. The policy involves a two-part strategy. The first stage, the Community Information Report (CIR), institutes a process that increases public involvement in the evaluation of a project. Essential to informed participation is information. The CIR provides the public with data on the way in which a project affects community needs, either positively or negatively. The second stage, the Community Benefits Agreement (CBA), is a process to modify the characteristics of a project to produce a more optimal return. The information generated through the CIR can be used to determine what changes in the development will enhance the well being of working families and neighborhoods in San Jose.

The CIR would present socio-economic and planning data about a project to the full spectrum of interested parties in the city. Six specific areas would be highlighted: employment, housing, financial analysis, smart growth, environmental quality, and neighborhood and family services. When completed, it would help answer the following kinds of questions:

- To what extent does a project contribute to the local tax base? Does it add to the tax base or simply move parts of the tax base from one site to another?
- What are the total public costs—such as the costs of subsidies, infrastructure or services—that will be required for the completion of the project?
- Does the project add jobs to the community? If so, what kind of jobs in terms of wages and benefits?
- Does the project increase the need for additional housing in the region? Is that need for market rate or affordable housing?
- Does the project help provide community infrastructure of value to working families, such as subsidized child care centers or health clinics?

Use of the CIR has potential advantages for decision-makers, community leaders, developers, and residents. By aggregating needed information in one document, it avoids the needless delays associated with late requests for additional data. By requiring a comprehensive overview of the project, it assures the community that decision-makers will have full information when they exercise their judgment. By providing a solid base
of facts, it helps to focus debate on concrete issues for which win-win solutions can be formulated.

In the second stage of this overall process, a Community Benefits Agreement is drafted. The CBA can revise the original plan for the development, incorporating insights from the CIR and emphasizing the priorities made evident through public involvement. For example, a CBA might require that jobs generated by the project pay a living wage or that the needs of small businesses be incorporated into the design. Modifications of the project must meet the test of economic feasibility. One of the advantages of a more open process is that the community will have access to data regarding the fiscal limitations on the development and, thereby, be able to generate more practical recommendations for change. Once the contents of a CBA have been negotiated, these commitments can be incorporated into the DDA.

Revising economic development strategies that have been in place for decades should be done with care and due diligence, even when it is clear those past practices have serious flaws. One approach towards moving forward could include a number of distinct steps. First, the City Council could endorse the Community Benefits Initiative in concept and refer the CIR procedure to staff for analysis and for the organization of a public review process. Second, some months later a formal CIR policy could be returned to the Council for approval. Third, the CIR policy alone could be implemented for a six month period, providing interested parties time to improve it as needed. Fourth, the CBA stage could be presented to the Council for adoption in concept and for referral to staff and public participation. Fifth, the CBA, the final stage of the initiative, could be adopted as formal policy.

By engaging in the effort to implement a Community Benefits Initiative, the residents of San Jose, their civic and business organizations, and their elected leaders can begin to transform the city’s economic development programs. The outcome of these efforts can be a higher level of public participation and public support for publicly subsidized projects as well as a growing confidence that the investment of public funds is producing returns that benefit the community as a whole.
INTRODUCTION

In this substantial report on economic development strategies in the City of San Jose, Working Partnerships USA is continuing its organizational commitment to improve the well being of working families in Silicon Valley. The plight of those trapped in the bottom half of the “hourglass economy” has been well documented in previous publications and need only be reviewed at this time. What requires additional analysis and evaluation is the role of local government in attempting to shape the direction of the valley’s economic future and the effects of local government actions on those who have not as yet shared in the prosperity for which this area has become so well known.

As will be discussed below, by the late 1970’s San Jose’s leaders had recognized that a combination of market dynamics as well as the warped public finance system created through Proposition 13 would leave San Jose confronting two highly undesirable conditions: a dilapidated downtown and an overwhelmingly residential tax base that could not yield sufficient revenue to pay for even basic public services. In order to reverse both situations, the city chose to employ public investments on a massive scale. Essentially, San Jose used its redevelopment agency to support two major industrial zones, to revitalize its central core, and to encourage commercial development both downtown and in neighborhood business districts.

Many of the effects of this approach are immediately evident in the San Jose of the 21st century. North San Jose is a vital component of the Silicon Valley industrial heartland. The Agency’s downtown investments include new office buildings, thousands of market rate housing units, a convention center and nearby hotels, and a host of public facilities ranging from the Tech Museum to the HP Pavilion (arena). However, the impact of these enormous expenditures on the working people of the city is not nearly so obvious. To what extent has the redevelopment program produced not merely jobs but quality jobs with benefits? Has redevelopment improved the ability of working families to secure affordable housing? Are essential community amenities—parks, childcare centers, libraries—more readily available because of redevelopment’s investments? A subtler question must also be asked—has the management of redevelopment been an open and democratic process, designed to incorporate the true priorities of the public?
Only a thorough analysis can attempt to respond to queries of this type. The report that follows is an effort to examine objectively San Jose's program of public subsidies. The perspective of the review stems from a concern for the needs of working families; it aims to assess both the accomplishments and the failures in the city's economic development program. Following this critique, the report will move on to consider and recommend modifications of the San Jose process that are likely to produce superior outcomes. One particular reform—the use of Community Impact Reports (CIR) and Community Benefit Agreements (CBA)—will receive intensive attention. The CIR/CBA approach is in the process of development in three other regions of California: San Diego, Los Angeles, and the East Bay. Once in place, it promises to eliminate many of the flaws that have appeared in the San Jose redevelopment program during the past two decades.

The following report is organized into three principal sections. The first section, the problem, describes the growing difficulties for working families over the last 30 years in the New Economy. Despite increasing prosperity for some households in the 1990s, the majority of working families face hardship and continue to struggle to make ends meet. They lack an adequate supply of quality jobs, affordable housing and community services to meet their needs.

The second section of the report, the challenge, examines the opportunities economic development provides to ameliorate the problems experienced by working families. It notes that development can either ease or complicate the ability of working families to meet their needs. This section describes California's history of economic development and notes the ways in which government has failed to play a beneficial role in that process. Since the majority of local public funds are invested through the San Jose Redevelopment Agency, this analysis includes an in-depth review of the Agency's policies—both successes and shortcomings—over the last three decades in San Jose.

The second section concludes with a discussion of the problems that arise when economic development lacks a formal process to incorporate community priorities. These problems fall into two categories, one relating to the process of development planning, and another relating to the outcomes of development projects. When the process for directing economic development fails to include community groups, these constituencies are forced to publicize their concerns late in the process after information has finally been made available about specific projects. This delayed response often increases the political controversy surrounding a development, slows down decision-making and escalates costs. The second type of problem involves the effects of development projects. In some cases, projects may fail to help working
families, missing opportunities to leverage public funds to address their problems. Even worse, projects can also increase the hardships families already face by generating low wage jobs, leading to an increase in the demand for scarce affordable housing and subsidized child care resources, thus placing a strain on community infrastructure. Currently, the extent of hardship created by new projects or the missed opportunities is largely unknown. Moreover, the failure to sufficiently evaluate the potential outcomes of economic development projects can result in a loss not only for working families but also for policymakers and taxpayers. The section, therefore, also discusses the possible increased costs to the city and the public sector from negative effects of development projects, the outcomes from which have not been adequately evaluated.

The third section of the report, the solution, introduces possibilities for addressing the drawbacks of current economic development practices. New policy tools are being developed in Santa Clara County and other California regions to document the needs of working families, to improve the quality of information governments examine regarding the effects of the development that they subsidize, and to lessen community isolation from the development process. The Community Benefits Initiative being developed includes a two-step process. First, a community report would identify and evaluate the possible outcomes of a development on constituencies and neighborhoods in regions where development is taking place. Secondly, informed by the CIR, a broad range of community groups would become engaged in reviewing the project and proposing recommendations concerning ways in which it could better meet the needs of working families. This process overall is designed to generate a fair and reasonable return to communities for their public investment and to insure that subsidized developments are genuinely responsive to the priorities of the residents in areas where it occurs.
THE PROBLEM

While the current recession has brought about job losses, decreased wages, and falling profits for workers and businesses, it obscures underlying problems within the Silicon Valley economy that were experienced by many households even during the peak of the previous boom. The thriving economy of the late 1990s did provide unprecedented prosperity for upper income groups, yet large numbers of workers failed to experience increases in wages or benefits from the substantial wealth generated. At the same time, the increase in disposable income for affluent groups pushed up the costs of certain basic necessities, making it even more difficult for those that did not see wage growth to make ends meet.

To compound this situation, social policies such as unemployment insurance and welfare, developed decades ago by the government to buffer those marginalized from society, have not yet been adjusted to address the new difficulties experienced by working families under current conditions. Welfare reform, for example, has often either failed to help low skilled workers or actually worsened their economic plight. In the discussion below, this report describes major changes in the economy that have taken place, the growing disparity in income that has occurred even during periods of economic growth, the impact of new workforce structures on the security and standard of living of working families, and the failure of traditional solutions to address increasing unmet social and economic needs. It also identifies undesirable conditions in the economy that aggregate economic growth has, at best, been able to only marginally improve, leading to a rejection of the expectation that a recovery alone will automatically generate shared prosperity and alleviate hardships experienced by hundreds of thousands of workers with incomes well below the median level.

AN HOURGLASS ECONOMY

During the 1990s, economic productivity in the United States was increasingly dominated by new industries based on rapidly developing forms of information technology or biotechnology or on other high technology products. The duration of the decade’s expansion was rare; the rise in stock prices and concentrated wealth extraordinary; and the growth of high-paying technical jobs impressive. At the same time, however, the life experiences of working families demonstrated insecurity, stagnation, and hardship. In California – the heartland of the New Economy – conditions of stress and inequality grew. In Silicon Valley, the income gap between the affluent and the working poor increased inexorably. By 1999, the
average top executive’s pay was 425 times greater than an assembly-line electronics worker, up from 40 times greater just ten years earlier.

These conditions of hardship and inequality—manifested in “hourglass” economies—are increasingly ubiquitous. As recent research has indicated, California’s growing regions tend to provide large numbers of well-paid jobs for highly skilled workers, they show a shrinking middle class, and they reveal massive numbers of low-paid, no-benefit service workers in jobs that lack prospects of career mobility. Thus, within the hourglass, major sectors of the workforce, as well as those excluded from the workforce (the traditional victims of impoverishment), are experiencing severe economic difficulty.

In particular, working families confront the following problems:

**Economic Insecurity**

Lack of job security has become one of the defining characteristics of the New Economy for all working Californians. In 1999, 45% of all employees had less than two years tenure with their current employer, and the median job tenure for California workers was only three years. The “competition by innovation” that typifies the New Economy requires firms to respond rapidly to technological and economic change, with companies increasingly relying on the ability to quickly change the size and composition of their workforce. These market forces also increase job insecurity by extending the average duration of unemployment. In 1998, 14% of the unemployed were out of work for 27 weeks or more, compared to only 9% in 1979 and less than 5% in 1969. According to the Bureau of Labor Statistics, of 8.8 million jobless workers in America, almost two million have been out of work for half a year or longer. Long periods of unemployment obviously make families more vulnerable to impoverishment.

As companies seek ways to make their workforces even more flexible, many have turned to contract and contingent labor. The number of workers in these nonstandard work arrangements continued to accelerate; between 1992 and 2000, employment growth in California’s temporary help industry was as great as employment growth in the software and electronic equipment manufacturing industries combined. Although some workers may welcome the flexibility of these new work arrangements, for families in the bottom half of the hourglass temporary work often produces severe economic hardships.

**Declining Wages**

Workers in the bottom half of the hourglass did not reap the benefits of the high-tech economic expansion. Even while the economy grew at unprecedented rates, median
real wages for all American workers stagnated or fell. Between 1994 and 1998, the peak of the expansion, the median real wage actually declined by 1%. The median real wage in 1998 was 10% lower than the wage in 1979. For low-income families, the decline was even worse. Although real wages finally began to grow in the last few years of the expansion, they remained lower than in the 1970s and even lower than real wages in the beginning of the 1990s. In Santa Clara County, from 1979-1999 the bottom 20% of wage earners saw their wages fall by more than 15%, while the top 20% saw their wages rise by more than 10%.

Poverty
Over the past two decades, the minimum wage has failed to keep pace even with inflation, let alone with the true cost of living. In addition, a large proportion of new jobs being created fail to provide a living wage. These substandard jobs leave many working families in poverty. In California, 16% of residents fell below the federal poverty level in 1997-1998; up from 13.1% in 1988-89; and according to calculations by the Economic Policy Institute, fully a third of Californians lived in families whose incomes were insufficient to meet a basic family budget in their region. Silicon Valley is hardly exempt from these disturbing trends. Locally, a massive number of jobs do not pay enough to support a basic family budget. In Santa Clara County in 1999 50% of all jobs did not pay enough to support one adult and one child, up from 34% of jobs in 1996.

Disparity and Decrease in Affordability
The decline in wages for low- and middle-income families, coupled with the disappearance of middle-class jobs, has resulted in an intensifying income disparity. When substantial numbers of high-paying jobs exist side by side with an explosive growth of low-paying jobs, an untenable economic strain may result. The markets for basic goods and services that are in limited supply, such as housing, respond to the dollar demand of higher-income employees. As the cost of living escalates, middle-income workers – including teachers, nurses, firefighters and police officers – often cannot afford to live in the region. In Santa Clara County, just prior to the recession, the average monthly rent was $1,900, yet four of the ten fastest growing occupations offered monthly incomes of less than $1,750 ($21,000 annually). The need to contain and address the consequences of this growing gap between the affluent and the working poor has become one of the critical public policy challenges of this era.
FAILURE OF TRADITIONAL POLICY SOLUTIONS

Current government policies fail to meet the needs of working families. Most legislative efforts to protect workers and their families from severe or extended economic cycles were designed decades ago and have not been updated successfully under recent welfare reforms. Following the Great Depression, safety net policies became established, with the expectation that they would address short-term disequilibria in generally stable labor markets. Those who crafted these measures, however, never envisioned the heightened levels of insecurity and instability of the New Economy. For example, unemployment insurance has been developed as a system to protect workers in permanent jobs from relatively uncommon cyclical recessions. Once a recovery began, employees would presumably be re-hired to their long-term positions. This system is of minimal value to temporary employees who may be on the job for eight days, out of work for four, rehired for a day, and then out of work for a week. Similarly, the safety net of the mid-twentieth century presumed that working adults would receive health insurance as a job related benefit, a circumstance that rarely occurs for either temporary employees or low wage service workers.

More recent legislative initiatives, such as welfare reform or workforce development programs, have provided at best only limited improvements over previous governmental efforts. The major welfare reform bill adopted by Congress in 1996 created the Temporary Assistance to Needy Families program (TANF). Its philosophy was to break families out of patterns of welfare dependency by transitioning recipients into the work force. The pressure to achieve this movement from aid to work would be a five-year lifetime limit on cash assistance. However, TANF’s focus on entry into the workforce neglected the importance of skill development, thereby forcing people into low wage, dead end jobs. The median wage for former TANF recipients was $6.61 per hour in 1997, with little access to health insurance, sick leave, or vacation days. In addition, the program did little to assist former recipients of aid to retain employment in a recession. With unemployment high, workers who have earned too little to accumulate savings are being laid off. In 2004, former welfare recipients are expected to have jobless rates at twice the national average. If they have reached their 5-year limit, they will have virtually no access to public resources to escape severe poverty.

Former welfare recipients do, of course, have the option of applying for unemployment insurance. However, they often fail to meet the eligibility criteria, particularly if they have received low pay and held irregular or temporary employment, held seasonal jobs, or have had to move in and out of the workforce because of family responsibilities. While 39% of all unemployed workers receive UI benefits, only 20% of former welfare recipients are expected to be able to qualify for the system.
Compounding the problem these workers face is the lack of affordable childcare, an especially relevant concern since so many families leaving TANF are single mothers with young children. The major childcare funding source for families leaving welfare is the Child Care and Development Fund. States have discretion to determine eligibility for this program. Regulations limit participation to those families with incomes below 85% of the state median. Most states set eligibility levels substantially lower; California’s standard is set at 75%.\textsuperscript{12} Even using all TANF funds available, in 1999 California had 200,000 families waiting for childcare help.

Other forms of government assistance are also often out of reach to working families if they are tied to unrealistic federal definitions of poverty. The federal poverty level has not kept pace with the cost of living and underestimates the household income necessary to enable people to adequately meet their needs. For example, the federal poverty level is set at $18,000 for a family of four, a determination that clearly leaves many families in high cost regions like Silicon Valley with grossly inadequate incomes to meet basic needs despite the fact that they are not officially designated as poor.

As a concomitant to welfare reform, the federal government has invested in job training programs as a strategy to enable the poor to meet their economic needs through participation in the workforce. Unfortunately, this approach has also largely failed to bring the working poor to a self-sufficiency level. While welfare reform has shifted large numbers of people from aid to work, their wages are often too low to pay for even bare necessities. They usually receive minimal or no benefits. Most important of all, they are often in jobs to which career mobility simply does not apply. In general, corporations in the New Economy no longer maintain internal labor markets—human resources systems that provide a career track of promotions for long-term employees. With job tenure as low as it is, businesses have few incentives to invest in worker training. In addition, widespread outsourcing has moved workers from a large enterprise in which multiple skills are relevant and multiple opportunities exist to single service vendors where career growth is unlikely.

This situation creates formidable obstacles to effective job training efforts. Once at work, individuals have limited time available to learn whole new skill sets. Support services to make training feasible, such as childcare and transportation, are often not available. Flexibility in job scheduling to enable workers to attend classes may be impossible. After all, current employers understand a worker who augments his or her skills is most likely to seek a better job elsewhere. In addition, the costs of training and re-training to allow people to reach occupations at which mobility actually exists are considerable.
When evaluated as a whole, the entire spectrum of government strategies that can be used to attempt to reverse the pernicious effects of the hourglass economy—the New Deal safety net, welfare reform, and workforce development initiatives—flounder in the face of market forces that trap countless families in a low wage, no benefit, dead end service sector. New approaches are called for. The question on which the remainder of this report focuses is whether economic development strategies can be used to address these problems—can be part of the solution to the widening gap between the affluent and the working poor.
THE RATIONALE FOR THE USE OF PUBLIC SUBSIDIES

Once the scale of the hardships confronting working families in the New Economy is acknowledged, it is appropriate to examine alternative actions or policies that government can initiate to improve this situation. One approach would be to follow the medical dictum—primum non nocere—first do no harm. That would suggest support of laissez-faire—to let the market correct itself. The obvious defect with this stance is that it is precisely the failure of market dynamics that has produced the hourglass economy in the first place.

An alternative strategy would be to rely on public investment to effect change. Government investments do in fact often combine the positive effects of paying wages sufficient to support a family with producing socially and/or economically necessary products, such as schools, airports, and hospitals. However, for government investments to become large enough to reverse the current trends towards inequality would require the public sector to enter economic fields in which it totally lacks experience or expertise and would lead to unacceptable increases in taxation.

In numerous cases, local governments have chosen a third option that is more suitable for a mixed economy—the use of public subsidies. Subsidies for economic development have long been employed as a public policy tool to bring in jobs and stimulate development for a particular neighborhood jurisdiction or region. Governments provide these subsidies to convince businesses to locate within their borders or to persuade existing businesses not to relocate. Subsidies that governments provide directly to private companies can include tax breaks, corporate income tax credits, property tax abatements, grants, tax-free low-interest loans, infrastructure and land subsidies, training grants and credits, and industrial revenue bonds as well as direct payments. Collectively, these types of subsidies are generally referred to as “incentives” or “business incentives”.

THE CHALLENGE

CAN GOVERNMENT INTERVENTION IN THE MARKET IMPROVE PUBLIC WELL-BEING IN THE HOURGLASS ECONOMY?

AN EVALUATION OF LOCAL ECONOMIC DEVELOPMENT STRATEGIES
SCALE OF SUBSIDIES AND ANTICIPATED OUTCOMES

Public subsidies range from a few hundred dollars for façade improvements to hundreds of millions in incentive packages to attract a new plant. Companies also benefit from general public expenditures such as infrastructure improvement and public relations, but these are not considered business incentives, as they are not targeted to a particular company.

As local and state governments struggle to maintain jobs and economic growth, subsidies have become increasingly common, so much so that helping firms to obtain the maximum possible subsidies has become a profitable business in itself. Companies such as Mintax, a “global incentive consulting firm” which boasts that it can help firms “recover up to 25% of your capital/people investment,” work with clients to secure lucrative incentive packages from governments worldwide.

The annual cost of public subsidies to state and local governments reaches as much as $49 billion nationally. This total estimate of taxpayer funds expended on public subsidies exceeds the total revenue these governments receive from corporate income taxes ($33.8 billion). It is twice as much as state and local governments spend on housing and community development ($23.2 billion) or on cash assistance to welfare recipients ($24.7 billion). It even exceeds the $47.6 billion spent on police departments.

In 2000-2001, California spent $7.8 billion on economic development projects. In San Jose alone, the Redevelopment Agency budgeted funding for 30 projects benefiting private companies in 1998-1999, with many of the projects involving subsidies to multiple firms. Twenty-five of these projects had budgets greater than $100,000, and 15 received over $1 million. The majority of these expenditures were not subject to any systematic or regular evaluation, nor is data routinely generated to determine whether the incentivized outcome was achieved. This proliferation of subsidies is mirrored throughout the nation, with multimillion-dollar subsidy packages becoming increasingly common. In Connecticut, 1,050 companies received a total of $622 million in subsidies from 1991 to 1998. In Kentucky, the tax incentives program awarded $2.9 billion in tax credits between 1992 and 1999. Maine distributed $40 million in corporate subsidies in 1998.

Government subsidies to companies are made with the expectation that the public will receive a return on that investment. The foundation for that expectation is usually based on the potential presence of either one or a combination of two economic outcomes—positive externalities and tax returns. Positive externalities refer to multiplier effects that cannot be captured by the price system. For example, a sandwich shop in downtown San Jose has a
small clientele generating marginal returns for the owner. Then, the city subsidizes a 15-story office building right next door. Because it is so well situated to serve hundreds of hungry office workers, the profits of the sandwich shop soar. For the owner, these benefits are a free good. He is the pleased recipient of a positive externality. To the extent that this experience is repeated on a broad scale, it is possible for a city to postulate that an initial subsidy of $10 million dollars to construct a $20 million dollar building can generate levels of economic activity well beyond that which goes on within the building itself.

The second primary economic outcome is tax returns. A private investment can be expected to produce property taxes and utility taxes as well as possibly sales taxes and transient occupancy taxes, all of which constitute a direct economic benefit to local governments. However, the subsidized project can conceivably generate numerous other types of desirable economic and social return as well, including good jobs, needed housing, or commercial services not previously available at a convenient site.

For a variety of reasons, however, subsidized investments do not necessarily satisfy the objectives of their proponents. To begin with, the expected economic outcome may simply not materialize. Customers may not flock to the new shopping center, or the office building built “on spec” may remain vacant for years. In many cases, economic activity does follow a subsidy but at nowhere near the scale envisioned. One Connecticut study showed that companies that received subsidies produced only 47% of the jobs they promised to create, leaving the state with an average subsidy of $54,271 per job gained from the economic development program.

Secondly, even if initial benefits are promising, the subsidized firm may decide to accept a better offer, i.e. a higher subsidy, elsewhere. A monumental example of such a failure occurred in 1984 in the Midwest. The town of Ypsilanti, Michigan provided General Motors with $1.3 billion in subsidies in return for a promise that the company would maintain its plant in Willow Run for at least 12 years. Seven years later, GM announced that it was moving the plant to Arlington, Texas, which had also offered large incentives to the company. Ypsilanti lost 4,000 GM jobs and over 10,000 jobs at related industries.

The extent of this form of subsidy failure is not known because, astonishingly, in most states, information on the effectiveness of public subsidies is limited or altogether absent. An analysis of 122 state audits of economic development programs by Good Jobs First revealed that only 17 states mandate regular audits of their economic development spending. Of those agencies which do perform audits, most lack measurable performance objectives for their
subsidy programs and lack basic tracking data such as the number of jobs created and the wages paid, making it impossible to determine whether or not the public subsidies provided by the agency are effective. The California Budget Project study of California's economic development programs, *Maximizing Returns*, concluded that it is difficult, if not impossible, for policymakers to determine whether the $39.3 billion spent since 1995-96 has had a measurable impact on the well-being of Californians.

A final potential problem with subsidized developments is that they may produce unanticipated expenses as well as benefits. The cost to government at all levels from jobs that pay significantly less than the amount needed to sustain a family may be enormous. When subsidized firms bring in large numbers of minimum wage jobs without benefits, they generate unexpected negative results such as crowds of families seeking basic medical care at the emergency rooms of local hospitals, increases in homelessness, and growth in demands for numerous forms of social services.

In light of this mixed record, a determination on the wisdom of employing public subsidies in Silicon Valley and on whether policies guiding subsidies can or should be altered to provide better outcomes requires an examination of the actual use of this economic development strategy in the South Bay. The following section reviews the record of the San Jose Redevelopment Agency, the government body that by far has used subsidies most extensively in this region.
**RDA ACCOMPLISHMENTS**

Since its establishment the San Jose Redevelopment Agency has played a major role in housing construction, the development of public facilities, and the growth of the City’s downtown. Within the last 25 years the Agency has allocated $2.3 billion for capital projects to revitalize blighted areas and encourage additional unsubsidized development throughout San Jose. As a result, RDA investments have leveraged massive physical and economic expansion, particularly within the City’s core.

**DOWNTOWN REVITALIZATION**

The RDA’s investments in the downtown have transformed a region that once suffered from a lackluster economy and dilapidated infrastructure to a region that attracts visitors, new residents and private development. Within the last twenty years the Agency has allocated more than $650 million toward housing, hotel, entertainment, small business, retail and office building construction. This commitment to downtown revitalization has in turn stimulated non-subsidized office buildings plus commercial and residential development, further enhancing the region’s economy. As a result, approximately 12,566 jobs, 2,400 affordable housing units and a number of new office complexes were added to the City’s core.

**PUBLIC FACILITIES**

Throughout the last 25 years, one of the RDA’s more notable successes has been the construction of public facilities. RDA investments have produced museums, learning centers and entertainment facilities for visitors, and local residents of all ages. Between 1977 and 2002, the Agency devoted roughly $1.06 billion, 46% of total expenditures, to this type of development. Among the major projects completed were the San Jose Convention Center, the Tech Museum of Innovation, the San Jose Repertory Theatre, the Children’s Discovery Museum, and the San Jose Arena (currently the HP Pavilion).

**HOUSING**

The Redevelopment Agency has appropriated a massive amount of resources for housing construction. In concert with the City’s Housing Department, it has prioritized funding to
assist some of San Jose’s poorest residents. Including the 20% of tax increment mandated by the state for affordable housing, the RDA spent $598 million on residential development in the last 25 years. At least $310 million (52%) of these expenditures were designated for subsidized units. In the next five years the Agency proposes to earmark $248 million towards affordable housing, 21% above the State requirement.

City housing policies, particularly within the last 15 years, have concentrated on subsidizing very low-income (VLI) and low-income (LI) units. In the mid-1980’s the San Jose City Council required that 85% of total affordable housing resources be designated for VLI and LI construction. As a result, RDA funds have placed 11,760 households in subsidized units, 84% of which are VLI and LI eligible families. In addition, the RDA proposes reserving $11.1 million in funding for extremely low-income families over the next five years. Overall, the RDA and the Housing Department have made significant strides in addressing the city’s housing shortage. Their dedication to creating affordable units has generated more resources to house San Jose’s poor than have been generated by virtually any other jurisdiction in California.

**AREAS FOR IMPROVEMENT**

Despite significant accomplishments, the RDA has failed in two significant areas. First the Agency has provided insufficient opportunity for public participation during project negotiations. Second, the RDA does not properly evaluate the public’s return on investment for a project. Potential adverse socio-economic effects of projects, which might include poor job quality, insufficient developer accountability, and the loss of revenue to other local jurisdictions are often ignored. This procedural inadequacy causes concrete negative results. The lack of job standards generates an increased demand for affordable housing, subsidized childcare and public health services. Inadequate accountability language does not protect public investment or community outcomes from default by a developer. Furthermore, the RDA projects do not fully account for the increased demand for services on the County and school districts resulting from new publicly financed construction.

**PUBLIC INVOLVEMENT**

San Jose residents have few opportunities to obtain comprehensive information on RDA developments or to participate in the negotiation process for publicly subsidized projects. Information released prior to a DDA does review the scope and scale of a project, however it rarely adequately addresses return on investment. Information on job creation and anticipated wages and benefits, impacts on the housing market, childcare
supply, neighborhood services, schools and local safety net institutions are seldom included in Agency deliberations regarding a proposed project. Furthermore, opportunities for community input consistently fail to provide concerned residents with the chance to engage in meaningful discussions regarding the components or projected outcomes from a development. There is currently no formal mechanism for the public or community based organizations to actively help define a subsidized project. A role in negotiating with developers and the RDA is reserved for a handful of stakeholders representing business interests and government staff. Community participation is relegated to large informational meetings and two-minute testimonials at public hearings and held shortly before DDA approval. Neither process requires developers to consider neighborhood concerns or incorporate community priorities into a project’s design.

RETURN ON INVESTMENT

JOBS

Silicon Valley’s dynamic economic expansion, combined with RDA efforts, has lead to massive job creation within project areas particularly within the last decade. In 2001, 40% of San Jose’s employment was within RDA regions. However, the RDA does not focus on job quality as opposed to job quantity. Development agreements do not include any living wage requirements or mandate that an employer offer health coverage. This failure to address job quality standards has resulted in the creation of a substantial amount of substandard employment paying less than a living wage. It is estimated that in 2000 over 80,000 jobs in project areas paid below a living wage, representing 16% of the City’s total workforce.20

FAMILY NEEDS

Currently, the RDAs analysis of subsidized projects does not account for the rising demand for additional public and community services that result from the creation of low wage jobs. Poverty level employment significantly impacts the demand for affordable housing, government health services and subsidized childcare. In regards to housing, below living wage jobs in project areas have induced a need for approximately 52,108 affordable units. This is almost four and a half times the amount of housing supplied by the Agency in the last 20 years. Low -wage workers are also less likely to receive job-based health insurance, and instead must rely on the public health care system. In 2001, only 24% of California households whose annual incomes were below $20,000 received employer based health coverage, and 39% were uninsured.

In addition, poverty wages enhance the need for subsidized childcare spaces. As many as 15,000 children under the age of five from families earning less than a living wage in RDA
areas qualify for subsidized child care, generating an acute demand for more spaces. In brief, the lack of RDA job quality standards has not only produced numerous poverty level jobs, but it has severely affected the number of people eligible for affordable housing and subsidized child care as well as the number lacking health insurance.

HOUSING

In conjunction with employment growth throughout the last decade, San Jose has experienced a severe housing shortage. Despite enormous public investment in housing, project area job creation has overwhelmed residential markets, drastically outpacing new housing development. Capital projects in RDA regions between 1990 and 2001 created 25,400 new jobs. This in turn generated a demand for approximately 10,708 affordable housing units, just 1,000 fewer than RDA’s total subsidized housing construction over the last 20 years. Based on the City’s average income distribution, roughly 2,471 of these households would qualify for ELI units, 1,647 for VLI units, 2,801 for LI units, and 3,789 for moderate-income units.

SMALL BUSINESS

In its earliest years RDA capital expenditures allocated relatively few resources toward subsidizing small businesses in project areas. In response to this issue, the RDA established the Neighborhood Business Districts, a program that focuses on small businesses, façade improvements and the revitalization of older commercial neighborhoods. In the last 15 years NBD’s have received $70 million in public subsidies. However, even with the recent approval of the Strong Neighborhoods Initiative, and the Neighborhood Business Clusters project area, the Agency’s primary focus continues to emphasize large-scale industrial, retail and commercial development. In the proposed capital budget for 2004-08, the RDA estimates allocating $184 million in neighborhood improvements (small business assistance, the SNI and a number of other projects), and $460 million (20% of the total budget) in private development.

ACCOUNTABILITY

Although the RDA applies some accountability measures (or clawbacks) to ensure developer performance, such language does not always secure a satisfactory financial return and fails to address community objectives. Standard RDA clawbacks outline when a developer is in default of a DDA, and require that possession of a subsidized building be turned over to the Agency. However, mere ownership of the building does not protect the public against financial loss. New economic conditions may lower the value of the site below the level of the public investment. Also, the RDA will become responsible for finding a viable
tenant to occupy the building, and, depending on the economic climate, it may be forced to offer an additional subsidy to attract a new prospect. For example, when the United Artists abandoned its downtown theatre less than four years after opening, the DDA did not mandate repayment of the $5 million public investment. The building has remained vacant for the last three years, and the Agency may now be forced to offer financial incentives to attract another tenant/operator. Similarly, the Agency’s agreement with IBM for 303 Almaden failed to assure accountability for the fundamental objective of bringing a flagship corporation to the City’s core. Three months after completion of the office building, IBM chose to leave the site. RDA found another tenant, but not an alternative “flagship.”

Another flaw is that RDA accountability language rarely includes community standards or community objectives. DDA’s do not address job creation, job quality, or community infrastructure in the blighted areas, and, therefore, accountability measures cannot cover these outcomes. In the case of the United Artists agreement, the DDA did not mandate job creation or job quality standards. As a result, the theatre produced 43 below living wage jobs, many of which did not offer employer-sponsored health insurance.

LOSS TO LOCAL JURISDICTIONS

The RDA’s investments in blighted communities have adversely impacted other local jurisdictions in two significant ways. First, in project areas all growth in property taxes that would otherwise be allocated to the city and county is redirected to the Redevelopment Agency. As a result, over the last ten years the Santa Clara County Controller has estimated a total loss of $1.8 billion in revenue to the county. As another example, in fiscal year 2002-03 it is estimated the County, cities, school districts, and all other property tax receiving agencies will suffer a net loss of $282 million. Second, Agency investments in housing, private development and industrial infrastructure have increased populations within project areas, amplifying the need for community health facilities, schools, and additional county services. At the same time, the County and local school districts have been inadequately compensated for the increased demand for health services, schools and basic infrastructure. As redevelopment areas have grown in this region, local jurisdictions, particularly the county, have experienced higher and higher losses.

CONCLUSION

The San Jose Redevelopment Agency has played an instrumental role in economic development in San Jose. RDA investment has literally recreated a viable downtown. Industrial and commercial growth have been encouraged. Valuable public infrastructure and
facilities have been constructed. RDA funds have constituted the major source of funds for affordable housing throughout Silicon Valley.

However, the Agency has failed to perform well in several significant areas.

**AN INADEQUATE COMMUNITY RETURN ON INVESTMENT**

The Agency has not included standards for quality jobs, community services and infrastructure. In addition, it does not provide sufficient small business assistance or adequate housing to offset low wage job growth;

**A SERIOUS FISCAL DRAIN ON COUNTY GOVERNMENT**

The county has major responsibility for health and social services in the region, precisely the services required by low wage workers.

**A LACK OF OPEN PUBLIC INVOLVEMENT**

The Agency has relied excessively on “handpicked” stakeholders, leaving the broader public to attempt participation in decision making at the last stages of the development process.

**INSUFFICIENT ACCOUNTABILITY FOR THE INVESTMENT OF PUBLIC FUNDS**

Although the RDA has taken some actions to protect the public’s investment, the methods employed have not been sufficient to prevent significant losses.
THE SOLUTION

At this point, the Shared Prosperity and Inclusion report has presented the following major points:

a. The Silicon Valley economy, even in boom periods, is characterized by an hourglass-shaped income distribution, a widening gap between the affluent and working poor. Those in the lower half of the hourglass experience low wages, few benefits, minimal career mobility, and economic insecurity, instability, and hardship.

b. Government efforts to mitigate these problems including the New Deal safety net and more recent initiatives such as welfare reform and workforce development programs are of limited value in the face of new competitive forces and changing labor markets.

c. Economic development strategies that rely on public subsidies have demonstrated the ability to leverage private capital and accomplish significant objectives. However, as implemented in Silicon Valley, they have not emphasized community priorities and standards and have not been open and accessible to meaningful public input.

These contentions lead to a tentative conclusion—that public subsidies should be continued but that they should be managed in a new way to produce improved community outcomes. The record of redevelopment in San Jose with all of its acknowledged flaws and failures still reveals a program that has achieved substantial objectives. As Assembly member Many Diaz observed in a Mercury News editorial defending redevelopment against state budget cuts,

“As a former San Jose City Council member, I have seen first-hand how communities, neighborhoods, and individual lives can be revitalized with an investment from the RDA. The proposed elimination of $560 million of San Jose redevelopment funds over five years would result in the estimated loss of nearly 7,000 construction jobs and 12,000 permanent jobs. In a city with an unemployment rate of 9.5 percent, and a countywide rate of 7.5 percent, quality job creation — not elimination — should be our priority.”

What modification in redevelopment policies are needed to build upon this foundation and address the problems noted in the previous sections? A combination of two distinct but
related mechanisms can be implemented to insure a more optimal return on investment and a more democratic decision making process. First, the public needs a reliable, comprehensive, and systematic method of securing information about the nature of economic development projects and their likely impacts on factors about which the community has concerns. Such an approach would assess a proposal based on a consistent set of criteria. This assessment would take place early enough in the planning process to enable the public to use this information to evaluate the project, propose changes, and interact with developers and decision makers.

The second related aspect of reforming the system entails a mechanism that enables stakeholders to determine preferred modification from a project's initial elements and design. Such a process would allow community organizations to recommend changes to a project based on both perceived needs that the project might impact and the capacities and resources of the development under assessment. A revision of a market rate housing project, for example, might propose the inclusion of additional affordable units or of community services likely to be required by future occupants. Similarly, a mixed-use project could be modified based on community preferences regarding types of retail tenants or on job quality standards.

Before presenting a policy initiative that may be applied to redevelopment in San Jose, this section first will review recent community efforts to introduce changes to a specific project—the CIM mixed use plan for three sites in downtown San Jose. That experience may reveal useful data on both the need for policy change and the type of policies that will prove most effective. Following this description of the CIM case, the section will conclude with a discussion of policy tools that can be crafted to evaluate and revise projects in a more timely and predictable manner. An essential element in the process of developing these tools should be broad community and political involvement. Such participation will insure that these tools truly do meet the needs of the wide array of stakeholders affected by subsidized economic development projects but traditionally isolated from the decision making process.

REVIEW OF COMMUNITY EFFORTS TO IMPROVE THE REDEVELOPMENT PROCESS: THE CIM CASE STUDY

The CIM Group's plan for a three site mixed use development in downtown San Jose was shaped by events associated with the collapse in March, 2002 of a much larger project envisioned by the Palladium company based in Dallas, Texas. The Palladium Group, renowned for rebuilding Times Square in New York, had proposed a massive $1 billion makeover of downtown San Jose. That project encountered heavy criticism from
constituencies who maintained an outside developer would lack vital knowledge of the
community’s preferences, aesthetics and needs. This negative attitude worsened as
the developer’s plans revealed intentions to dramatically alter the downtown, displacing
existing businesses, and razing and rebuilding whole city blocks. As the economy weakened,
the Palladium Group deferred and then abandoned the project, leaving a major gap in
revitalization planning for the downtown.

The collapse of the Palladium development provided the project’s critics with the opportunity
to call for different strategies. While the city searched frantically for replacement developers,
many groups lobbied for fundamental reforms in the RDA approach to downtown
development. As one journalist observed, “In Palladium’s wake there has been an outcry
from small businesses that want any new development plans to focus on local and smaller
merchants, not big national retailers.” Numerous neighborhood associations, small business
owners, affordable housing advocates, union leaders, policy makers and others attended
town hall meetings held by the Commonwealth Club, the Downtown Association, the
Redevelopment Agency and the South Bay Labor Council to identify community priorities
during this time that had unexpectedly become available to envision alternative directions for
downtown development.

However, the Redevelopment Agency’s initial efforts to re-ignite its downtown strategy
with the CIM group, a development firm that had been rated just below Palladium in the
prior RDA selection process, created concerns that neither its closed-door processes nor
its objectives were likely to be significantly reformed. An Exclusive Negotiating Agreement
was rapidly signed; three months later the RDA brought forward a final project proposal,
recommending that the DDA be signed the following week. The scale of the development
alone suggested a longer period of review would be appropriate. The original project
consisted of 500 new residential units, more than 125,000 square feet of retail space, and
700 underground parking spaces. The CIM Group stated its objective was for the new
businesses and residences to “work with each other and existing retail, residences, and offices
to produce a pedestrian-oriented, 24-hour, mixed-use community.” Total costs would reach
$138 million, with approximately one-third of this amount subsidized by the Redevelopment
Agency—$36 million in direct payments and $11.4 million in donated land.

The RDA timetable encountered delays almost immediately as city council members made
recommendations for project improvements, based in particular on the low housing density
and the inadequate parking in the initial plan. Following the City Council’s discussion on
the project, numerous community and labor groups voiced additional concerns involving
affordable housing, job quality, and the effect of the project on nearby small retailers. Throughout the fall these constituencies held meetings, lobbied council members and drafted proposals to revise the project to take additional needs into account.

During this process, the South Bay Labor Council and Working Partnerships piloted a tool that they and community allies had been developing for two years, the Community Benefit Assessment. Use of this instrument enabled those analyzing the project to generate a more formal analysis of its potential impact on nearby neighborhoods, and to design specific recommendations for offsetting negative effects that would be likely to follow development. 25

In December of 2002 when the City Council once again reviewed a draft DDA, the accumulated ideas and recommendations of community representatives were encapsulated in a formal memo introduced by several council members and approved by a 6-5 vote. It recommended that the developer amend the project to include increased housing affordability, subsidized childcare, and an evaluation of future retail tenants based on the quality of jobs they historically tended to offer. In addition, the memo recognized the difficulties faced by small businesses in the downtown area, especially during major construction, and encouraged the developer to include local small businesses in the project.

An examination of this case study highlights many of the flaws in the current RDA approach to economic development. In initial discussions between the RDA and a possible developer, only a limited group of stakeholders is given the opportunity to participate and set the parameters for a particular project. As the Business Journal noted during the process for developing the CIM final project, “Ms. Shick [RDA’s executive director] says she wants [CIM] officials to meet with City Council members, the San Jose Silicon Valley Chamber of Commerce and the Downtown Residents Association. If all goes well, a final agreement could come in about two months.” 26 In contrast, numerous other community groups are offered general forums to provide feedback, without any ongoing involvement in project design or any mechanism to insure that their comments or priorities produce even a thoughtful response from the developer, much less genuine consideration for incorporation into the project’s plan.

As a result of this restricted analysis and debate, only limited community benefits were included in the original CIM design, and the project as first proposed actually would have generated significant costs to the community and to local government agencies. These costs would have included an increased demand for affordable housing and subsidized child care, as well as other costs to the public sector that result from the generation of low wage jobs. 27
An analysis of jobs to be generated in accordance with the initial project design suggested that much of the retail employment to be offered by the main tenants would consist of low wage jobs with few benefits. Even a cursory analysis of the cost to the public sector associated with such low wage employment indicated the economic burden shifted to the taxpayers could exceed $1.5 million annually. In addition, the housing needs of these new employees could not be met at the new project, making the region's already difficult housing situation even worse.

Small businesses were given no consideration in the initial project. Based on the outcomes from previous developments in the area, they would likely have suffered in a number of ways. For example, they would lose sales during downtown construction as a result of reduced pedestrian activity. They would experience increases in the market rate rents they pay, while the developer and its tenants received city subsidies. Local small businesses also would have to face competition from chain retailers who benefit from name recognition and high advertising budgets. Compounding their competitive advantage is the marketing support RDA typically provides to new firms, further putting small businesses at a disadvantage without such free publicity.

Finally, despite the economic downturn that had begun to strain limited public budgets, the fiscal analysis of the project was incomplete and unconvincing. No evaluation was made regarding the cost to the public sector from low wage employment. No explanations were offered to justify or explain data presented by the company. No serious public discussion took place regarding the financial terms of the development agreement and the likelihood the city would eventually secure a reasonable return on its investment.

The CIM experience leads to two primary conclusions. First, a major change in RDA practices should be accomplished through a deliberate modification of policy rather than on a case-by-case basis. This conclusion was echoed in a Mercury News editorial following the December city council vote:

“'The question of getting more community benefits out of redevelopment, which labor has raised, needs to be answered—not with piecemeal confrontations at city council meetings but with a city-wide policy that's clear to all potential developers, and that has been established after broad public discussions.' (Mercury News editorial, December 13, 2002)

Such a policy would provide greater predictability around development projects, with a number of beneficial outcomes. It would improve the investment climate for developers by
helping them identify and interact with a broad range of interest groups in an organized and timely manner. It would enable city staff and taxpayers to quantify and evaluate the return on public investment. Finally, a policy with an analytical phase to examine possible effects of development would enable interested parties to understand and evaluate the potential impact of a project before the final agreement is drawn up.

The second conclusion is that the city and the RDA must find avenues to improve the way their economic development programs operate—both in terms of public process and in terms of outcomes. In the future, when sizeable subsidies are involved, the city should first analyze the potential impact of a project and secure input from a broad spectrum of community and business stakeholders, and then work with those stakeholders to determine the highest-priority community benefits that can be achieved in balance with the scale of the project and the size of the subsidy. These changes would make the process more comprehensive and systematic; it would require greater public review, but it would do so in a manner designed to avoid any unnecessary delays.

Both of these conclusions are reflected in the Community Benefits Initiative that is described in the following section.

COMMUNITY BENEFITS INITIATIVE

Based on the experience from the CIM case and from attempts to increase the community return from developments in other regions, a new policy for public subsidies in San Jose can be outlined. The policy’s objective is to deliver a “win-win” for the region—improving public participation, generating more optimal outcomes, and providing developers with a predictable, systematic process with reasonable timelines.

This fundamental notion—that economic development and the satisfaction of community needs are compatible—is increasingly substantiated by social science research. A high quality of life—the end product of community oriented development procedures—has become widely recognized as an essential component of a region's capacity to attract innovative companies and sustain itself as a desirable destination to live, work and play. As Richard Florida notes in his recent analytical work, *The Rise of the Creative Class: And How It's Transforming Work, Leisure, Community and Everyday Life*, two factors are strongly associated with a region’s ability to recruit and retain highly educated workers and to generate technology-intensive economic activity: its population of creative people in the arts and cultural activities, and its openness to diverse groups of people from various
ethnic, racial and lifestyle groups. Attracting such a population cannot be achieved by simply handing businesses large subsidies that shift resources away from important investments in the community. Schools, transportation, housing and other elements of community infrastructure are all relevant to this quality of life and the inducements to a talented workforce that it offers.

The Community Benefits Initiative introduced here is composed of two stages. The first stage implements a reporting mechanism to analyze the potential effects of particular projects. The second stage establishes a new process to increase community involvement in the design of development projects, including ways to propose modifications and improvements to preliminary plans or models. Such a two-part strategy is essential to the core structure of the initiative — combining better information with the opportunity to employ data creatively to upgrade outcomes, all in a framework of openness to community concerns.

THE COMMUNITY IMPACT REPORT

The primary tool in Stage 1, the Community Impact Report (CIR), evaluates a development during the design phase based on the needs of the community in which development would occur. Such a report would contain information generated both by the public sector and developer. It would produce estimates of the potential effects of a development on the public sector, on surrounding neighborhoods, on the employees of the project or the project’s tenants, and on the families to be located at the site before the project is finalized. Once available, this information can enable community residents together with policy makers to evaluate the return on investment from a proposal and determine whether specific aspects of the project might be changed to improve community benefit and public well being.

The purpose of the CIR is to enable San Jose residents to evaluate the effects on the community of publicly funded development. It would contain economic and social data of concern to those directly affected by a project, and the broader community, as well as to the developers and city leaders. The report would be prepared in addition to the standard environmental review. A CIR policy would require the production of such an evaluation as a component of all private developments in San Jose subsidized with substantial public funds. In most cases, these projects employ a formal development agreement between the developer and the jurisdiction granting the subsidy.

The timeline for a CIR mirrors the development planning process. Typically the responsible government agency, such as the RDA, issues a Request for Proposals with a basic explanation of the sites available and the types of development desired. Developers respond with bids
and basic descriptions of possible projects, often after consulting with government staff to refine their ideas. The amount of public subsidy potentially available for a project is typically determined during this process.

A CIR would be requested of any developer presenting a project requiring a subsidy greater than at least $1 million. The timing of the CIR is planned to insure that projects can be analyzed before RDA staff recommends that the developer and the Agency sign an Exclusive Negotiating Agreement (ENA). Comparative costs and benefits of various projects proposed by developers can then receive public review. A broader group of stakeholders could become involved in weighing the attributes of differing projects and commenting on the developer that is chosen; the project could move forward with broader preliminary community support, and the city or RDA could begin formal negotiations with much better information on which to determine the best possible return on the taxpayers' investment.

**THE MECHANISM—HOW IT WORKS**

The CIR provides information on the potential effects of a development in six areas: employment, housing, public sector finance, smart growth design, environmental quality, and neighborhood services. Each report begins with a map of the existing project area, and then uses information provided both by the developer and the city to describe effects that a project may have.

For example, a CIR may help answer the following kinds of questions:

- Is the project economically viable for the development and the city?
- To what extent does a project contribute to the local tax base? Does the project add to the tax base or move parts of the tax base from one site to another?
- What public costs—such as the costs of subsidies or infrastructure—will be required for the completion of the project?
- Does the project bring jobs to the community? If so, what kind of wages and benefits do those jobs provide?
- Does the project increase the need for additional housing in the region? Is the need for market rate or affordable housing?
- Does the project provide community amenities—such as parks or childcare centers?
While the specific questions for a San Jose CIR are still being refined, a sample CIR reporting form is included in the appendix. Included below is a brief description of the goals of each subject area and some sample questions.

**Employment**

The assessment of employment focuses both on the quantity of jobs generated and the quality of those jobs. Job quality can be evaluated in relationship to the wages and benefits of a position as well as its stability—whether a job is part-time or full-time, whether workers are contracted through a temporary agency or hired directly, and whether jobs offer a career path with upward mobility. Jobs assessed include both construction jobs, jobs provided by the owner/operator of a site and jobs created by tenant companies. In some cases a specific tenant may not be identified at the time of the CIR, but the type of industry will be known, such as large retailer or ethnic grocer. Under those circumstances, job quality can be estimated by using industry wide data. For example, information on average wages and the likelihood of health insurance for the average worker in the retail sector in Santa Clara County is readily available.

**Fiscal Effects**

This subject area evaluates the financial costs and benefits for local government from providing a subsidy, taking into account factors that typically are not included in current estimates. By including this additional information, the analysis of the return on investment (ROI) to the public sector becomes a more accurate account of the total impact on city and/or county budgets. Examples of such additional data sets include two categories. First, government subsidies paid to low income families often arise because of the creation of low wage jobs. Costs may include food stamps, Medi-Cal, affordable housing payments, or subsidized care at a public clinic. Secondly, a more inclusive and rigorous analysis would perform an accurate estimate of the changes in sales tax revenues, including shifts within and between jurisdictions. Understanding the effects of development projects on net sales tax revenues relies on an analysis of several factors: the effect of new business on existing firms in San Jose (whether the existing firms lose sales or, in the worst case, go out of business), the ability of a project to attract additional retail business from other cities, thus increasing net sales tax revenue or the possibility that a development will create new consumption patterns not previously available in the region.
Housing

The housing assessment has two main objectives. First, it notes whether any housing will be destroyed by the project—the affordability of existing units and the demographics of people expected to be displaced. The assessment also takes into account the housing needs of the surrounding community. Finally, it includes an evaluation of any increase in housing needs that result from the projects. By including all of these factors in the analysis, the assessment can fully measure what the existing need is, what the projected effects of the project will be, and whether the project has a net positive, negative, or neutral effect on housing affordability.

Smart Growth

The smart growth assessment involves multiple variables. It begins by accumulating information on the types of buildings and the mix of uses in a project. Based on this data, it compares the project to standard smart growth criteria. Typical questions include “Does the project design encourage street-level pedestrian activity?” and “Is the project accessible by existing transit?” The density of the project itself and whether it is on an infill site are also factors that determine whether the project can support the use of public transit.

Environmental Quality

This assessment will enable neighborhood residents to measure the relative impact of a development on their environment in relationship to average city impacts and in relationship to other neighborhoods in the city. For example, does the project produce high localized levels of air pollution or does it eliminate one of the few open space areas in the neighborhood? At the same time, the report also evaluates the positive impact of new development projects. It offers a project the opportunity to meet “green” construction criteria by incorporating energy and water efficient technologies into building design. This assessment is distinct from an Environmental Impact Report (EIR) for three reasons. It recognizes potential positive environmental effects from a project, whereas an EIR focuses on the scale of negative impacts. Second, it is performed at a time that is much closer to the signing of a development agreement. An EIR typically is drafted either long before a particular project is designed in a master EIR, or much later when the scale and components of a project are fully known. Finally, while the EIR entails a lengthy and comprehensive process to determine all of the environmental consequences of development, this assessment involves only a handful of
questions, focusing on disproportionate burdens imposed on a single neighborhood or group of neighborhoods.

Community Services
This assessment compares the existing amount of services in a neighborhood to a standard county or city average to determine the extent of need, and to evaluate whether the project contributes to addressing that need or making it worse. The services considered include affordable childcare, health clinics, job training centers, parks, and retail and financial services. To calculate demand for retail and financial services, the report generates information about existing businesses in the vicinity. This review can be used to evaluate two aspects of a proposed project. On the one hand, it can determine whether the new services proposed by a developer are among a community’s priorities, such as whether the community prefers a new grocery store. On the other hand, using information from the employment section on the types of jobs created, it will measure whether the development itself creates additional needs for services, such as an increased demand for subsidized childcare by bringing more low wage jobs into the area.

FROM A REPORT TO AN AGREEMENT
Use of the CIR has potential advantages for decision-makers, community leaders, developers, and residents. By aggregating needed information in one document, it avoids the needless delays associated with late requests for additional data. By requiring a comprehensive overview of the project, it assures the community that decision-makers will have full information when they exercise their judgment. By providing a solid base of facts, it helps to focus debate on concrete issues for which win-win solutions can be formulated. Once this information is published in a report, the key stakeholders can then begin to discuss changes to the project with a common understanding of the potential costs and benefits.

COMMUNITY BENEFITS AGREEMENTS
In the second stage of this overall process, a Community Benefits Agreement is drafted. The CBA constitutes a revision of the original plan for the development, incorporating insights from the CIR and emphasizing the priorities made evident through public involvement. For example, a CBA might require that jobs generated by the project pay a living wage or that the needs of small businesses be incorporated into the design.

Modifications of the project must meet the test of economic feasibility. One of the advantages of a more open process is that the community will have access to data regarding the fiscal limitations of the development, enabling community groups to generate more practical
recommendations for change. The CBA also bases changes to a project on the type of development proposed. A housing project might focus on the affordability and design of units and the type of parking available, incorporating smart growth questions of density and pedestrian access. Evaluation of such a project would also rely on the findings from the analysis of existing housing and the type of units displaced to improve the determination of the housing need generated by the project. However, incorporation of retail or commercial space would normally not be considered for a housing project.

Negotiations on the project would be performed by community representatives together with policy makers and developers. The CBA process would serve to manage these negotiations under a reasonable timeline determined by all stakeholders involved. Once the contents of a CBA have been negotiated, these commitments can be incorporated into the development agreement (DDA) or attached to the agreement as an additional legally enforceable contract.

**TIMELINE OF IMPLEMENTATION FOR THE COMMUNITY BENEFITS INITIATIVE**

Revising economic development strategies that have been in place for decades should be done with care and due diligence, even when it is clear those past practices have serious flaws. One approach towards moving forward could include a number of distinct steps. First, the City Council could endorse the Community Benefits Initiative in concept and refer the CIR procedure to staff for analysis and for a public review process. Second, following public review, a formal CIR policy could be returned to the Council for approval. Third, the CIR policy could be implemented for a six month period, providing interested parties time to improve it as needed. Fourth, the CBA stage could be presented to the Council for adoption in concept and for referral to staff with public participation. Fifth, the CBA, the final stage of the initiative, could be adopted as formal policy.

By engaging in the effort to implement a Community Benefits Initiative, the residents of San Jose, their civic and business organizations, and their elected leaders can begin to transform the city’s economic development programs. Their endeavors can achieve a higher level of public participation and support for publicly subsidized projects. They also can result in a growing confidence that the investment of public funds is producing returns that benefit the community as a whole.
Silicon Valley, and San Jose as its “capital,” are centers of a New Economy, an economy that has produced extraordinary technological advances but that has also generated growing levels of inequality, hardship and stagnation for those trapped in lower income employment. The experience of the boom years of the 1990’s have demonstrated that neither market forces themselves nor current forms of government intervention are sufficient to alter or mitigate these negative characteristics.

Innovative strategies will be required, one of which may be the use of local economic development strategies that make use of public subsidies. An examination of the history of these programs indicates that they have produced significant achievements but they have serious flaws in the areas of the adequacy of the return on the public’s investment (including calculations of losses to other jurisdictions), the extent to which development is held accountable for accomplishing investment objectives, and the openness of the process to meaningful public participation.

Economic development strategies have the potential to be much more useful if these defects are rectified by the adoption of a set of policy reforms. A Community Benefits Initiative can provide the public with sufficient information to prudently evaluate proposed developments, can create mechanisms for the revision of projects to meet community priorities, and can provide developers with a systematic and comprehensive framework offering predictability and timely decisions. An initiative of this type can be implemented through a number of steps and stages offering a full opportunity for comment and input from residents, community and business leaders, and city staff and decision makers. The result of such an effort can be both greater economic growth and shared prosperity in San Jose.

CONCLUSION
APPENDIX A

The Record of Public Subsidies in San Jose: The San Jose Redevelopment Agency
INTRODUCTION

THE REDEVELOPMENT AGENCY

In 1951 California law approved legislation for a city or county to establish a redevelopment agency (RDA) and use tax increment financing (TIF) to invest in designated blighted areas. Local RDAs were designed to act as a first investor in redevelopment regions, attempting to use public funds to attract participation of private capital. During the following 5 decades, over 400 local redevelopment agencies have been created to assist in revitalizing communities or parts of communities from a state of physical and economic decline. Offering a succinct description of the goals of this urbanization revitalization strategy the California Redevelopment Association states: “Redevelopment encourages new development, creates jobs and generates tax revenues in declining urbanized areas by developing partnerships between local governments and private entities.”

The San Jose Redevelopment Agency was formed in 1956; it creates and oversees redevelopment project areas located in numerous sections of the city, with special emphasis on the downtown. Its stated mission is to: “promote and collaborate for the sound development and redevelopment of blighted areas by revitalizing the physical, economic, and social conditions to support the general welfare and enhance the quality of life in the community.”

The State’s loose definition of blight in the early years of redevelopment allowed local RDAs to designate massive quantities of land as project areas. In some cases, agencies recognized they could secure extensive future tax revenues by designating vacant parcels intended for industrial and commercial development as blighted. Merged project areas allowed TIF funds to shift from one project area to another. By following such a path, San Jose was able to transfer enormous property tax returns from prime industrial properties to the RDA, therefore allowing the Agency to surpass all other local redevelopment programs in California in annual revenue. For example, Rincon de los Esteros, one of the geographic centers of industrial and commercial development in the Silicon Valley, produced $125 million through TIF last year alone. These revenues could then be employed to invest in other RDA regions.
REDEVELOPMENT PROJECT AREAS

Redevelopment project areas provide local agencies the legal authority to “revitalize” only those blighted parcels located within specific boundaries. Each of these project areas must produce an assessment of needed development and outline goals and recommend strategies to meet those objectives. Once such an area has been established, the RDA is authorized to receive all property tax growth within its limits and to designate large developable parcels for partnerships with private parties. To implement its development goals the Agency can utilize eminent domain to acquire land and offer a variety of public subsidies to entice private developers. Often an agency seeks to aggregate numerous smaller lots into a large parcel with greater development potential.

With the exception of affordable housing, property tax revenue can only be used for activities that are within project areas or provide “primary benefits” to the specified region. As of 2002-03 the San Jose Redevelopment Agency had designated 26 project areas, accounting for roughly 25 percent of the city’s population (226,123), and 18 percent (18,700 acres) of the city’s land.¹

DEFINITION OF BLIGHT

As noted, in the early years of redevelopment, the State’s definition of blight lacked detailed language thereby allowing vacant or undeveloped land to be included in project areas. Current language is much more restrictive. In order for an agency to satisfy the new statutes, parcels must demonstrate minimal development opportunity, as well as economic and physical deterioration. All RDA regions must meet what is now a formidable standard:

“The combination of statutorily- enumerated conditions so prevalent and so substantial that it causes a reduction or lack of proper utilization of an area to the extent that it constitutes a serious physical and economic burden on the community which cannot reasonably be expected to be reversed by private and/or governmental action, without redevelopment. Under the revised definition, blight must be prevalent and substantial in the project area, not merely characteristic of the project area, as set forth in prior law.”⁴

OBJECTIVES OF PROJECT AREAS

The San Jose Redevelopment Agency asserts the following general goals of all project areas: “promote and implement neighborhood improvement strategies; enhance the quality of supply of the City’s housing stock; initiate and facilitate public facilities and spaces; and initiate private development.”⁵ Blighted communities in the city are divided into three main categories: downtown,
industrial, and neighborhood business districts (Table 1). Separate project goals are identified for each region.

### TABLE 1
**SAN JOSE REDEVELOPMENT PROJECT AREAS**

<table>
<thead>
<tr>
<th>Area</th>
<th>Project Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Downtown</td>
<td>Almaden Gateway, Century Center, Guadalupe-Auerais, Market Gateway, San Antonio Plaza, Park Center Plaza, Pueblo Uno</td>
</tr>
<tr>
<td>Industrial</td>
<td>Edenvale, Rincon de los Esteros, Julian Stockton, Monterey Corridor, Olinder</td>
</tr>
<tr>
<td>Neighborhood Business Districts</td>
<td>Alum Rock, The Alameda, Story Road, East Santa Clara Street, West Santa Carlos Street, Japantown, Monterey Corridor</td>
</tr>
<tr>
<td>Neighborhood Business Clusters</td>
<td>Fruitdale and Southwest Expressway, Bascom and Stokes Avenues, Monterrey Highway and Roeder Roads, White and Quimby Roads</td>
</tr>
</tbody>
</table>

**DOWNTOWN** For two decades the downtown has been the primary target of redevelopment expenditures. The objectives for the Downtown Strategy Plan “are the elimination of blight; the creation of 24-hour activity; business development opportunities; new jobs and housing; new or enhanced cultural, convention, and entertainment activities; and an expanded tax base— as well as a distinct and positive image for the City.”

**INDUSTRIAL** Industrial project areas tend to focus on the construction of larger firms. Their goals include: “attracting new R&D, office, and manufacturing uses; retaining existing users and maintaining economic vitality; and administering projects and programs that sustain industrial development in the Rincon de los Esteros, Edenvale, Julian Stockton, and Monterey Corridor Redevelopment Project Areas. The Agency’s redevelopment goal in implementing the Industrial Work programs is to eliminate blight by upgrading infrastructure, assisting in the assemblage of sites for future industrial development, construction of new infrastructure, and assisting companies with pre-development and development costs.”

**NEIGHBORHOOD BUSINESS DISTRICTS (NBD)** NBD’s focus on neighborhood scale small business development. Unlike industrial areas where basic infrastructure is provided, NBD’s attempt to achieve revitalization through marketing plans, façade improvements, and direct assistance to small enterprises. The goals of NBD’s are to: “eliminate blight and revitalize older commercial areas through development and a variety of services, and to help the business
community form a self-sufficient group to maintain the business district. In turn, renewed economic vitality and upgraded commercial areas create an incentive for private development to occur, both in the business districts and in adjacent residential communities.”

**THE RDA DEVELOPMENT PROCESS**

Once an RDA project area is adopted, the Agency generates a Redevelopment Plan and an Implementation Plan. The Redevelopment Plan outlines goals and the general development program for that community. Following RDA Board approval of the Redevelopment Plan, Agency staff specialists and City officials craft an Implementation Plan, which outlines the strategy to execute the Redevelopment Plan.

The RDA Board endorsement of the Implementation Plan allows the Agency to use eminent domain, if necessary. Through eminent domain the RDA may purchase project area land at market value regardless of whether the landowner wants to sell. The RDA provides relocation assistance to residents and businesses forced to move. Prior to acquiring land through eminent domain, the RDA must consult with, and receive recommendations from, a Project Area Committee (PAC). The PAC’s primary responsibility is to review the use of eminent domain and ensure development is in the best interest of the project area. In 1993, PAC’s were required to include elected representatives of neighborhood residents, local business, and local grassroots groups to provide broader community input. Only two PAC’s have been established in San Jose, the Civic Center PAC and the Strong Neighborhoods PAC. Both groups were created to approve designation of their project area and monitor the use of eminent domain.

Once land has been acquired through eminent domain or another transaction, the developer selection process begins. In most cases the RDA issues a request for proposals (also known as request for qualifications RFP/RFQ); in response interested parties submit ideas and initial plans for development. Agency staff then recommends one qualified bidder to the RDA Board for approval of an Exclusive Negotiations Agreement (ENA). Once the ENA is approved, the selected developer is required to produce project details, including costs, subsidies, and construction timelines. The disposition and development agreement (DDA) finalizes negotiations between the developer and the RDA; and once approved, the construction phase can begin.

**WHO OVERSEES REDEVELOPMENT?**

Although it is possible for an RDA to be overseen by a Board of Directors independent of city
government, in San Jose the City Council is also the governing board for the RDA. Agency staff has no legal authority to approve or amend development projects absent a formal vote by the Agency Board.

PUBLIC INPUT
California law requires redevelopment agencies to host a public hearing prior to approval of both the Redevelopment Plan and the Implementation Plan. During the developer negotiation process, state law requires a public hearing at the time of ENA and DDA approval. Locally, the RDA adheres to all state requirements regarding mandatory hearings. In addition, the RDA often provides project information through the local media and holds public meetings before the approval of a development agreement. For example in the RDA’s recent negotiations with CIM regarding a large mixed-use retail and housing project, at least seven public meetings were held to discuss the plans for construction.

REVENUE

TAX INCREMENT FINANCING
The RDA’s primary source of revenue is generated from project area property tax, also known as tax increment financing (TIF). Prior to RDA establishment, local property tax revenue was allocated to several jurisdictions, primarily to the county and school districts. Upon RDA project area adoption, all newly generated property taxes (or TIF) become funding for the Agency. This revenue stream allows the RDA to issue bonds in order to initiate large capital projects. In the last 20 years the Agency has received roughly $1.3 billion in tax increment revenue. Aside from tax increment revenue, the RDA receives funds from developer contributions, grants, and income-producing previous investments.

When the San Jose RDA was created, all TIF revenue was expected to be allocated within the project area from which it was derived. In 1967, the city’s RDA Board approved the adoption of the Merged Project Area enabling the Agency to transfer TIF resources from one region and apply them to another. For example, the establishment of the $121 million Strong Neighborhoods Initiative budget would not be possible without TIF from the City’s industrial areas.

GROWTH OF ASSESSED VALUE Increases in land values often provide a rough indicator of the success of the RDA pump priming strategy. Each year’s revenues produce investments that generate additional economic growth in subsequent years and expanding TIF for still more capital projects. Assessed valuation can be used to illustrate these changes in land
values, but it will lag behind market values due to the limitations imposed by Proposition 13. In San Jose, RDA investment particularly during the region’s economic boom in the late 1990’s resulted in a substantial augmentation of project area land values. Between 1993-2001 assessed values within the merged project area more than doubled, from $6.9 billion to $13.7 billion (Graph 1). This rate of increase not only illustrates escalating tax increment return for future RDA investments but also indicates the success of the RDA’s financial strategy.

**EXPENDITURES**

**TAX INCREMENT FINANCING**

California law limits the manner in which TIF can be spent. All tax increment financing must be used on capital projects, and the RDA is required to reserve 20% of funding to be allocated for affordable housing.

**CAPITAL EXPENDITURES**

State law mandates RDA funds to be allocated on programs and projects that contribute to the overall goals of the redevelopment project areas. These investments must either actually be in such a project area or provide a “primary benefit” to one of the areas. In addition, statutes limit RDA expenditures to physical improvements in an area rather than for ongoing public services. Since San Jose’s RDA aggressively issues bonds to invest in capital projects, most of the Agency’s annual receipts must be devoted to servicing its existing debt.

**TYPES OF PROJECTS**

Throughout the last two decades capital funding has focused on investment for public facilities, on housing, on infrastructure in industrial zones, on downtown revitalization, and on neighborhood improvement. Of the $2.3 billion spent in the last 25 years, 46% was spent on public or non-profit facilities, including the San Jose Arena, San Jose Convention Center and the Tech Museum of Innovation. Roughly one quarter was spent on housing construction such as the Villa Torino and Ryland complexes.
Twenty percent of expenditures induced private developments such as the subsidy to the Adobe high rise or support of infrastructure in Rincon de los Esteros and Edenvale. One hundred and eighty million dollars (8%) was allocated toward small business improvements.

**EXPENDITURES 1977–2002:**
$2.3 BILLION

- PUBLIC FACILITIES 46%
- HOUSING 26%
- PRIVATE DEVELOPMENT 20%
- NEIGHBORHOOD IMPROVEMENT 8%

**GRAPH 2.** SOURCE: RDA FY2003-04 PROPOSED BUDGET

**ADOPTED REDEVELOPMENT AGENCY BUDGET**
FY 2003-07 $957 MILLION

- PUBLIC FACILITIES 28%
- HOUSING 27%
- PRIVATE DEVELOPMENT 13%
- NEIGHBORHOOD IMPROVEMENT 32%

**GRAPH 3.** SOURCE: RDA FY2003-04 PROPOSED BUDGET
parking, neighborhood commercial development, and façade improvements (Graph 2). Future development priorities are expected to include: neighborhood investment through the Strong Neighborhoods Initiative, the CIM mixed use retail and housing project, the Fox Theatre, residential construction both affordable and market rate, and public infrastructure improvements (Graph 3).

OPERATING EXPENDITURES
In addition to its capital budget, the San Jose RDA adopts an operating budget, which accounts for all necessary staff needed to implement Agency sponsored programs. Operating expenditures pay for all employees of the Redevelopment Agency, city support services, and partial funding for the Mayor and the RDA Board. The Agency’s adopted operating budget for 2002-03 is estimated at $30 million, including 136 positions, an increase of $2 million or seven percent above the level approved a year ago. The augmentation of RDA staff positions within the last five years is primarily attributed to the Agency’s expanded commitment to numerous capital projects and the implementation of the Strong Neighborhoods Initiative.

AFFORDABLE HOUSING
State law requires 20% of RDA tax increment financing to be set aside for affordable housing development. Eligibility for subsidized units is reserved for residents whose household incomes are between 30 and 120 percent of the San Jose median level. Residential construction for extremely low-income households (0-30% of median income) has tended to be limited due to the high cost of subsidy per unit.

QUALIFICATION REQUIREMENTS FOR AFFORDABLE HOUSING
In the mid 1980’s the City of San Jose's Housing Department became the manager of the RDA's affordable housing funds. In coordinating the use of federal, local and redevelopment resources, the Housing Department immediately began devising progressive strategies to address the demand for affordable housing. In 1987, the City Council approved the Income Allocation Policy, requiring 85% of housing funds to be spent on residential units for families earning below 80% of median income (Table 2). Specifically, 60% would be allocated to very low income, 25% to low income, and 15% to moderate-income families.
**TABLE 2**  
**INCOME QUALIFICATION REQUIREMENTS**

<table>
<thead>
<tr>
<th>Category</th>
<th>Income Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extremely Low-Income (ELI)</td>
<td>0-30% of median income: $0-$21,072</td>
</tr>
<tr>
<td>Very Low-Income (VLI)</td>
<td>30-50% of median income: $21,072-$35,121</td>
</tr>
<tr>
<td>Low Income (LI)</td>
<td>50-80% of median income: $35,121-$56,194</td>
</tr>
<tr>
<td>Moderate</td>
<td>80-120% of median income: $56,194-$84,291</td>
</tr>
</tbody>
</table>

BASED ON SAN JOSE MEDIAN INCOME, CENSUS 2000

**CONSTRAINTS ON THE REDEVELOPMENT AGENCY**

**TERMINATION DATES**

Prior to 2002, RDAs confronted a limited period of time during which they could incur debt. In January 2002, SB 211 was implemented, allowing redevelopment agencies statewide to “eliminate the debt incurrence limit on [redevelopment] plans adopted prior to January 1994.”12 This enables RDAs to issue debt for a longer period than had previously been authorized, expanding the agencies’ ability to finance new projects. However, SB211 does not extend the RDA’s right to collect property tax revenue in project areas, thereby constraining the Agency’s future growth. According to a report to the RDA Board “unless the tax increment collection limit is extended, the Agency debt capacity will continue to shrink each year.”13

**2003-04 STATE BUDGET**

In an effort to address the current California budget crisis the Governor is proposing several measures that essentially transfer RDA resources to fund state programs. One option suggests a $500 million transfer of local RDA affordable housing set-asides to the State. In a separate plan, the Governor recommends shifting an additional $250 million in property tax increment from redevelopment agencies to school districts, an amount that would increase five percent each year for up to 15 years. Because it is has already committed all of its housing revenue, the San Jose Redevelopment Agency predicts zero loss from the first proposal. However, if the second strategy were approved, the Agency would lose an estimated $29 million in tax revenue to school districts. The long-term impact of this loss on the RDAs capital program would obviously be much larger. In a recent report, the Agency stated… “because these revenues can be used to borrow for capital projects, the real impact is approximately… $300 million.”14 The RDA predicts a loss of this magnitude would prevent the Agency from issuing new debt as well as eliminating resources for approved projects in

---

**APPENDIX A: THE RECORD OF PUBLIC SUBSIDIES IN SAN JOSE: SAN JOSE RDA**
the five-year capital improvement plan, including funding for the Strong Neighborhoods Initiative, small businesses, child care, and housing.

**ACCOMPLISHMENTS**

**AFFORDABLE HOUSING**

The RDA’s commitment to affordable housing has generated a substantial number of subsidized units. Because of the scale of the Agency’s tax increment financing resources and the Housing Department’s commitment to its mission, San Jose has made significant strides in addressing the need for below market rate dwellings in Silicon Valley. Further, the RDA’s inclusionary zoning policy mandates that developers sell or lease a certain percentage of new residential units in their project at affordable prices, thereby increasing the total amount of housing available to families between 30-120% of San José’s median income.

**HOUSING DEVELOPMENT**

Although California redevelopment law requires local agencies to reserve 20% of TIF revenue for affordable housing construction, in San Jose the RDA has aggressively worked to reduce the city’s housing shortage by providing substantially more funding than the state mandate. In the last 25 years the RDA has set aside $598 million toward housing development, $310 million (52%) of which went to the construction of affordable units. In the next five years the Agency’s Capital Improvement Program estimates an even greater percentage of revenue to be designated for affordable dwellings. In the 2004-08 proposed capital budget the RDA plans to earmark $248 million in affordable housing expenditures. Twenty one percent of that amount ($53 million) is additional Agency funding for housing subsidies not required by the state legislature. Under the guidance of the Housing Department, the City and the Agency have generated more resources to house the city’s poor than virtually any other jurisdiction in the state.

Furthermore, the City has made a considerable effort to allocate affordable housing resources to some of the community’s most impoverished residents. Since the mid-1980’s the San Jose Housing Department has implemented a process requiring that 85% of total funding be allocated to VLI and LI units. In the last two decades RDA funds have placed approximately 11,760 households in subsidized units, and of these families, 51% are VLI, 33% are LI, and 8% are at the Moderate-income level. In addition, in 2001 the City Council approved an Extremely Low-Income Housing Initiative earmarking 30% ($11.1 million from 2004-08) of affordable housing revenue for ELI developments.
The RDA goals for future subsidized housing construction demonstrate a continuing resolve to respond to the acute needs prevalent in San Jose. Within the next seven years, the Redevelopment Agency hopes to complete the construction of 8,000 housing units throughout the city. All of this housing will range in affordability levels from very low income to moderate-income. Furthermore, the Agency will be working to expand the city’s first time homebuyer program to improve access to market rate housing.

INCLUSIONARY ZONING

The San Jose RDA’s Inclusionary Zoning Policy was first approved in 1988. It required all private residential developments in project areas to allot 15% of new units as affordable. In September of 2001, the mandate was increased to 20%. However, the policy does exempt housing projects in the following RDA regions: Park Center Plaza, San Antonio, Pueblo Uno, Mayfair One, and a portion of Rincon de los Esteros. Units must remain affordable as long as possible, but at a minimum for the life of the redevelopment project area. The inclusionary zoning requirements apply to both rental and for-sale units. Currently, rental construction must meet the 20% affordability standard; 8% of these units must be reserved for very low-income residents. For sale housing developers are provided with two inclusionary zoning options. One alternative mandates 20% of new housing to be available to low to moderate-income families. Another permits the developer to create 15% of new units as affordable. However, 6% must be made accessible to very low-income households, and the other 9% reserved for low to moderate-income households.

The Inclusionary Zoning Program currently applies to sixteen redevelopment project areas. As of June 30, 2002 the RDA concluded “a total of 6,651 housing units have been constructed within these … areas, 25% of which are affordable to low and moderate-income households. Of the 1,688 affordable housing units produced, 920 are affordable to low or moderate-income families, and 768 are affordable to very low-income families…”

TRANSPORTATION

Between 1977 and 1998 the Redevelopment Agency allocated over $89 million to transportation and highway improvements. A significant portion of this funding has been employed towards upgrading access to Highway’s 101, 280 and 85. In conjunction with this effort, the Agency has allocated funds to enhance transportation access to downtown.

ROUTE 87 GUADALUPE EXPRESSWAY

The Agency’s most prominent transportation accomplishment is its role in the expansion of Route 87 (Guadalupe Expressway) to freeway status. The completion of the 16-mile
highway will profoundly impact the commute from downtown to North or South San Jose by providing less congested trips to some of the city’s major employment and commercial centers. Including the contribution of all government agencies, the cost of this project is estimated at $225 million. The RDA’s commitment including land acquisition, construction costs and landscaping amounts to an estimated $25 million.

DOWNTOWN REVITALIZATION

Over the last two decades significant redevelopment resources have been assigned to revitalizing San Jose’s downtown. In what was once one of the city’s most blighted areas, the Agency continues to offer large subsidies to developers whose projects address the goals identified in the RDA’s Strategy 2010 report. Massive housing development, retail and commercial investment, corporate incentives, new parking, hotel expansion, public facility construction and façade improvements are the focus of the downtown overhaul. The RDA’s $650 million investment in hotel, retail and office construction has contributed to the creation of approximately 12,566 jobs, and 2,400 affordable housing units.20 A sample of the many downtown projects include the Adobe office towers, the Fourth Street Parking Garage, the Marriott hotel, and the San Fernando Apartments, illustrated in Table 3.

<table>
<thead>
<tr>
<th>PROJECT</th>
<th>AGENCY INVESTMENT, RESULTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adobe</td>
<td>$35 million; 2 corporate office buildings</td>
</tr>
<tr>
<td>Fourth Street Parking Garage</td>
<td>$55.8 million; 750 parking spaces</td>
</tr>
<tr>
<td>Marriott City Center Hotel</td>
<td>$10.63 million; 494 rooms, 64 parking spaces</td>
</tr>
<tr>
<td>101 San Fernando Apartments</td>
<td>$8.3 million; 323 housing units, parking included</td>
</tr>
</tbody>
</table>

INVESTMENT IN PUBLIC FACILITIES

Some of the Redevelopment Agency’s most notable successes have been the construction of public facilities and a sports and entertainment arena. Substantial RDA resources over the last 20 years have contributed to new education, recreation and learning facilities throughout the city, attracting visitors and providing useful and enjoyable opportunities to residents. Projects in this category include the Children’s Discovery Museum, the Tech Museum, HP Pavilion, and Convention Center (Table 4).
TABLE 4
RDA SUBSIDIZED PUBLIC FACILITIES

<table>
<thead>
<tr>
<th>PUBLIC FACILITIES</th>
<th>AGENCY INVESTMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>HP Pavilion</td>
<td>$137 million</td>
</tr>
<tr>
<td>Children's Discovery Museum</td>
<td>$9 million</td>
</tr>
<tr>
<td>Tech Museum of Innovation</td>
<td>$35 million</td>
</tr>
<tr>
<td>San Jose Repertory Theatre</td>
<td>$29 million</td>
</tr>
<tr>
<td>San Jose McEnery Convention Center</td>
<td>$143 million</td>
</tr>
<tr>
<td>Fox California Theatre</td>
<td>$73 million—construction in progress</td>
</tr>
<tr>
<td>Joint Library Project</td>
<td>$105 million</td>
</tr>
</tbody>
</table>

SMALL BUSINESS IMPROVEMENT
AND NEIGHBORHOOD BUSINESS DISTRICTS

SMALL BUSINESS

To provide assistance to small businesses downtown, the RDA Board approved two loan programs on June 25th, 2002. The Small Business Loan Program (SBLP) offers financial assistance to small enterprises with annual receipts of less than $6 million. In contrast, the Retail, Entertainment, and Arts Loan (REAL) plan provides loans to businesses that lease retail, entertainment or non-profit space for a minimum of ten years. In conjunction with three other agency sponsored loan initiatives, the SBLP and REAL programs generate low interest rate opportunities for downtown firms to expand, incorporate and improve the attractiveness of their worksites.

Due to Governor Davis's current budget proposal, the Agency is temporarily withholding funding for all new SBLP and REAL applicants.

NEIGHBORHOOD BUSINESS DISTRICTS

The RDA’s investment of more than $70 million into the city’s Neighborhood Business Districts continues to provide needed improvements to shopping centers and neighborhood scale commercial areas throughout San Jose. Beginning in 1988, the Agency has worked to increase parking, improve business facades and utilities, upgrade streets and roads, and expand marketing strategies and opportunities for numerous enterprises in the community.
**STRONG NEIGHBORHOODS INITIATIVE**

The Strong Neighborhoods Initiative (SNI) is an RDA program focusing on small-scale projects in residential areas. Within SNI are 19 project areas throughout San Jose that operate individually to implement district revitalization. SNI is the first major redevelopment effort that from its inception has worked to employ Agency resources to meet community-generated needs. Each SNI project area convenes a core group of local leaders to discuss neighborhood proposals, and prioritize development plans.

Both city and community participants involved in SNI governance represent a broad range of constituencies. A neighborhood team is comprised of an organizer from the Parks and Recreation department, a planner from the Planning Commission, a development specialist from the RDA, a City Council assistant, and representatives from code enforcement and the San Jose Police Department. The Neighborhood Advisory Committee (NAC) includes: delegates from business, residential and ethnic associations, neighborhood schools, and religious organizations. Together these two teams congregate frequently and generate a list of needs for the project area. In addition, large public meetings are held regularly to update

![NEIGHBORHOOD INVESTMENT RELATIVE TO TOTAL RDA EXPENDITURES](source: SAN JOSE REDEVELOPMENT AGENCY)
local residents and gather feedback. Following these events, the NAC and neighborhood team present a revised list of the top ten recommendations to the Agency and senior staff, and later the RDA Board, for final budget approval.

Once a development agenda is approved for an SNI region, both RDA specialists and residents participate in the implementation of a neighborhood plan. NAC members divide up roles and responsibilities to prepare for development. However, public involvement regarding negotiations with private developers is limited.

**SNI FUNDING**  In most of the last decade relatively few resources were directly allocated for neighborhood improvement (Graph 4). The SNI project (along with the Neighborhood Business District) signals a commitment to enhance both local commercial enterprises and “quality of life” features in San Jose neighborhoods. In June of 2002, the RDA Board approved a $121 million budget for the entire SNI redevelopment area. Funding is distributed among RDA regions based on the size and scope of each project area. All revenue for SNI is generated through TIF transferred from other RDA industrial regions. SNI sites do not produce their own tax increment revenues.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>TOTAL NEIGHBORHOOD EXPENDITURES</th>
<th>TOTAL CAPITAL EXPENDITURES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-92</td>
<td>$1,253,000</td>
<td>$113,559,034</td>
</tr>
<tr>
<td>1992-93</td>
<td>$3,563,000</td>
<td>$132,156,086</td>
</tr>
<tr>
<td>1993-94</td>
<td>$4,238,475</td>
<td>$72,741,122</td>
</tr>
<tr>
<td>1994-95</td>
<td>$4,347,301</td>
<td>$88,033,146</td>
</tr>
<tr>
<td>1995-96</td>
<td>$5,022,421</td>
<td>$89,527,670</td>
</tr>
<tr>
<td>1997-98</td>
<td>$17,845,859</td>
<td>$187,325,411</td>
</tr>
<tr>
<td>1998-99</td>
<td>$16,560,799</td>
<td>$262,681,349</td>
</tr>
<tr>
<td>2000-01</td>
<td>$14,240,707</td>
<td>$240,002,908</td>
</tr>
<tr>
<td>2001-02</td>
<td>$32,099,466</td>
<td>$337,495,217</td>
</tr>
</tbody>
</table>
AREAS FOR IMPROVEMENT

PUBLIC INFORMATION

The San Jose RDA provides little timely information on how projects impact the community, either positively or negatively. By law the RDA must issue a 33433 Report to the public and the RDA Board, prior to a DDA’s approval. Distinct from an Environmental Impact Report, the 33433 document provides descriptive project information and discusses some impacts of the project. Within the report an RDA contracted consultant analyzes project costs, anticipated number of new jobs, Agency revenues, and some other potential community benefits. However, the report fails to address anticipated wages of new employees and the impacts on the local housing market, neighborhood services, child care, schools, and local safety net institutions. For instance, 33433 reports on large housing plans do not estimate the increased demand for child care spaces, neighborhood parks or community health services. Information on private office building and retail projects do not predict wages for new employees, the number of workers eligible for health insurance, or the amount of new housing units necessary to shelter the quantity of workers the project will bring to San Jose. As a result, the RDA Board does not have enough information to consider fully the potential effects of a proposed development.

PUBLIC INPUT

Although the San Jose RDA follows all California redevelopment laws regarding public input, in practice the community does not have adequate time or access to participate meaningfully in negotiations regarding private developments. From the initial creation of the Redevelopment Plan for a project area to the Agency Board’s approval of a specific development agreement, residents have insufficient opportunities to engage in the process of allocating substantial public funds.

To begin with, the San Jose Redevelopment Agency has no formal requirement for securing meaningful public input during the developer selection phase, even though it may selectively encourage feedback. To sample a few external points of view, the RDA designates individuals and organizations as “stakeholders” from whom it will specifically seek advice. However, there are no public laws, rules or regulations that provide guidance to the Agency regarding who these stakeholders should be. As a result, the RDA often selects representatives of the business community and City government staff. In a few cases, the Agency might designate a neighborhood association to discuss community interests related to a certain project. Generally, these stakeholder meetings are not open to the public.
Beyond these stakeholder meetings, community influence is limited to large public informational sessions and two-minute testimonials during RDA Board hearings. Public gatherings do allow community members to inquire about the project, however, there is no platform from which to make formal recommendations and no mandatory process to require developers to consider these concerns and respond to them in an open context. Moreover, public meetings often occur shortly before approval of the Disposition and Development Agreement, without ample time for developers to incorporate neighborhood priorities or requests. For example, during the negotiations over the United Artists theatre, residents and business owners voiced questions and concerns during a public assembly held on February 3rd, 1994. However, the DDA was approved just two weeks following that gathering. In a San Jose Mercury News op-ed column, a small business theatre owner stated the following: “I am appalled by the swiftness with which the council concluded this matter, which involves the spending of multimillions of dollars of public funds to subsidize the world’s largest theatre operator.”

Only recently has the San Jose RDA begun to improve its mechanism for collecting community recommendations during the period that it is producing a redevelopment plan and generating goals for a project area. In the past, Agency staff often failed to obtain comprehensive input. Within the last few years the RDA has somewhat improved its system for aggregating feedback as exemplified in the creation of the Strong Neighborhoods Initiative and the Downtown Task Force. The SNI works closely with neighborhood members and city representatives to determine priorities and develop RDA plan objectives. In downtown, the Agency established the Greater Downtown Task Force comprised of city staff and community and business leaders to generate the Strategy 2000 report, which outlined short-term and ten-year goals for the area.

AFFORDABLE HOUSING

Although San Jose has one of the most aggressive affordable housing programs in California, the need for substantial numbers of subsidized units persists in the city. Economic expansion and massive employment growth within the region have overwhelmed residential markets, and demand for affordable dwellings continue to outpace supply.

ECONOMIC TRENDS  San Jose’s meteoric rate of job creation over the last 20 years has generated a severe housing shortage. As a result, surging demand increases housing prices, decreasing affordability within the region. With the current fiscal downturn and recent joblessness it would be reasonable to expect some reduction in housing prices. As the co-Director for the Center for Economic Policy and Research, Dean Baker has observed,
“...a surge in demand can lead to a temporary increase in housing prices, as demand outstrips supply. But as new housing comes on the market, this rise in housing prices should be reversed.”24 However, the scale of the gap between the region’s available residential units and the number of jobs indicates that prices are not likely to decrease in the near future despite the continuing economic downturn. In 2002, there were still 143,614 more jobs in San Jose and Milpitas than households (Graph 5).25 Furthermore, as late as March of 2003 the California Association of Realtors announced that only 31% of Santa Clara County residents could afford to buy a home, well below the national average.26 As long as prices continue to be at these high levels, substantial numbers of Silicon Valley residents will require housing assistance.

**RDA’S ROLE**

Although the RDA has committed more than 20% of its TIF funds to affordable housing, demand within the city continues to exceed supply. Since 1982, the Redevelopment Agency contributed $310 million27 to assist in the construction of approximately 11,760 affordable units. However, even these massive investments have proven insufficient. In 2000, nearly one third of local households reported paying 35 percent or more of their income on rent.28 Of those 89,341 households 38% (or 34,225 households) would qualify for extremely low, very low-income or low-income units. The RDA may be the single most significant source of affordable housing in the region, but its efforts are clearly still not enough.

Moreover, the Governor’s current proposal to use tax increment revenues may significantly reduce the RDA’s affordable housing program.

**RDA AND HOUSING DEMAND**

While recognizing the RDA’s impressive efforts to construct below market rate housing, it also must be recognized that the RDA’s capital projects contributed to the increased need for dwellings in San Jose. Since 1990 an estimated 25,400 new jobs were created in RDA project...
areas. Based on the city’s average income distribution, this new employment created 10,708 households eligible for affordable housing, only 1,000 fewer than RDA’s total affordable housing construction during the last 20 years. Specifically, 2,471 of these households would qualify for ELI units, 1,647 VLI units, 2,801 for LI units, and 3,789 for Moderate-income level units.

<table>
<thead>
<tr>
<th>INCOME LEVEL</th>
<th>UNITS NEEDED PER LEVEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>ELI</td>
<td>2,471</td>
</tr>
<tr>
<td>VLI</td>
<td>1,647</td>
</tr>
<tr>
<td>LI</td>
<td>2,801</td>
</tr>
<tr>
<td>Moderate</td>
<td>3,789</td>
</tr>
<tr>
<td>Total</td>
<td>10,708</td>
</tr>
</tbody>
</table>

**SMALL BUSINESS**

In its early years the RDA program allocated relatively few resources toward subsidizing small businesses in project areas. In response to this failing, the RDA initiated its commitment to Neighborhood Business Districts, an effort that focuses on small businesses, façade improvements and the revitalization of older commercial parcels within city neighborhoods.

In the last 15 years NBD’s have received $70 million in public subsidies. However, even with the recent approval of the Strong Neighborhoods Initiative, and the Neighborhood Business Clusters project area, the Agency continues to primarily emphasize large-scale industrial, retail and commercial development. In the proposed capital budget for 2004-08, the RDA estimates allocating $184 million for neighborhood improvements (small business assistance, SNI and a number of other projects), and $460 million (20% of total budget) for other private development.

**RELATIONSHIP WITH OTHER JURISDICTIONS**

Prior to the initiation of tax increment financing, counties, cities and school districts all shared property tax revenue from parcels in redevelopment project areas. These funds helped pay for health care, fire protection, libraries and other public services. By employing tax increment financing, RDAs were able to redirect these resources; one hundred percent of property taxes is allocated exclusively to the RDA. Both schools and counties may actually experience a double negative impact from redevelopment, the loss of property taxes and an increase in the service load. To the extent RDA projects intensified population levels in city
neighborhoods, they generated greater demands for schools and social programs. While the state may backfill schools for their property tax losses, it does not necessarily provide adequate funding to pay the full cost of educating additional students. Counties faced an even more serious impact, experiencing increased demand for local health and social services without receiving any reimbursement for lost property taxes.

In total, local jurisdictions have experienced massive losses in revenue due to redevelopment. Over the last decade the Santa Clara County Controller estimates a total loss of $1.8 billion in county revenue that has been redirected to local redevelopment agencies. Specifically, in fiscal year 2002-03 the County, the City and school districts, and all other property tax receiving agencies suffered a net loss of $282 million to local RDAs in cities within its boundaries (See Table 7).

<table>
<thead>
<tr>
<th>JURISDICTION</th>
<th>TAX DOLLARS REDIRECTED TO RDA</th>
<th>RDA PAYMENT (PASS-THROUGH) TO LOCAL JURISDICTIONS</th>
<th>NET TAX LOSS TO RDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Santa Clara County</td>
<td>$81,535,125</td>
<td>$679,571</td>
<td>$80,855,554</td>
</tr>
<tr>
<td>City of San Jose</td>
<td>$32,460,229</td>
<td>-0-</td>
<td>$32,460,229</td>
</tr>
<tr>
<td>San Jose Unified</td>
<td>$7,530,000</td>
<td>-0-</td>
<td>$10,330,106</td>
</tr>
<tr>
<td>San Jose Community College</td>
<td>$9,597,863</td>
<td>$48,926</td>
<td>$9,548,937</td>
</tr>
</tbody>
</table>

When local redevelopment agencies were first established, state law did not require agencies to restore any property tax revenue to other local jurisdictions. However, in 1993 The Community Redevelopment Law Reform Act (AB1290) was approved mandating local RDAs to reimburse counties and school districts for a portion of lost taxes. AB1290 stipulates that local RDAs must return twenty percent of TIF to schools and the county in all project areas adopted or amended after 1994. This revenue assists local government in addressing the increasing demand for public services within project areas. Further, RDA transfers to schools alleviated a portion of the State's financial responsibility to compensate districts for redevelopment engendered losses.31

Seeking to supplement AB1290 funds, in 2001 Santa Clara County negotiated an agreement with the San Jose RDA to receive property tax payments of $40 million through 2003-04. In
return the County agreed to support RDA efforts in Sacramento to extend the time period during which it could collect project area TIF and issue debt.32

From an historical perspective the RDA has not been particularly helpful to counties and school districts. In the last 20 years they have received roughly only 4% of total tax increment revenue. However, future pass-through payments required by state statutes are likely to return a higher percentage of total TIF to these jurisdictions.

RDA’S CONTRIBUTION TO ECONOMIC GROWTH

Within the last 30 years there has unquestionably been significant economic growth within many project areas. However, critics of redevelopment often argue that much of this development would have occurred anyway, even in the absence of RDA investment. To determine the extent to which RDA is actually responsible for this progress, the following analysis will focus on two specific project areas, the downtown core, and RDA’s largest industrial area, Rincon de los Esteros. These two regions demonstrate the variety of economic conditions under which redevelopment has operated. One of these, Rincon, has generated enormous amounts of tax increment revenue. The other, downtown, has been the beneficiary of numerous subsidized projects.

To evaluate the way in which they both have been affected by redevelopment, the following analysis will review the level of physical improvements, the expansion of the tax base, and changes in socio-economic conditions. These factors will be compared to changes in other parts of the city in which RDA did not play a distinct role.

BLIGHT

Prior to the legislature’s adoption of more stringent definitions of blight, redevelopment agencies could declare areas to be blighted even if they lacked deteriorating urban structures and consisted of large parcels of undeveloped land. In a recent study Subsidizing Redevelopment in California; Michael Dardia, a redevelopment expert formerly of the Public Policy Institute of California, concluded that in 1986-87 more than 50 percent of the State’s RDA project areas were comprised of vacant land, providing opportunity for agencies to collect sizeable amounts of TIF from future development without providing more than the minimal level of Agency assistance. Dardia observed: “As long as every city is empowered to establish a redevelopment agency and each agency can establish project areas wherever it can demonstrate blight, there will be project areas in almost every city regardless of how their degree of “blighted ness” might differ from city to city.”33
By making use of this unrestricted definition, San Jose was able to expand its RDA program using different criteria for the establishment of the Downtown Core and Rincon de los Esteros. Between 1961-1988 Downtown was found to be blighted because of dilapidated buildings and lackluster commercial performance. In 1974 RDA established Rincon de los Esteros, a region that was largely undeveloped (Table 8).

| TABLE 8  | PROJECT AREA ECONOMIC CHARACTERISTICS  

<table>
<thead>
<tr>
<th>AREA</th>
<th>1970</th>
<th>1980</th>
</tr>
</thead>
<tbody>
<tr>
<td>PERCENT OF POPULATION BELOW FEDERAL POVERTY LEVEL</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Downtown Core</td>
<td>32.07%</td>
<td>29.51%</td>
</tr>
<tr>
<td>Rincon de los Esteros</td>
<td>N/A</td>
<td>6%</td>
</tr>
<tr>
<td>San Jose Average</td>
<td>13.5%</td>
<td>8.2%</td>
</tr>
<tr>
<td>MEDIAN HOUSEHOLD INCOME</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Downtown Core</td>
<td>$5,334</td>
<td>$9,657</td>
</tr>
<tr>
<td>Rincon de los Esteros</td>
<td>N/A</td>
<td>$19,395</td>
</tr>
<tr>
<td>San Jose Average</td>
<td>$10,443</td>
<td>$22,886</td>
</tr>
<tr>
<td>POPULATION</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Downtown Core</td>
<td>11,986</td>
<td>11,424</td>
</tr>
<tr>
<td>Rincon de los Esteros</td>
<td>961</td>
<td>3077</td>
</tr>
<tr>
<td>San Jose Average</td>
<td>445,799</td>
<td>629,442</td>
</tr>
</tbody>
</table>

DOWNTOWN

The Redevelopment Agency played an extensive role in downtown San Jose's revitalization. Within the last twenty-five years the RDA invested over $1.55 billion into the downtown region through office building, hotel and housing construction, and eventually the establishment of a corporate headquarters. Each year’s developments encouraged future growth in later years. The $35 million Agency subsidy used to attract Adobe to Park Avenue encouraged other businesses to move into downtown including Opus and Above Net. The Agency's contribution to housing and hotel expansion created an increased demand for retail and entertainment facilities in the area, attracting interested developers. RDA’s monumental aggregate investment in downtown project areas finally set the stage during the regional economic boom of the 1990’s for developers to invest in downtown with minimal or no city subsidy. In 1999, the San Jose Mercury News observed: “Gone are the days when San Jose had to offer multimillion-dollar enticements to lure developers to desolate city blocks, pumping
Public money into private projects to a degree few American cities have. In recent months, a handful of private developers have announced new office and hotel projects without any city financial help—the first such projects in at least a decade.” For example, in the late 1990’s a number of developers announced plans for construction in the downtown area including the following proposals mentioned in the San Jose Mercury News:

“Last month, developer Lew Wolff and Phil DiNapoli—who built downtown's first subsidized hotel two decades ago and a second in the early 1990's – said they would construct a 200-room business hotel without government assistance on land they’ve owned for years on West Santa Clara Street.”

“Developers Rich Cristina and Murray Hall are in negotiations for a massive, three-tower office project that would add 700,000 square feet of office space downtown. They, too say they don’t need construction financing from the redevelopment agency.”

Subsequent years however demonstrated the RDA could not attract unsubsidized downtown investment during a recession. The economic downturn resulted in postponement or termination of office building and commercial development such as the $90 million 17-story office building planned by Kimball Small Properties and 8 East LLC, and the $225 million Boston Properties Office Complex with ground floor retail. Although the dramatic changes in the fiscal climate halted some new construction, on balance the Agency’s 20 years of expenditures within the downtown area replaced a drab central city core with a hub of office jobs, public facilities and cultural amenities.

While RDA efforts in the downtown produced notable capital improvements and a marked increase in economic activity, their effect on neighborhood life in that vicinity is more ambiguous. In terms of income and ownership of assets residents of downtown remain well below the San Jose average.

Prior to the Agency’s investment in the downtown, neighborhoods in the city’s core were among the most impoverished in San Jose. Roughly 30% of the population had incomes below the Federal Poverty Line, renters overwhelmingly outnumbered homeowners, and median household income barely exceeded half of the city average. Thirty years later, despite significant revitalization efforts, social conditions in the downtown core continue to lag behind the rest of the region (Table 9). Central San Jose still constitutes disproportionately higher poverty rates and lower household incomes than other San Jose districts. With regard to housing, the area is still predominantly renter-occupied.
Overall, San Jose's RDA is largely responsible for new downtown development, both private and public. The Agency’s revitalization project stimulated new office and retail construction, expanded entertainment opportunities, assisted in transportation expansion, and financed thousands of housing units. However, income and poverty statistics indicate that from a socio-economic perspective the downtown has not kept up with the San Jose average.

### INDUSTRIAL AREAS

As has been noted, San Jose's industrial project areas initially contained significant parcels of undeveloped land. Within the last three decades these regions experienced high growth rates, returning enormous amounts of tax increment to the RDA. In order to assess the Agency’s influence on industrial project area success it will be useful to examine the amount of public investment relative to the scale of tax increment revenue generated in the area. In addition, a comparison will be made between RDA industrial zones and nearby non-redevelopment industrial parcels.

RDA expenditures in industrial areas are generally in the form of infrastructure construction, and improvements to the region's access to major highways and roads. In fact these public subsidies are of minor scale in relationship to the amount of tax increment accumulated. Between 1991-2002 the RDA spent roughly $131 million in Edenvale and Rincon de los Esteros, yet in 2001-02 alone the two areas generated $153 million in TIF. The enormity of this level of return suggests others factors beyond the availability of infrastructure accumulated for the growth of these areas.

---

**TABLE 9**

<table>
<thead>
<tr>
<th>SOCIO-ECONOMIC STATISTICS³⁹</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PERCENT OF POPULATION BELOW FEDERAL POVERTY LEVEL</strong></td>
</tr>
<tr>
<td>Downtown Core 32.07% 29.51% 23.65% 26.446%</td>
</tr>
<tr>
<td>San Jose Average 13.5% 8.2% 9.65% 8.8%</td>
</tr>
<tr>
<td><strong>MEDIAN HOUSEHOLD INCOME</strong></td>
</tr>
<tr>
<td>Downtown Core $5,334 $9,657 $22,284 $38,881</td>
</tr>
<tr>
<td>San Jose Average $10,443 $22,886 $46,206 $70,243</td>
</tr>
<tr>
<td><strong>HOMEOWNER / RENTER OCCUPIED UNITS</strong></td>
</tr>
<tr>
<td>Downtown Core 16% / 84% 15% / 85% 14% / 85% 16% / 83%</td>
</tr>
<tr>
<td>San Jose Average 68% / 31% 62% / 37% 61% / 39% 62% / 38%</td>
</tr>
</tbody>
</table>
The likelihood that other economic forces distinct from RDA are responsible for industrial growth in Rincon is supported by the rate of development in other non-publicly subsidized areas within the Silicon Valley region. Santa Clara, which borders Rincon, experienced a similar industrial expansion pattern throughout the 1990’s, and no RDA money was used to attract developers. Nearby companies such as Intel, WashCorp Association, Reticon Corporation, and Northern Telecom all received no financial incentives to locate in an area next to north San Jose. Despite substantial RDA investment in Rincon, the region does not appear significantly different than Santa Clara’s industrial community.

This data indicates regional economic trends rather than the RDA have been the driving force stimulating industrial development in San Jose. Particularly in the late 1990’s private corporations interested in industrial development were attracted to San Jose whether or not public subsidies by RDA were offered. For example, Cisco, which currently employs approximately 540 people in the Rincon area, announced plans in 1999 to develop a 385-acre site in the North Coyote Valley, an urban reserve not covered by the RDA. Although the changing fiscal climate later led to the collapse of the proposed project, Cisco along with other private developers, had not required RDA funding to seek expansion opportunities within the city.

Thus the importance of redevelopment’s presence in San Jose’s industrial zones appears to be less that of a pump primer than that of a siphon. The success of the Rincon project area allows the RDA the ability to invest in other parts of the city, particularly in the downtown. Funding for the Strong Neighborhoods Initiative and Neighborhood Business Districts can be attributed to resources from the Rincon and Edenvale industrial regions.

**JOBS**

Increasingly, industrial employment in Silicon Valley is becoming centralized in New Economy zones, typified by a concentration of hi tech, information technology, and biotechnology firms. Recent research demonstrates that these areas experienced both a surge in high-paying jobs for skilled workers as well as a large rise in the quantity of low paying jobs without health benefits that lack any prospect of career mobility. In San Jose this trend can be observed through the patterns of wage growth in the upper and lower deciles of the population. From 1989-1999, wages declined by 8% for the bottom 40% of wage earners in San Jose; while the top 10% of workers saw their wages increase almost 14%.

Assessing job quality is one of the essential factors in evaluating economic development policies because it provides insight as to whether new positions being created actually ensure
a strong, healthy community. Four factors should be included when assessing a “good job”: sustainable wages, ongoing job training opportunities, career mobility, and employer sponsored health insurance. To enable workers to meet the high cost of living in San Jose, it is critical that firms pay a living wage. The current living wage in San Jose is $10.31/hr with health benefits and $11.56 without. Furthermore, to ensure that working families have the opportunity to be in good health, employees require access to affordable health insurance. In San Jose, 72.3% of workers receive job-based health insurance, higher than the state average of 61%. Moreover, high-quality jobs should encourage career mobility within companies, and provide job-training programs to assist in the educational advancement of employees. The following section will analyze the RDA’s ability to create employment opportunities that meet the standards for San Jose residents.

REDEVELOPMENT JOB REQUIREMENTS

California redevelopment law applies few wage requirements on RDA capital projects. Prevailing wage is mandated for all construction workers; however no such stipulations apply to the tenants of an RDA financed facility. In San Jose, the RDA adheres to all state requirements but does not apply any additional job quality provisions. Although the RDA has implemented a first source hiring and job training program, the Agency has not established criteria to prevent the creation of publicly subsidized poverty level employment.

RDA EMPLOYMENT PROGRAMS

In recent years, the Agency has developed a strong first source hiring and job training program. Started in 1997, the program encourages developers to provide local residents first access to employment opportunities in new development projects. The RDA actively works to recruit through the local Employment Development Department, and assists in reviewing resumes and prescreening applicants. Between 1997 and 1999 the project placed 500 employees, 425 of which lived in San Jose. In addition, the RDA is involved in job training programs. In conjunction with Cisco and other private Silicon Valley companies, the Agency provides funding to retrain existing high tech employees and to offer introductory classes to workers in other fields who wish to enter the industry.

JOBS CREATED

RDA project areas currently contain a significant portion of San Jose’s jobs. Approximately 40% of the city’s workforce is within designated blighted parcels. Industrial areas generated 87% of total project area jobs, and experienced a 13% decline between 1999 and 2001, while the downtown and neighborhood business districts witnessed increases of 1% and 11% respectively.
CREATION OF LOW QUALITY JOBS Despite the Agency’s first source hiring and job training programs, RDA project areas have not maintained job quality standards resulting in the creation of thousands of poverty level jobs and increasing the demand for affordable housing, public services, and subsidized child care. In 2000, it is estimated that 80,247 jobs in RDA regions paid below a living wage, accounting for approximately 38% of project area employment and 16% of San Jose’s total workforce. Consequently, low-wage jobs in project areas generated a projected need for 52,108 subsidized housing units, almost four and a half times the amount supplied by the RDA in the last 20 years. Furthermore, low-wage workers are less likely to receive job-based health insurance, forcing many to be uninsured or receive care through publicly funded programs. In 2001, approximately 39% of California households whose annual incomes were below $20,000 were uninsured, and 31% of these households received Medi-Cal. Only 24% of such families received employer-sponsored health care coverage. In addition, as many as 15,000 children from these low-wage households who are under five years of age may qualify for subsidized child care, producing intense competition for the limited number of slots available. In brief, the lack of employment provisions in RDA regions has not only allowed the creation of low-wage jobs, but has significantly impacted the affordable housing market, increased the number of residents with inadequate health care coverage, and produced a greater need for subsidized child care.

GENTRIFICATION Although revitalization efforts have generated community benefits in RDA areas, new construction has also contributed to adverse gentrification effects. Gentrification is the process by which improving economic trends force low-income residents and/or small commercial enterprises to relocate to other areas. Such a process can take two forms in RDA regions, direct and indirect. Direct relocation occurs through the RDAs use of eminent domain. Indirect displacement results from economic externalities such as the increase in housing and commercial rents.

The RDA annually gathers information on the number of businesses and households that are deliberately displaced to allow for construction. However, no such data exists to measure the indirect effects of redevelopment on neighborhoods and business communities. To assess the impacts of RDA investment, census and real estate data were collected to evaluate changes in downtown demographics and commercial markets relative to similar variables in other areas and the city as a whole.
DIRECT RELOCATION: RESIDENTIAL AND COMMERCIAL

The RDA’s use of eminent domain has resulted in the displacement of many San Jose residents and commercial tenants. Since 1985, the RDA has forced an estimated 594 households and commercial enterprises to relocate.49 Prior to moving, all owners and tenants receive notification that the Agency will be purchasing the property. The official RDA relocation notice states: “The building in which you now live (or work) is in an area to be improved by the City of San Jose Redevelopment Agency. As the project schedule proceeds, it will be necessary for you to move from your dwelling (or business). You will be notified in a timely manner as to the date by which you must move.”50 All relocated households and businesses are eligible to receive financial assistance with moving expenses. The amount of assistance depends on multiple variables including the size of the building and land values. Generally, the Agency offers owners the market value for their property and compensates tenants with the amount sufficient to relocate to a comparable location.

RESIDENTIAL GENTRIFICATION: INDIRECT

Indirect gentrification can be attributed to the gradual revitalization of a project area. As the Agency implements a strategy to improve the region, over time new development spurs investment in the area, making the community a more desirable place to live and stimulating the overall demand for housing. Consequently, unless supplies increase dramatically the competition for units results in higher median rents. To examine whether this effect has occurred within the downtown area, an analysis was conducted to study residential displacement and the RDA’s influence on housing costs.

Gentrification impacts on housing markets within RDA project areas stem primarily from two sources: job growth and improved desirability of neighborhood sites. The consistent rise in regional employment, particularly within the last decade, has led to a shortage of dwelling units, increasing the costs of housing, and forcing lower income families out of the area. In addition, RDA efforts to offset the jobs/housing imbalance by subsidizing market rate and luxury housing construction have inflated the cost of land within the area, encouraging owners to increase rents and sale prices.

Job Growth. To attract tourists and local residents to downtown San Jose, the RDA initiated a substantial effort at downtown revitalization. The Agency financed improvements to transportation, office building and commercial construction, new entertainment, and retail business expansion. As a result, the RDA has generated a corporate headquarters, hotels, and a sports arena, increasing the region’s employment base. Employment in 2001 reached 12,500, an increase of roughly 15 percent since 1990.51
High End Housing Construction and the Marketing of Downtown. RDA housing investment has been particularly concentrated in the downtown. In what have been historically poor neighborhoods, the RDA seeks to attract upper income residents. In a recent report on San Jose, the Urban Land Institute notes: “The trend toward downtown living is being fueled in San Jose by empty nesters, couples with grown children who no longer need their suburban homes (and are able to sell them at a considerable profit) and are choosing to relocate downtown.” New upscale housing construction particularly within the last ten years has increased rents in the downtown. In 2002 this level reached $1,604 a month, exceeding the citywide average. Furthermore, RDA investments in public facilities, restaurants, shops and entertainment have encouraged upper income families to reside in the downtown.

Gentrification Results. The Agency does not compile information that measures the economic side effects of public investment in blighted areas. Therefore, to evaluate RDA’s impacts on gentrification demographic information and data on housing prices was collected for the downtown core as well as for non-RDA parcels. Neighborhoods chosen outside project areas contained poverty rates, median rents, and demographics similar to RDA areas prior to the Agency’s investments. By analyzing changes in populations and prices between 1970-2000, both sets of areas could then be compared.

Between 1970 and 2000, the downtown core experienced substantial changes in racial demographics. The region’s Hispanic share of the population rose until 1990, and has since declined by 20%. The area’s proportion of Whites dropped 27% from 1970 to 1990 and leveled off in the last 10 years. The Asian population has steadily increased, and now represents 27% of the community. The percentage of African Americans is fairly small; but has increased slightly since 1990 (Table 10).

Non-redevelopment areas and citywide averages differ from the downtown, particularly in regards to the White and Hispanic communities. Non-RDA zones experienced a consistent influx in the proportion of Hispanics, and a significant and persistent decline in the White community. The share of the Asian population increased until the last decade and the African American population remains small. Citywide data indicates an overall growth in the number of Asians, relatively no change in the African American population, a large decrease in the White population and a slight decline in the Hispanic population.
## TABLE 10
**RACIAL DEMOGRAPHIC CHARACTERISTICS**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>AFRICAN-AMERICAN</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Downtown Core</td>
<td>3%</td>
<td>5%</td>
<td>4%</td>
<td>7%</td>
</tr>
<tr>
<td>Non-RDA Project Area</td>
<td>8%</td>
<td>3%</td>
<td>5%</td>
<td>2%</td>
</tr>
<tr>
<td>San Jose</td>
<td>2%</td>
<td>5%</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>WHITE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Downtown Core</td>
<td>55%</td>
<td>37%</td>
<td>28%</td>
<td>28%</td>
</tr>
<tr>
<td>Non-RDA Project Area</td>
<td>36%</td>
<td>44%</td>
<td>14%</td>
<td>8%</td>
</tr>
<tr>
<td>San Jose Average</td>
<td>74%</td>
<td>74%</td>
<td>66%</td>
<td>47%</td>
</tr>
<tr>
<td>LATINO/A</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Downtown Core</td>
<td>35%</td>
<td>46%</td>
<td>53%</td>
<td>33%</td>
</tr>
<tr>
<td>Non-RDA Project Area</td>
<td>51%</td>
<td>70%</td>
<td>60%</td>
<td>78%</td>
</tr>
<tr>
<td>San Jose Average</td>
<td>19%</td>
<td>22%</td>
<td>28%</td>
<td>25%</td>
</tr>
<tr>
<td>ASIAN</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Downtown Core</td>
<td>N/A</td>
<td>11%</td>
<td>15%</td>
<td>27%</td>
</tr>
<tr>
<td>Non-RDA Project Area</td>
<td>N/A</td>
<td>3%</td>
<td>17%</td>
<td>9%</td>
</tr>
<tr>
<td>San Jose Average</td>
<td>N/A</td>
<td>8%</td>
<td>20%</td>
<td>27%</td>
</tr>
<tr>
<td>MEDIAN RENTS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Downtown Core</td>
<td>$118</td>
<td>$200</td>
<td>$511</td>
<td>$810</td>
</tr>
<tr>
<td>Non-RDA Project Area</td>
<td>$114</td>
<td>$227</td>
<td>$618</td>
<td>$837</td>
</tr>
<tr>
<td>San Jose Average</td>
<td>$135</td>
<td>$295</td>
<td>$692</td>
<td>$1,123</td>
</tr>
</tbody>
</table>

In regards to housing, costs have risen throughout San Jose in the last 30 years in both the redevelopment and non-RDA communities. Since 1970, RDA’s influence combined with a regional jobs/housing imbalance inflated downtown rents by 690%. Specifically, between 1990 and 2000 housing costs accelerated faster in the downtown than in other non-RDA areas. In the last decade an historic economic boom plus the Agency’s investment in market and luxury housing led to a 37% increase in downtown median rents compared to 26% in non-redevelopment neighborhoods.

RDA’s capital projects and housing developments have produced a new enclave of upper income households in the downtown. Although evidence indicates massive gentrification
within the area, it is unclear to what extent Agency investment is responsible. The tsunami effect on housing prices caused by explosive economic growth within Silicon Valley dwarfs the gentrification impact of RDA on the downtown.

COMMERCIAL GENTRIFICATION: INDIRECT

In the last two decades the RDA has allocated massive capital expenditures for development of office buildings downtown. New commercial growth has attracted more businesses to the area, thus increasing the overall demand for space particularly during the peak of the 1990’s boom. During that period without sufficient supply, lease rates rose, probably decreasing affordability relative to other regions. With the collapse of Silicon Valley employment levels, vacancies have increased and commercial rents have fallen rapidly.

The following section will evaluate to what extent RDA subsidized office building construction contributed to gentrification among existing downtown businesses. To analyze the Agency’s influence, office lease and vacancy rates were collected in downtown, San Jose as a whole and the Silicon Valley region. Data is examined to determine whether RDA’s investment in office building construction has significantly impacted the downtown market relative to other areas.
Gentrification Results. Gentrification effects in downtown appear to coincide with economic trends throughout Silicon Valley. Between 1997 and 2002, downtown average office lease rates strongly resembled the San Jose and Silicon Valley average (Graph 6). Office rates in downtown reached their highest point in the fourth quarter of 2000 at $5.54 per square foot, and have since declined to $2.61. San Jose and Silicon Valley rates peaked at $5.09 per square foot and $4.85 per square foot, and by the end of 2002 were $2.44 per square foot and $1.55 respectfully.

Office vacancy rate fluctuations also show similar trends throughout Silicon Valley (Graph 7). Downtown vacancy rates reached their lowest levels in the second half of 2000 at a remarkable 1.1%, indicating a skyrocketing demand for office space. Subsequently, the downturn of the economy and the completion of new construction boosted vacancy rates to 15.2%. San Jose and Silicon Valley vacancy averages also fell to their lowest levels in 2000 at 2% and 4%, respectively. Current San Jose and Silicon Valley office vacancy rates average 14.2% and 20%.

It is evident that commercial gentrification did occur in the downtown project area within the context of fluctuating business cycles. Between 1997 and 2002, downtown became a more expensive place to lease space. The increases in costs from 1998-2001 suggest some involuntary relocation of tenants to cheaper locations. Although RDA may have influenced downtown gentrification, economic trends undoubtedly played a larger role. Downtown trends are not significantly different than the San Jose and Silicon Valley average, suggesting no distinct measurable RDA impact on prices facing office tenants.

ACCOUNTABILITY MEASURES

One major risk of any subsidized project is failure by the developer. Non-performance usually occurs when a developer: (1) abandons the project (pre or post construction); (2) falls short of job creation goals, number of promised affordable housing units, or other DDA requirements or; (3) fails to pay required lease payments or fees. To protect against non-performance local and state economic development agencies often attach accountability language (or clawbacks) to development agreements.

Accountability measures are legally enforceable contract provisions that penalize a developer for violating the terms of his agreement with the RDA. Standard clawback criteria provide a predictable business environment by outlining clear default repercussions prior to approval of a development agreement. Financial accountability protects the public’s initial investment as well as anticipated future revenue from the site. Meanwhile, clawbacks that address
community needs ensure that developers adhere to job creation and job quality requirements, affordable housing mandates, and other project goals. Comprehensive accountability includes language that secures both financial returns and community benefits on a project.

SAN JOSE REQUIREMENTS

In San Jose, the DDA outlines when a developer is in default or has failed to perform. The Agency’s standard definition of non-performance generally includes abandonment of the project, failure to adhere to affordable housing requirements, or delinquent lease payments. For instance the Adobe development agreement states: “Any of the following occurrences or acts shall constitute an event or default under this Lease: If Tenant… shall fail to make payment of any installment of Rent or of any other payment herein specified to be paid by Tenant… Upon the occurrence of the event of default specified… this Lease shall be terminated concurrently with the date of termination of the Development Agreement, Parking Agreement (Phase One) or Maintenance Agreement, as the case may be.”

Standard San Jose Redevelopment Agency accountability measures only secure the RDA’s ownership of the building and fail to compensate for lost investment opportunities or revenue in the short and medium terms. If a developer terminates the contract prematurely, the tenant is forced to leave, and the RDA can reclaim possession of the facility. However, the value of the site does not always protect the public’s investment. If the RDA subsidy was larger than the value of the land, the Agency would incur a net loss on the project. Furthermore, the RDA is then responsible for finding a new tenant and may be forced to offer additional incentives to attract another building operator.

The RDA has recognized this problem and has introduced more comprehensive measures to recapture such possible losses on a project-by-project basis. In some cases the RDA will require the developer to pay fines or make lease payments until a new tenant leases the building. For example, when IBM terminated their DDA prematurely, accountability language forced the developer to pay “the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss Tenant proves could have been reasonably avoided plus… any other amount necessary to compensate the landlord for the detriment proximately caused by Tenant’s failure to perform its obligations under this Lease…” Although this language protected the Agency against loss of lease revenue, it did not cover the loss of the fundamental objective of the project -- attracting a “flagship” corporate presence to the downtown. The subsidy for the building on this site would not have been provided for a tenant that lacked IBM’s stature. Thus, in this case, the RDA accountability language lost the forest while protecting the trees.
Although the Agency does take some provisions to ensure financial returns, community objectives are consistently ignored. DDA’s place few expectations regarding community outcomes such as job creation, job quality, and projected improvements to the blighted area, and thus there are no accountability measures in place to enforce that these goals are implemented. For instance in the case of the United Artists theatre, the DDA did not mandate any job creation or job quality standards, and as a result, the project generated approximately 43 below living wage jobs, many of which did not offer health insurance. Furthermore, the United Artists DDA’s also failed to protect the city against the loss of the overall objectives of the project. The UA facility was only open for four years. It closed abruptly, leaving the Agency with the challenge of determining another constructive use for the site.

From an overall perspective, San Jose’s standard clawback criteria does not mandate full repayment of public investment or address neighborhood needs. The following section will provide examples of successful policies in other cities that secure both financial returns and community benefits on a project.

CLAWBACKS IN OTHER CITIES

A number of cities nationwide impose standard clawback measures that protect return on public investment and community needs. For example, the Austin, Texas City Council enacted a rule regarding tax abatements that states: “if any recipient company leaves Austin within a period twice the length of the abatement, the City may ‘recapture’ all or part of the value of the abatement.”57 Similarly, the Nebraska Employment and Investment Growth Act provides “companies six years to achieve their projected investment and job creation levels. If at the end of those six years they have fallen short of the projections, the State shall recapture one seventh of the value of the tax credits for each year the company did not maintain the projected jobs or investment.”58 Both examples clearly outline policies that impose penalties and guarantee repayment of the subsidy should the developer fail to meet the terms of the project’s initial agreement.
San Jose’s downtown has been the primary recipient of redevelopment investment throughout the last 20 years. The city core is home to approximately seven different RDA project areas and received 54% of public investment between 1977 and 1998. However, as discussed earlier, the area continues to maintain a disproportionate number of residents in poverty compared to the city average. Currently, more than one-quarter of the residents earn less than a living wage, and approximately 35% of households pay 35% or more of their income on rent. Consequently, the demand for public services, affordable housing, and subsidized child care is higher in the downtown than the regional mean. Due to the high percentage of low wage workers, there are an above average number of uninsured residents and families receiving Medical, creating a large demand for public health services. The need for affordable housing is similarly great; more than 20,800 households qualify for ELI, VLI, LI and Moderate income units. Furthermore, the area is experiencing a shortage of childcare spaces, particularly in subsidized care. In 2002, the Community Child Care Council of Santa Clara County indicated an insufficient supply of childcare spaces in downtown for full cost and subsidized child care centers. Vacancy rates for state discounted care ranged from 0-6% for infant and preschool care, and 13-21% for full cost centers. Although the RDA has worked to address some of these issues, there has been no analysis on how specific publicly funded projects contribute positively or negatively to resolution of unmet community needs.

To examine how RDA development has impacted the downtown and other San Jose communities, eight case studies will each evaluate projects to determine the extent to which it assisted with overall revitalization efforts in a particular project area and provided satisfactory returns to the community. First, the analysis will note the project’s expected impacts by identifying overall goals of the RDA project area, scope of the plan, amount of subsidy for the development and potential revenue stream. Then, the overall community return will be examined, including a review of job creation, provision of affordable housing units, and community benefits and losses.

All case studies involve projects that were built within the last ten years, received a substantial public investment, and exemplify the diversity of RDA priorities. They are divided into the following categories: hotel expansion, housing and mixed use development, entertainment and corporate/ office construction. The discussion of hotel, retail, entertainment, and office projects focuses on quality job creation, impact on the local housing market, and anticipated...
RDA revenues. Housing projects are evaluated in terms of affordability levels, the impact on child care and community services.

**HOTEL DEVELOPMENT**

**FAIRMONT HOTEL ANNEX**

The Fairmont hotel is located in the San Antonio Plaza project area, in the city’s downtown core. In the 1980’s the region focused on attracting retail, mixed use, office space, housing, and a large hotel to the community. In response Light Tower Associates completed the 17-story Fairmont hotel in 1987. Eleven years later the Agency approved a DDA to allow for the expansion of the hotel.

The Disposition and Development Agreement between the San Jose Redevelopment Agency and Light Tower Associates (the developer) was signed on June 30th, 1998. The Fairmont Annex included 25,000 square feet of meeting space, 264 hotel rooms, 20,000 square feet of ground level retail, and a 230 space parking garage.

**Costs**

The Agency provided Light Tower Associates a subsidy of $18 million. Funding was designated for site acquisition ($3.4 million), demolition and remediation ($3.0 million), permits and fees ($650,000), architecture and engineering fees ($540,000), relocation ($300,000), and construction of parking garage approximately ($10 million). The developer was responsible for the construction of the building with an estimated cost of $55 million.

**Agency Revenues**

The San Jose Redevelopment Agency anticipates receiving $16 million in revenue throughout the 20-year lease. This amount includes $5.15 million in property tax increment, $6.29 million in parking proceeds, and $4.83 million in profits from the retail space and the Agency’s share of hotel operations.

**Public Information**

Prior to DDA approval, little information was available regarding the Annex’s negative impacts on the surrounding neighborhood. The Summary 33433 report outlined Agency and Developer costs, anticipated revenues, project description, land valuation, blight within the project area, and predicted employment and retail benefits. However, the document failed to address job quality criteria and losses to competing hotels.
Community Benefits

The Fairmont Annex expansion provided a number of community benefits. The facility created a new space for visitors, a meeting area for businesses, and increased local revenues; it will generate approximately $349,000 in transient occupancy tax proceeds over the next 20 years. The city also acquired a three level parking lot, which is currently used by the public and office employees in the area.

The retail site in the Fairmont Annex had been vacant until the Agency and McCormick and Schmick, a restaurant chain, signed a recent agreement. The new 10-year contract included $1.3 million in Agency financed improvements to the site. The restaurant is scheduled to open in October of 2003.

Jobs

The Fairmont added an estimated 264 permanent union jobs. New employees receive sustainable hourly wages averaging $13.41 with access to health insurance and job training programs. All jobs during Annex construction were paid a prevailing wage.

Community Losses

The DDA between the Agency and Light Tower Associates did not include any living wage requirements for hotel and restaurant workers. Although the Fairmont is unionized, 13 (or 66%) of the 20 restaurant workers (separate from the hotel) are expected to earn below a living wage, and be ineligible for job based health insurance.

Developer Accountability

Accountability language in the 1998 DDA between Light Tower Associates and the San Jose Redevelopment Agency secured the land and the facility itself. If the developer should default during construction “the Agency may purchase the mortgage, deed of trust or other security interest

FAIRMONT HOTEL ANNEX

SCOPE
13 story hotel expansion, restaurant, parking

AGENCY SUBSIDY
$18 million

ANTICIPATED AGENCY REVENUE
$16 million

JOBS

Hotel workers: 264
Average Wage: $13.41 / hr.

Estimated restaurant workers: 20
Average Wage: $10.23 / hr.

Restaurant workers not eligible for health insurance: 37%

Construction workers:
Approximately 350 / week at prevailing wage
by payment to the holder of the amount of the unpaid debt, plus any accrued and unpaid interest.” The Agency maintained the right to repossess the Annex property until all public funds have been refunded to the RDA. Once construction was completed, premature termination of the contract would allow the RDA to take over operation of the Fairmont Annex and parking garage. Further the DDA stated: “any funds advanced by the Agency to the Developer and not spent for the purposes advanced shall be returned to the Agency.” Despite language protecting public investment, should early termination occur, the Agency has no legal means by which to hold the developer accountable for $16.2 million in future revenues. Furthermore, the Agency would then be responsible for finding a new tenant for the hotel.

Relocation

To acquire necessary land for the Annex, the Redevelopment Agency exercised the use of eminent domain by displacing the Montgomery hotel and the Chamber of Commerce. The RDA assisted financially with the removal of both facilities, amounting to an estimated $6.5 million. The relocation of the Montgomery hotel, a historic building, required additional work to ensure preservation was maintained. To move the hotel, the building was lifted onto rubber wheels and transported 186 feet to its new location on First and San Carlos.

Community Return

Construction of the Fairmont Annex was complete in early 2002 and the hotel opened February 1st. The expanded facility included 264 new hotel jobs, 264 hotel rooms, parking, and the McCormick and Schmick restaurant that will open at the end of 2003. The Fairmont Annex provided a substantial return for the community: a new luxury hotel for visitors, livable wages for most workers, and revenue for the RDA. However, the lack of living wage requirements on the incoming restaurant creates poverty level jobs without health insurance. Furthermore, insufficient accountability criteria did not protect the Agency from a loss of future revenue should it have difficulty attracting a replacement hotel operator.

DE ANZA HOTEL

The De Anza hotel is located in the Almaden Gateway Redevelopment Project Area, within the downtown core. Adopted in 1988, the region focuses on renovating private properties, and assisting in office and hotel development. The historic De Anza hotel was built in the 1930’s but was forced to close in the 1980’s due to needed retrofitting.
In 1988 the RDA Board approved public funding for structural improvements to reopen
the hotel. The rehabilitation project consisted of remodeling 100 guest rooms, and the
construction of a health spa, meeting room and a 5,000 square foot restaurant. Guest parking
would be available on an Agency owned parcel near the building.

Costs
The total cost of De Anza’s improvements was $7.3 million. The Agency paid for all
off-site improvements, permits, land, and parking, amounting to $2.9 million. Saratoga
Capital, the developer, was responsible for the rehabilitation of the hotel and all other
expenses in excess of the Agency’s contribution.

Agency Revenue
The RDA anticipates receiving $914,000 in net present value in revenue from Saratoga
Capital throughout the 55-year lease from ground lease payments and land sale proceeds.71

Public Information
Prior to construction, little information
was available regarding positive or
negative impacts from the restoration
project. The Reuse Appraisal report
released less than 2 weeks before Agency
Board approval identified costs and
anticipated revenue to both the Developer
and the RDA. However, the document did
not address the loss to other hotels, wages
or health insurance eligibility for new
employees, or the adverse effect on the
housing market.

Community Benefits
The De Anza is located near the San Jose
Convention Center and downtown office
buildings, and provides a luxury option
for travelers to downtown San Jose. The
project stimulated demand for retail and
assisted in the overall alleviation of blight
in the Almaden Gateway project area.

| DEANZA HOTEL |
| SCOPE         |
| 100 rooms, meeting space, restaurant |
| AGENCY SUBSIDY |
| $3 million |
| ANTICIPATED AGENCY REVENUE |
| $914,000 |
| JOBS          |
| Hotel workers: 100 |
| Average Wage: $12.64 / hr.72 |
| Hotel workers not eligible for health insurance: 40%73 |
| Restaurant workers: 5 |
| Average Wage: $10.23 / hr. |
| Restaurant workers not eligible for health insurance: 37%74 |
| Construction workers: |
| Approximately 52 / week at prevailing wage75 |
Jobs

The DDA between the San Jose Redevelopment Agency and Saratoga Capital did not include wage standards for the estimated 105 permanent workers. Average industry wages for hospitality jobs indicated that hotel workers in Santa Clara County earn $12.64 hourly, above the living wage, suggesting that workers at De Anza benefit from the regional standard (primarily due to high hotel union density). All construction workers were paid a prevailing wage.

Community Losses

The failure to incorporate living wage requirements calls attention to the need for affordable housing and public health services that results from low wage employment. New hotel jobs created an estimated need for 68 housing units. Based on the industry wage, the average De Anza employee qualifies for very low-income housing. Furthermore to the extent that De Anza workers do not receive employer-sponsored health coverage (a common scenario in non-unionized hotels), they will be likely to seek health care from public or non-profit, government subsidized clinics.

Developer Accountability

Accountability criteria applied to the agreement between the RDA and the De Anza adequately secured financial returns but did not protect the project’s outcomes. The DDA stipulates that the Agency could reclaim possession of the hotel, should premature termination occur. The DDA did not allow the Agency to collect any lost investment, or future revenue from the developer upon early termination. However, due to the value of the building, if the De Anza forfeited the hotel to the Agency, all public investment and future revenue would be recovered. As a result, the RDA would then be responsible for finding another hotel operator, a difficult task in the current economic climate.

Relocation

Prior to the De Anza rehabilitation project, the hotel was closed. New development did not require relocation of any commercial businesses or households.

Community Return

The DDA was signed in June 1988, and the hotel reopened in October of 1990.

Overall, the De Anza hotel provided positive and negative returns to the San Jose community. In the last twelve years the De Anza has served as a quality hotel for visitors and helped with overall downtown revitalizing efforts in the area. However, the lack of job quality provisions created the probability that jobs paying less than a living wage would be generated and the
risk that employees would lack health insurance. Accountability criteria did protect the RDA's investment but failed to ensure that community objectives were met.

**HOUSING DEVELOPMENT**

**VILLA TORINO**

The Villa Torino project was the first major RDA subsidized high-density housing development in the Julian Stockton redevelopment area. Established in 1976, the region focuses on industrial construction and the implementation of goals identified in the Downtown Strategy Plan 2010. That document defined a large-scale residential complex as a top priority. In response, the RDA Board approved a DDA with the Sobrato Development Company in 1994 to construct Villa Torino.

The Villa Torino project consists of 198 rental units, and a 297 space parking garage. Of the new apartments 43% (85 units) are available to moderate-income households and are affordable for a minimum of 30 years.

**Costs**

The RDA contributed approximately $23 million to the Villa Torino project. The Agency subsidized $9.5 million in relocation expenses, $1.7 million in site preparation, $1 million in off site improvements, and an $11 million low interest loan to the developer. The cost of land (approximately $1.3 million) was not included in the Agency cost calculations. The Agency’s subsidy per unit can be estimated at $124,742.80

Construction costs were roughly $20 million, and the Sobrato Development Company accepted responsibility for all expenses exceeding the Agency’s $11 million loan. In addition, the Developer provided a letter of credit with a value of approx $13 million. The letter of credit served as security for the construction of the project in accordance with the terms of the Disposition and Development Agreement.81

**Agency Revenue**

The RDA anticipated $5 million in revenue over the next 15 years from future rents, refinancing proceeds, operating expenses, and repayment of the developer loan. The loan was to be repaid from “40% of the project’s annual cash flow; 20% of the net loan proceeds once the Developer is paid its construction equity and Developer fee; and a portion of net sale proceeds.”82
Public Information
Public information regarding Villa Torino consisted of a Summary report describing project details, costs and anticipated revenues. In addition, that document outlined how Villa Torino would assist in the overall alleviation of blight within the project area, by “serv[ing] as a catalyst for additional investment nearby, creating demand for resident-serving users, such as retail and service businesses, and providing affordable housing.” However, the report did not address the extent of the existing need in the community for varying levels of affordable housing in the area or other potential adverse effects resulting from adding new residents, such as the increased demand for child care and community services.

Community Benefits
Villa Torino provided new residences to the City of San Jose. The project increased the supply of high quality dwellings in the downtown, including 85 affordable housing units for moderate-income households. In addition, Villa Torino contributed to the raising demand for retail and entertainment downtown and assisted with the alleviation of blight in the area, consistent with the goals of the Agency’s Downtown Strategy Plan 2010.

Jobs
An estimated 132 weekly construction workers received a prevailing wage during the development of the project.

Community Losses
Although Villa Torino alleviated a part of the Districts serious housing shortage, the project did not offer units accessible at varying levels of affordability nor did it account for community impacts associated with new residents. Subsidized units were available only to moderate income households. Families with incomes below $72,168 (that is eligible for LI, VLI, and ELI units) could not qualify. Also, upon completion, the project enhanced the need for child care in the downtown area. Of the 198 apartments, an estimated 58 children required child care between 0-5 years of age. In addition, the development did not take into account new demands for health and educational services in the area.

Developer Accountability
The DDA stated that the Agency had the right to repossess the Villa Torino site and terminate the contract if the developer defaulted during the construction phase. Upon
termination of the contract the Agency could identify another party to complete construction of the site, and require Sobrato to reimburse the Agency for all lost expenses.\textsuperscript{85}

Relocation
In 1990 the RDA acquired 21 parcels owned by 11 separate entities in order to prepare for the construction of Villa Torino. Prior to development, the site was designated for “light industrial, warehouse, industrial-automotive, professional office, retail, and mixed retail/residential [construction]. Several existing buildings were included in the City’s list of unreinforced masonry (URM) structures, and were consequently declared by the City as a safety and hazardous risk for persons to work or live.”\textsuperscript{86} The Agency allocated approximately $9.6 million in relocation expenses.

Community Return
The Disposition and Development Agreement was signed on June 27\textsuperscript{th}, 1994 and construction began soon after. Following the project’s completion in May of 1997, all rental units were occupied within 4 months.

Villa Torino offered new housing to San Jose at a time when demand greatly outweighed supply. However, the project did not address the existing community need for LI, VLI, and ELI units. Only moderate income and market rate households could benefit from the development. Furthermore, the developer and the Agency ignored the impact on child care and health services.

**MIXED USE**

**MIRAIKO**
The Miraido mixed-use project is located in the Japantown’s Neighborhood Business District. The goal of the project area is to enhance the small-scale commercial development within

---

### VILLA TORINO

<table>
<thead>
<tr>
<th>SCOPE</th>
<th>198 housing units, parking</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFFORDABILITY</td>
<td>85 units for moderate income households</td>
</tr>
<tr>
<td>AGENCY COSTS</td>
<td>$23 million</td>
</tr>
<tr>
<td>CONSTRUCTION JOBS</td>
<td>132 workers per week at prevailing wage\textsuperscript{87}</td>
</tr>
<tr>
<td>RDA SUBSIDY COST PER HOUSING UNIT</td>
<td>$124,742</td>
</tr>
</tbody>
</table>

---

\textsuperscript{85} Final State
\textsuperscript{86} San Jose Housing Authority
\textsuperscript{87} The Sierra Club

---

APPENDIX A: THE RECORD OF PUBLIC SUBSIDIES IN SAN JOSE: SAN JOSE RDA
the community. After the District’s formation in 1993, the Agency began purchasing land in preparation for the Miraido housing and retail site.

Located on North 6th and Jackson Streets, the housing and commercial development project included 109 apartments, of which 23 are studios, 43 one-bedroom units, and 43 two-bedroom dwellings. It also contained 239 parking spaces, 12,528 square feet of retail, and a 3,000 square foot community center. The new housing varied in affordability levels: 20% (22 units) were reserved for very low income, and 13% (14 units) were available to low-income residents.

Costs
The DDA between A.F Evan Company, Nihonmanchi-Miraido Partners and the RDA estimated the total cost of the project at $24 million. The Agency appropriated approximately $11 million of this amount, including $3 million in property acquisition, $450,000 in relocation expenses, and $7.5 million in improvements. The total subsidy per unit is estimated at $100,917. The Developer obtained $10.2 million in HUD funded debt financing and contributed $2.4 million in cash equity.

Agency Revenues
The RDA projected it would receive approximately $5.0 million (net present value) in revenue over the 59-year lease agreement. All funds would be generated from 59-years of ground lease payments and increased property taxes for the remaining 26 years of the project area.

Public Information
RDA reports released prior to approval of the project did not fully address all relevant impacts from the Miraido development. The Summary 33433 report did analyze costs, revenues, and some potential benefits including the elimination of blight and availability of new affordable housing. However, no increased services caused by the project were discussed in the study such as the greater demands for education services, and child care.

Community Benefits
The Miraido housing complex provided new residences, retail opportunities for businesses, and a small neighborhood community center. The dwellings supplied critically needed affordable and market rate units, alleviating some of the city’s housing shortage. Furthermore, new retail assisted in the overall revitalization efforts by Japantown’s business community.
Prior to construction, the land sited for development required substantial toxic cleanup of the City’s maintenance yard, adjacent to the Miraido site. The Agency spent over one million dollars on clean up efforts, benefiting local residents.

**Jobs**

All construction jobs on the Miraido site paid a prevailing wage. However, the retail tenants were not subject to any regulations, and as a result approximately 9 jobs (66% of total) pay below a living wage and 5 (37% of total) jobs do not offer employer-sponsored health insurance.⁹⁰

**Community Losses**

Although the Miraido project alleviates some of the demand for new housing and retail in the area, the apartment and commercial complex created some poverty level jobs, while increasing the need for child care and educational services in the community. Based on an analysis of retail sector compensation patterns, it is likely the failure to incorporate living wage criteria in the DDA produced 6 households who qualify for ELI subsidized units. In addition, Miraido’s new residents required an estimated 32 child care spaces for children 0-5 years of age, and added approximately 60 students to neighborhood schools.

**Relocation**

To secure land for Japantown’s first major RDA project, the Agency exercised eminent domain. The predevelopment site required the displacement of 13 commercial occupants and 62 employees. In total, the RDA spent approximately $3.45 million on land acquisition and relocation expenses for the Miraido project.

---

**JAPANTOWN’S MIRAIDO**

**SCOPE**

109 apartments, parking, 12,528 sq. ft. of retail, community center

**AFFORDABILITY**

22 VLI units, 14 LI units

**AGENCY COSTS**

$11 million

**AGENCY REVENUE**

$5 million

**JOBS**

Retail: 13
Average Wage: $10.23 / hr.
Retail workers not eligible for health insurance: 37%

Janitors: 1
Average Wage: $7.67 / hr.
Non-union: $7.67 / hr.
Union: $9.00 / hr.

Construction workers: Approximately 195 / week at prevailing wage⁹¹

**RDA SUBSIDY PER HOUSING UNIT**

$100,917⁹²
Developer Accountability

Accountability language on the Miraido project emphasized financial returns. Upon tenant default, the DDA stated that the Agency had the right to exercise three options: (1) terminate the lease and repossess property and improvements; (2) without terminating the contract, collect all present and future rent; (3) terminate the lease and collect all present and future rents. If termination of the contract does ever occur, the RDA can negotiate with new tenants to fulfill the remaining years of the lease. Miraido’s clawback language enables the RDA to recoup the public’s investment should the developer default.

Community Return

The Miraido mixed-use development agreement was approved May 1st 1997, and construction completed in late 1999. The site is now home to several small retail stores that enhance the Japantown area.

Japantown residents have experienced positive returns from the Miraido project. New housing helped alleviate the high demand for both market and affordable units in the neighborhood and more retail contributed to the overall revitalization of the RDA project area. In addition, the RDA’s accountability language minimizes the risk to the public’s investment.

However, no wage provisions were required at the Miraido retail site. Consequently, poverty level employment generates a continuing need for more affordable housing and public services in San Jose.

ENTERTAINMENT/ RECREATION

THE UNITED ARTISTS

The UA theatre complex, constructed in the San Antonio Plaza project area, hoped to address the need for additional major entertainment attractions in the downtown core. In conjunction with project area goals, the new cinema was expected to appeal to visitors and local residents throughout the region. In an economic report to the Agency a consultant analyzing the UA development noted, “the theatre will become a critical anchor tenant for a variety of downtown businesses, such as dining and shopping.”

The DDA between United Artists Theatres and the RDA included a 3,900 seat, 8-screen movie theatre, with anticipated attendance of 780,000 people annually.
Costs
The total cost of the United Artists project was $9.3 million. The RDA allocated $4.6 million to cover site improvements ($2.5 million), the acquisition of the Twohy building ($1.8 million), and public art ($200,000). The UA was required to obtain $3.2 million in cash equity plus a $1.5 million tenant loan/equity commitment, totaling $4.7 million in developer expenses.

Agency Revenue
The Agency anticipated receiving $2 million in net present value in revenues from the new movie theatre. Funds would be produced from ground lease payments ($383,900) throughout the 20-year lease and $1.4 million in property tax increment for the remaining years of the project area.

Public Information
The Summary 33433 report outlined the importance of the theatre in the downtown but did not address any potential risks or negative impacts associated with the new facility. The study discussed the positive influence similar theatres had on other cities, along with anticipated attendance at the UA and projected revenues to local jurisdictions. It did not account for such possible adverse effects as the loss of business from other local cinemas, declines in market demand or inadequate job quality standards for theatre workers.

Community Benefits
The RDA predicted the theatre would substantially increase entertainment options downtown, and boost revenue for neighborhood businesses and restaurants. Consultants Keyser Marston Associates (KMA) observed, “theatres help stabilize retail environments during weeknights and weekend afternoons and evenings in downtowns and create opportunities for retail that would not otherwise exist… Initially the greatest benefit is reflected in increased restaurant sales.” The RDA anticipated that the UA would play a similarly influential role in downtown’s revitalization.

Jobs
The UA created approximately 50 full time and part time jobs. However, based on industry averages, it is probable that 43 workers (85%) were paid below a living wage, and roughly 14 employees were not eligible for health insurance. All construction workers were paid prevailing wage.

Community Losses
The RDAs’s failure to apply job quality standards stimulated demand for affordable
housing and public health services in San Jose. Below living wage jobs generated an estimated need for 28 affordable housing units. Furthermore, the lack of employer-based health insurance increased the burden on county health services in the area.

Developer Accountability

The sub-lease agreement between the UA and the Agency stated that the owner of the building would repossess the site if the UA defaulted on the DDA. However, there was no clawback language in the UA contract that guaranteed the facility would stay open or force the UA to assist in finding a new tenant. Furthermore, termination language in the UA DDA did not mandate repayment of the Agency subsidy. If the UA were to depart, the Agency would lose ground lease payments for up to five years. After the fifth year, the owner would be required to pay 2% of the site’s annual income (for 20 years) to the RDA. However, 2% is highly unlikely to recover the cost of a $5 million subsidy.

Relocation

The UA development did not require relocation of any commercial businesses or households.

Community Return

The Development and Disposition Agreement between the RDA and United Artists was approved on February of 1994. The theatre opened in 1996, however abruptly closed on January 15th, 2000, while surprised moviegoers arrived with tickets.

The RDA agreement with the UA failed to protect the project’s objectives. The city not only lost a major downtown theatre but the RDA also lost almost all of the public’s investment. In a San Jose Mercury News article, Joe Guerra, the budget and policy director for Mayor Ron Gonzalez stated: “Fundamentally, it’s Forest City’s problem- they’re the landlord. But it’s our problem, too, because we put money into the building to have a theatre and now there’s no theatre.” The departure of the UA left the RDA and Forest City responsible for attracting a new theatre operator to the vacant
site. Three years later, the Agency has still been unable to find a new tenant. Due to the current economic climate, the Agency may now be forced to offer a new subsidy to lure in a reluctant operator or finance renovation of the facility to attract in a different type of retailer. Meanwhile, the City continues to lose potential sales tax revenue until a new theatre leases the site.

Overall, the UA development observed few returns to the community. The United Artists theatre generated 50 jobs, a significant percentage of which paid poverty level wages. In addition, the cinema failed to meet the project’s initial goal of maintaining an entertainment venue in the city core. Although the RDA had some rights to hold the operator and building owner accountable for project failure, the theatre remains vacant.

THE SAN JOSE ARENA

The San Jose Arena located in the Julian Stockton project area addressed the need for a major sports and entertainment presence downtown. In conjunction with other revitalization efforts, the RDA successfully built one of the largest amusement and sports facilities in Santa Clara County.

In a June 1988 election, voters approved Measure H, allowing for the construction of, and public investment in, the San Jose Arena. The project included an 18,000-seat facility, with a concourse and skybox section, and 2,100 parking spaces. The 450,000 square foot Arena would host a number of events, however, it would primarily be used by the San Jose Sharks, a professional hockey team.

Costs

The total cost of the San Jose Arena was $138 million, and all funding came from public investment through the RDA. Resources were allocated toward land acquisition, design, construction, furnishing, and parking.

Agency Revenues

Since 1993-94 the City of San Jose has received $11.3 million in revenue from the Arena.101

Public Information

Unlike all other case studies discussed in this report, approval of the San Jose Arena involved voter consensus. Since no DDA was required, a Summary 33433 report was not completed. The public secured information regarding this project through the election campaign. The official ballot measure stated “Without imposing additional taxes for this purpose, shall the City of San Jose build and indoor community arena for entertainment
and sporting events using public funds to finance its acquisition and construction?" The ballot also indicated projected costs, and arguments for and against the measure. Also, a 1982 study described the project in detail. The report provided in-depth assessment on market potential for the entertainment center, costs and anticipated revenue. However, both the ballot information and the study failed to discuss wage estimates for new employees, as well as the impact on the local housing market and public services.

Community Benefits

The Arena serves as a major source of entertainment for local residents and visitors in Silicon Valley. Events at the facility include: concerts, family shows, and sporting events (such as soccer, hockey, tennis, indoor football, and basketball games), and attract roughly 2 million people annually. Furthermore, the Arena contributes substantially to foot traffic downtown, and additional retail demand. A consultant to the RDA noted, “restaurant sales have increased 25% to 30%, as respectively reported by operators of The Ties House and Yank’s Bistro. According to the management of Rock N’ Tacos and Fred’s Coffee Roasting Co., business has doubled on Arena event nights.”

Jobs

From 1993 to 2001, there were an estimated 520 below living wage jobs at the Arena. When the building was renamed in 2001, many city and community leaders believed the Arena should apply the City’s living wage ordinance. As a result, the collective bargaining agreement between the San Jose Arena Management Corporation and local unions was renegotiated, stipulating that employees earn a living wage by August 2002 and have access to employer-sponsored health insurance.

All construction workers at the Arena were paid a prevailing wage.

Community Losses

The initial agreement between the RDA and the San Jose Management Corporation did not include any job quality requirements. A large percentage of new Arena employees worked part time, earned less than a living wage, and lacked access to job based health coverage. Consequently, the Arena workforce generated a demand for approximately 337 affordable housing units.

Developer Accountability

The 15-year lease agreement between the San Jose Management Corporation and the Redevelopment Agency required developers to complete the project in “accordance
with the Schedule of Construction,” and if construction was delayed or terminated prematurely, the RDA could collect financial damages. Following completion of the project, if the San Jose Management Corporation defaulted, the RDA could terminate the contract and reclaim possession of the property. However, due to the large subsidy, it is unlikely the Agency would be able to recoup all of its lost investment merely by repossessing the property. Furthermore, clawback language did not secure anticipated rent revenues to the City or guarantee that the facility would remain open. The lack of comprehensive accountability criteria failed to guarantee community objectives, or protect $11 million in future proceeds.

**Relocation** Prior to development 20 other parcels were located on the 18-acre site. The largest of these facilities was a 4.9-acre PG&E gas plant that required soil and groundwater remediation to prevent the spread of hazardous residues. PG&E supported the 1988 election to construct the sports arena, and two months later the RDA presented the energy company with an initial offer to purchase the property. By mid 1990 the San Jose RDA acquired the PG&E site along with all other necessary land to prepare for construction.

**Community Returns** The lease agreement between the Agency and the San Jose Arena Management Corporation was signed in December of 1990, and the Arena opened in August of 1993. In 2000, the name of the building was changed to the San Jose Compaq Center, and modified again in September of 2002 as the HP Pavilion.

The San Jose Arena provides a number of community returns to the City of San Jose. The facility serves as one of the largest entertainment attractions in Silicon Valley, hosting San Jose Shark games, music concerts, and college basketball tournaments among others. Events

---

### HP PAVILION (SAN JOSE ARENA)

**SCOPE**
Sports arena (450,000 sq. ft.)

**AGENCY COSTS**
$138 million

**ANTICIPATED AGENCY REVENUE**
$4 million

**JOBS**
- Arena workers: 520
- Average Wage:
  - Prior to 2001 contract: $8.50 / hr. (minimum wage)
  - New contract: Living wage by 2002 ($10.40 / hr. and above)
- Construction workers: Not available

---
help local restaurants and stimulate downtown activity. However, the failure to establish job standards (until the recent union contract) increased the number of poverty level jobs in San Jose, as well as the demand for affordable housing and public health services. Furthermore, the lack of comprehensive clawback language did not protect public investment or guarantee community goals.

**OFFICE DEVELOPMENT**

**ADOBE SYSTEMS**

In 1993, the RDA acquired the St. Joseph’s site, adjacent to the Guadalupe Expressway, and began negotiations with Adobe Systems regarding a large-scale office complex. Located in the Park Center project area, Adobe would address the long sought after objective of a major corporate headquarters. In 1994, Adobe moved into a building already available on the site.

The three-part Adobe project included a lease agreement for tower 1, and the construction of two additional towers. In the Phase 1 development the Agency subsidized a 350,000 square foot, 18-story office tower and a 950 space parking structure. The Phase 2 development adds another 269,000 square foot tower, and 400 parking spaces. Phase 1 was completed in August of 1996, and Phase 2 is currently under construction.

**Costs**

The cost of the entire development (Phase 1 and 2) was $195 million. The RDA has committed approximately $35 million to the project, $17 million in site and public improvements, $16 million in parking, and $2 million in land transaction fees, permits and additional expenses. Adobe was responsible for all costs associated with construction of both buildings, approximately $153 million. This includes $60 million in shell construction, $67 million in tenant and parking improvements, $5 in site and public enhancements, and $28 million toward indirect costs.

**Agency Revenue**

The RDA anticipates collecting approximately $29 million in net present value revenues for the 59-year lease with Adobe. The agreement entitles the Agency to $10 million annually in ground lease payments for the first ten years, gradually amounting to $15 million once both Phases 1 and 2 are completed. In addition, the Agency expects to receive a total of $14 million in tax increment throughout the remaining years of the Park Center project area.
Public Information

Prior to DDA approval, the Summary report identified project details, costs and anticipated revenues to both the Agency and the Developer. In addition, the study analyzed how the Adobe development would assist in the overall elimination of blight within the project area, including the cleanup of hazardous materials and “strengthening the area as a Class A office location.” However, the study did not address the effects of increased employment on the community.

Community Benefits

The office complex provides a number of benefits to the downtown. In the last six years Adobe’s presence has encouraged other corporate developments and new commercial projects in the neighborhood. Furthermore, the building has contributed to the overall alleviation of blight within the area.

Jobs

The three Adobe towers together are expected to generate 2,800 jobs. Workers hired directly by Adobe generally earn above a living wage, however the DDA does not include any job quality provisions for outsourced employees. As a result, janitors, cafeteria workers and other subcontracted workers earn below a living wage and are not eligible for employer based health insurance.

All construction workers on the site received a prevailing wage.

Community Losses

Although the project provides a substantial number of new high wage jobs, it also generates pressure on public services and the housing market. Adobe’s workforce requires approximately 1,300 housing units.

ADOBE SYSTEMS, INC.

SCOPE
3 office towers

AGENCY COSTS
$35 million

AGENCY REVENUE
$29 million

JOBS
Adobe workers: 2,800
Average Industry Wage: $32.37 / hr.

Cafeteria workers: 20
Average Wage: $8.69 / hr.  

Janitors: 58
Average Wage: 
Non-union: $7.67 / hr.
Union: $9.00 / hr.

Construction workers: Approximately 435 weekly at prevailing wages (on all three towers)
Its presence therefore impacts market rents and housing prices, particularly in the downtown. Furthermore, new poverty level outsourced jobs that do not offer health insurance increase the need for county health services and local services.

Developer Accountability

The Disposition and Development Agreement between Adobe and the RDA states that the Agency maintains the right to terminate the lease and repossess the property should the company default on the contract. Given the significant Adobe investment in the property, repossession of the building would recover all previous public investment and provide the option to secure public revenue. However, the Agency would then be responsible for finding a new tenant. In the current economic climate, the building might remain empty for an indefinite period.

Relocation

The RDA utilized eminent domain to secure sufficient land for the Adobe’s second and third towers. As a result, a number of businesses were relocated, including a downtown bank, a parking garage, and a radio station. Disgruntled owners who were forced to move filed a suit against the Agency, and were compensated for relocation expenses when the case was settled out of court. According to the San Jose Mercury News: “the City recently agreed to pay the $9.5 million to clear the land and settle an eminent domain suit brought by the owners of the existing building at the site of the second tower. Under the settlement, the Agency paid Levitt Properties $3.05 million for its small building and another $1.2 million to relocate the Levitt brothers’ radio station KEZR… another tenant; Heritage Bank received $1.1 million in compensation for moving. Real estate syndicator JMB was paid $4.09 million for its parking garage.”

Community Return

Adobe signed the DDA with the Agency on September 22, 1994, and construction of the second tower (Phase 1) was complete in August of 1996. Phase 2 is under construction with an estimated completion date of 2004.

The Adobe development added substantial returns to the downtown community. The corporate headquarters assisted in attracting additional office and commercial development to the area and provides a substantial number of high quality jobs to local residents. However, the Agency did not address the negative impact the complex would have on community services and the local housing market.
IBM

In 1993 the RDA approved the construction of a large-scale IBM office building. The goal of the development was to entice a large flagship corporation to the downtown core and leverage the IBM investment to attract other corporations. Located in the Guadalupe–Auzerais project area, first established in 1983, the IBM facility would address the need for additional office construction and provide public parking in the community.

Specifically, the Agency envisioned a seven story building on West San Carlos and Almaden Boulevard that could provide 75,360 square feet of office space as well as a 424 space-parking garage.

Costs

The cost of the IBM project was $29 million. The Agency was responsible for incurring all expenses associated with the removal of hazardous materials, land use permits, transaction fees, predevelopment expenses and parking improvements totaling approximately $9 million. The developer (303 Almaden LP) incurred all costs associated both with construction and tenant enhancements totaling roughly $20 million.

Agency Revenue

Over the 63-year IBM lease agreement, the Agency anticipated receiving $10 million in net present value revenue, $6 million from lease payments and an additional $4 million in property tax increment over the remaining term of the Guadalupe-Auzerais project area.

Public Information

Public information released prior to approval of the DDA did not sufficiently cover adverse effects resulting from the IBM development. The Summary 33433 report included details of the project, costs and anticipated revenues.

---

**IBM**

**SCOPE**

7-story office building and parking garage

**AGENCY COSTS**

$9 million

**AGENCY REVENUE**

$10 million

**JOBS**

IBM workers: 650
Average Industry Wage: $32.37 / hr.

Janitors: 5
Average Wage:$13 Non-union: $7.67 / hr.
Union: $9.00 / hr.

Construction workers:
Approximately 142 weekly at prevailing wage14
However, the study did not discuss numerous socio-economic impacts from the project, such as number of jobs created, anticipated wages, eligibility of workers for health insurance, and the increased burden on the local housing market.

Community Benefits
The IBM building helped stimulate downtown activity by adding new employees and parking to the area. The Summary 33433 Report stated the new facility would “encourage additional corporate relocation and development Downtown.” Furthermore, the parking garage increased accessibility for visitors to the nearby library, Children's Museum, Tech Museum, and Center for Performing Arts.

Jobs
The RDA did not require any job quality standards in its agreement with IBM. Employment at IBM was estimated at 650 workers. Due to the nature of the industry, a high percentage of IBM jobs pay above a living wage and offer health insurance to employees. However, it is likely janitors, café workers and other subcontractors in the building on average earn below a living wage and are not eligible for employer sponsored health insurance.

All construction workers were paid prevailing wage during the development of the IBM building.

Community Losses
Although the new facility provided a number of benefits to the area, the project had an adverse impact on the local housing market and the demand for social services. The project’s 650 workers created a need for approximately 422 residential units.

Developer Accountability
If the 303 Almaden L.P defaulted on the DDA, the Agency reserved the right to abort the agreement and repossess the IBM building. In the case of premature termination the Agency could recover all unpaid and future rent until either a new tenant moved into the facility or IBM could legally prove rental loss could have been avoided by the Agency. In addition, the DDA required IBM to award “any other amount necessary to compensate Landlord for all the detriment caused by Tenant’s failure to perform its obligations under this Lease.” Thus the RDA’s accountability language secured financial returns through future lease payments, tax increment revenue, and ownership of the building. However, the DDA did not protect the project’s objectives of maintaining a
corporate flagship on the site. Clawback language did not address the potential loss of a major corporate presence in the downtown.

Relocation
Prior to the IBM construction, the site was a surface parking lot; thus no buildings were displaced.

Community Returns
The Redevelopment Agency Board approved the IBM project in August 1993. Construction was complete in June of 1995, however by September of 1995, IBM terminated the contract with the RDA and vacated the newly built facility. As the San Jose Mercury News reported: “Three months after moving 325 employees into a downtown San Jose high-rise that received a $17 million subsidy, IBM announced this week that it plans to move out and turn the space over to Adobe Systems.”

Accountability language from the RDA ensured repayment of the initial investment, however it could not secure the community’s objectives. Upon departure, the Agency repossessed the building and received $750,000 in relocation expenses. Adobe moved in soon after, relieving IBM of future lease payments and assisting the RDA by occupying the empty building. However, the goal of the project was to bring IBM to the downtown core, and the DDA was not able to secure that goal. By 1996 Adobe had moved to another site (discussed in the previous case study) and Ernst and Young now lease the complex.

Overall, San Jose experienced few returns on the IBM development project. The new office building assisted in attracting some new employees and businesses to the area. In addition, the RDA’s financial accountability criteria secured public investment, and encouraged IBM to find a new tenant for the building. However, IBM left three months after the building was complete. Had such a departure occurred during an economic downturn, it would have been substantially more difficult to replace one major corporation with another. Fortunately, following IBM’s departure, the site has been maintained as a fully occupied office complex.

CONCLUSION
Since the San Jose Redevelopment Agency was first established in 1956, it has played an instrumental role in the physical and economic growth of San Jose, particularly within the downtown. RDA investment has leveraged massive revitalization within blighted areas, including financing for public facilities, transportation, housing (affordable and market rate), infrastructure improvements, and neighborhood development.
However, the RDAs achievements must be weighed in relationship to the vast amounts of revenue it has controlled. An Agency with the capacity to invest hundreds of millions of dollars in public funds should be expected to satisfy high standards, not merely acceptable ones. From this perspective, the history of the RDA subsidy program reveals flaws worthy of corrective action. The Agency’s concept of an adequate return on investment must be expanded to include quality jobs and community services. The importance of this requirement is reinforced by the extent to which the RDA drains resources from county government, a major service provider to low-income San Jose residents. In addition, although the Agency’s contribution of funds for affordable housing has been exemplary, the RDA does not systematically evaluate the extent to which its projects exacerbate housing demand. As regards process and procedures, the RDA needs to tighten the mechanisms it employs to assure that subsidy recipients actually meet those community goals for which they received public funds. Finally, the RDA should be required to dramatically revise its approach to public participation in decision making. The community should have access to much more information at a time that permits active engagement in the definition of projects. The notion that public input regarding the use of millions of dollars in taxpayer funds should be limited to a handful of selected stakeholders must be replaced with a more democratic and inclusive vision. Redevelopment’s successes demonstrate the potential value of this economic development tool; actions to reform its operations offer the opportunity to expand that potential to benefit the entire City of San Jose.
APPENDIX B
Sample Community Impact Report
Table of Contents
Name in parentheses indicates the party responsible for providing the information

1. PROJECT AND NEIGHBORHOOD OVERVIEW  4
   1.1 PROJECT DESCRIPTION (DEVELOPER)  4
   1.2 SITE DESCRIPTION (CITY)  4

2. FISCAL ASSESSMENT  5
   2.1 AMOUNT OF PUBLIC FINANCING (DEVELOPER)  5
   2.2 EFFECT OF PROJECT ON CITY AND RDA TAX REVENUE (CITY)  5
   2.3 NET FISCAL RETURN OF PROJECT (CITY)  5

3. EMPLOYMENT ASSESSMENT  6
   3.1 CONSTRUCTION JOB QUALITY (DEVELOPER)  6
   3.2 OCCUPIER (OWNER OR TENANT) EMPLOYMENT (DEVELOPER)  6
   3.3 EMPLOYMENT QUESTIONNAIRE (DEVELOPER)  6
   3.4 ANALYSIS OF NEW AND RETAINED JOBS (CITY)  6

4. HOUSING ASSESSMENT  7
   4.1 HOUSING CREATED: SIZE AND AFFORDABILITY (DEVELOPER)  7
   4.2 HOUSING REHABILITATED: SIZE AND AFFORDABILITY (DEVELOPER)  7
   4.3 HOUSING DISPLACED: SIZE AND AFFORDABILITY (DEVELOPER)  7
   4.4 FINANCIAL CONTRIBUTIONS TO AFFORDABLE HOUSING (DEVELOPER)  7
   4.5 HOUSING DEMAND (CITY)  7

5. SMART GROWTH ASSESSMENT  8
   5.1 LOCATION (CITY)  8
   5.2 MIX AND BALANCE OF USES (DEVELOPER)  8
   5.3 SITE OPTIMIZATION AND COMPACTNESS (DEVELOPER)  8
   5.4 TRANSPORTATION CHOICES (TDM) (DEVELOPER)  8
   5.5 DIVERSITY (DEVELOPER)  8

6. ENVIRONMENTAL QUALITY ASSESSMENT  9
   6.1 BUILDING DESIGN (DEVELOPER)  9
   6.2 ENVIRONMENTAL IMPACT (DEVELOPER)  9

7. COMMUNITY SERVICES ASSESSMENT  10
   7.1 COMMUNITY MARKET NEEDS  10
      1. EXISTING RETAIL (DEVELOPER)  10
      2. NEED FOR SERVICES (DEVELOPER)  10
      3. LIST OF DISPLACED BUSINESSES (CITY)  10
      4. COMPARISON TO PAST PROJECTS (DEVELOPER)  10

2
7.2 Community Service Needs

1. Community Asset Map (city) 10
2. Project Contributions to Community Services (developer) 10
3. Project Impact on Community Needs (city and developer) 10

Attachment 1: 12

Questionnaire for Developers, Prospective Owner-Operators, Tenants, and Service Contractors

For Service Contractors 12
Indirect Employment 12
Direct Employment 12
Training/Opportunities for Advancement 14

Attachment 2: 15

Parties Responsible for Providing Information for CIR 15
1. PROJECT AND NEIGHBORHOOD OVERVIEW

1.1 Project Description (developer)

1. Description should include:
   - the size and type of project,
   - the potential tenants,
   - the number of housing units and affordability levels
   - the timeline for construction of the project,
   - the amenities offered by the project.

1.2 Site Description (city)

1. Zoning Map
2. Demographics of project area for census tracts within a minimum of a one mile radius. The demographics of the impacted area should be compared to those of the city as a whole.1

<table>
<thead>
<tr>
<th>Population</th>
<th>Project Area</th>
<th>City</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population change (1990-2000)</td>
<td></td>
<td>U.S. Census</td>
<td></td>
</tr>
<tr>
<td>Change in # of households (1990-2000)</td>
<td></td>
<td>U.S. Census</td>
<td></td>
</tr>
<tr>
<td>Ethnic and racial composition</td>
<td></td>
<td>U.S. Census</td>
<td></td>
</tr>
<tr>
<td>Household Size and Age breakdown</td>
<td></td>
<td>U.S. Census</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td>U.S. Census</td>
<td></td>
</tr>
<tr>
<td>Income and Employment</td>
<td></td>
<td>U.S. Census</td>
<td></td>
</tr>
<tr>
<td>Family income by decile</td>
<td></td>
<td>U.S. Census</td>
<td></td>
</tr>
<tr>
<td>Individual Wages by decile</td>
<td></td>
<td>U.S. Census, UC Berkeley</td>
<td></td>
</tr>
<tr>
<td>Unemployment</td>
<td></td>
<td>U.S. Census</td>
<td></td>
</tr>
<tr>
<td>Percent below median income</td>
<td></td>
<td>U.S. Census</td>
<td></td>
</tr>
<tr>
<td>Transit Use</td>
<td></td>
<td>U.S. Census</td>
<td></td>
</tr>
<tr>
<td>Dependent on public transit</td>
<td></td>
<td>U.S. Census</td>
<td></td>
</tr>
<tr>
<td>Housing</td>
<td></td>
<td>U.S. Census</td>
<td></td>
</tr>
<tr>
<td>Median Rent</td>
<td></td>
<td>U.S. Census</td>
<td></td>
</tr>
<tr>
<td>Apartments built before 1980</td>
<td></td>
<td>Planning Department, U.S. Census</td>
<td></td>
</tr>
<tr>
<td>Ratio of homeowners to renters</td>
<td></td>
<td>U.S. Census</td>
<td></td>
</tr>
<tr>
<td>Affordable units as a percent of total units (for rent and for sale, by level of affordability)</td>
<td></td>
<td>San Jose Department of Housing and U.S. Census</td>
<td></td>
</tr>
<tr>
<td>Density of land within a one-mile radius (number of people, number of housing units)</td>
<td></td>
<td>U.S. Census</td>
<td></td>
</tr>
<tr>
<td>Environmental History</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>What is the neighborhood concentration of hazardous waste-emitting facilities compared with the average for the particular land-use (residential, industrial, etc)?</td>
<td></td>
<td>Silicon Valley Toxics Coalition</td>
<td><a href="http://www.svtc.org/eomaps/svtc_eomaps/index.html">http://www.svtc.org/eomaps/svtc_eomaps/index.html</a></td>
</tr>
<tr>
<td>What are locations of superfund sites or facilities releasing TRI chemicals?</td>
<td></td>
<td>Silicon Valley Toxics Coalition</td>
<td></td>
</tr>
</tbody>
</table>

___

1 UC Berkeley and ABAG offer updated neighborhood-level information during years in between the census.
2. FISCAL ASSESSMENT

2.1 Amount of Public Financing (developer)

1. **Local Public Financing:** Provide the terms of any public grants and loans for which the developer has applied or any public financing that has been approved for the project, including the projected interest rate, the term of the loan, the method of repayment, the method of guaranteeing the loan, and the timetable for remaining approvals needed. Types of assistance should include grants, land donations, relief on exactions, fee waivers, and tax abatements.

2. **Private Financing:** Provide the source, amount, and status of private financing for the project.

3. **State Financing:** Identify type and amount of any financial assistance from the state.

4. **Developer History:** Provide name and telephone of one public manager with oversight responsibilities on a similar project performed by this developer.

2.2 Effect of Project on City and RDA Tax Revenue (city)

1. Calculate expected change in annual tax revenue generated by the project by type of tax, including sales tax, business license fees, utility users tax, tot taxes, the city’s share of property tax, and property tax increment (if a Redevelopment project).

2.3 Net Fiscal Return of Project (city)

1. Project the net fiscal return of the project over the term of the city’s or RDA’s loan to the developer by funding source.\(^2\) The net fiscal return should include the following payment streams. (The parentheses indicate costs to the taxpayer.)
   a. (Any public loans or grants to the developer)
   b. (Project-related infrastructure costs borne by public)\(^3\)
   c. (Relocation and replacement housing costs borne by the public)
   d. Loan repayments made by the developer
   e. Additional tax revenue not currently collected from existing businesses\(^4\)

2. Compare fiscal return to additional costs generated by the project. These costs include public benefits transfers, additional needs for affordable housing, and additional needs for health care and child care. Formula for calculation to be provided by city\(^5\).

---

\(^2\) If no loan, the project fiscal return should be calculated over 20 years  
\(^3\) Does not refer to standard levels of infrastructure normally provided to commercial/industrial development such as typical street construction and maintenance, but higher levels required primarily by a specific development, such as major street expansion, an interchange, or a bridge. Provision of project-related infrastructure is usually accompanied by a separate agreement between the city and/or RDA and the developer.  
\(^4\) Site-specific tax revenue that will be dedicated to the repayment of loans shall not be considered as new tax revenue. Evidence of an increase in net sales tax and/or business tax shall be limited to evidence that the Proposed Project will increase tourism within the City, and/or evidence that the Proposed Projects may bring new commerce to the City.  
\(^5\) Example of health care analysis: if 300 jobs are proposed in retail, and the average percent of people receiving health insurance is 60%, then 120 people are likely to be uninsured. The Los Angeles County Health Service estimates average cost to the public sector at $448 annually per person, for a total cost of $53,760 per year. Source: 2001 Health Interview Survey, UCLA Center for Health and Policy Research.
3. EMPLOYMENT ASSESSMENT

3.1 Construction Job Quality (developer)

1. Estimate the number of construction jobs expected at the project.\(^6\)

2. If construction contractors will not be covered by federal Davis/Bacon requirements, the RDA’s prevailing wage policy or state prevailing wage laws, estimate wages and benefits for the construction jobs.

3.2 Occupier (Owner or Tenant) Employment (developer)

1. Provide amount of space in square feet per tenant. Identify the industrial classification of each anticipated tenant.\(^7\)

2. If a tenant has not been identified, describe the number of workers who will be employed by industry or anticipated use at the project site.

3. Provide ten most common occupations across all tenants and service contractors

3.3 Employment Questionnaire (developer)

1. Each prospective employer—including but not limited to—contractors, subcontractors, service contractors hired by developer and tenants—should fill out attached questionnaire to provide information on number of jobs, health insurance, part and full time status, and skill requirements.

3.4 Analysis of New and Retained Jobs (city)

1. Using data provided by the EDD,\(^8\)
   a. detail the average (or median) wages for the industries and occupations represented at the project.
   b. identify the wage levels for the top ten occupations expected to be represented at the project
   c. provide the distribution of jobs by Job Zone for each industry, as established by the U.S. Department of Labor.\(^9\)

2. Quantify the number of net new and retained jobs resulting from the project.\(^10\).

---

\(^6\) The State Construction Industry Research Board provides multipliers that estimate person years of construction employment by millions of dollars spent on construction. http://www.cirbdata.com/

\(^7\) Use NAICS codes

\(^8\) The Employment Development Department provides information including 1) wage information by industry 2) wages by occupation 3) job zone by occupation 4) an industry-occupational crosswalk that matches occupations to industries. Working Partnerships could assemble this data with support from the City.

\(^9\) The Department of Labor job zones classification indicates the amount of experience, education, and training a worker usually needs to perform in an occupation.

\(^10\) Net new jobs are calculated by subtracting from the number of jobs at the project the estimated number of jobs lost from businesses displaced, the number of jobs relocated to the site from other locations within the County and the estimated jobs lost at surrounding businesses as a result of lost sales to these businesses resulting from business at new site. Retained jobs (those that would otherwise have left the regional labor market) should be itemized separately.
4. HOUSING ASSESSMENT

4.1 Housing Created: Size and Affordability (developer)

1. Describe the characteristics of the housing created or rehabilitated by the proposed project, including:
   i. Number of units and size of units in number of bedrooms and square feet.
   ii. Number of condominiums, single family homes, and rental apartments.
   iii. The affordability levels of those units by size.
   iv. Length of time units created will be affordable.

4.2 Housing Rehabilitated: Size and Affordability (developer)

1. If the housing is going to be rehabilitated, compare the prior housing to the rehabilitated housing in terms of unit size, affordability levels, and type of housing (rental v. condominiums v. single family homes), using information from section 1.2.

4.3 Housing Displaced: Size and Affordability (developer)

1. If housing will be displaced to make way for the project, provide a profile of housing destroyed and the families affected.

<table>
<thead>
<tr>
<th>Information</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profile of Housing Destroyed</td>
<td></td>
</tr>
<tr>
<td>Number of units destroyed, size of unit</td>
<td>Building Manager</td>
</tr>
<tr>
<td>Percentage owner v. renter-occupied unit</td>
<td>Building Manager</td>
</tr>
<tr>
<td>Median rent</td>
<td>Building Manager</td>
</tr>
<tr>
<td>Whether accepts Section 8</td>
<td>Building Manager</td>
</tr>
<tr>
<td>Availability of Comparable Housing</td>
<td></td>
</tr>
<tr>
<td>Housing needs of displaced resident by unit size and price v. vacancy rates of housing available within a council district or 2-mile radius of project.</td>
<td>Housing Authority, U.S. Census</td>
</tr>
</tbody>
</table>

4.4 Financial Contributions to Affordable Housing (developer)

1. Calculate the present value of the projected tax increment from the development project dedicated to affordable housing.

2. Describe any contributions to affordable housing that the developer will make.

4.5 Housing Demand (city)

1. Calculate the project’s impact on the City’s housing element\textsuperscript{11}.

\textsuperscript{11} Impact indicates whether the project creates more need for affordable housing or reduces the need
5. SMART GROWTH ASSESSMENT

Answering the following questions will illustrate the extent to which the project improves neighborhood livability and meets smart growth criteria.

5.1 Location (city)

1. Is the proposed project on an in-fill site?
2. Will it use land previously reserved for parks or open space?
3. How close will the project be to existing and future mass transit?¹²
4. What is the density of land in a one-mile radius?

5.2 Mix and Balance of Uses (developer)

1. Is it a mixed-use project?
2. Does it encourage street level pedestrian activity?
3. Does it encourage biking?

5.3 Site Optimization and Compactness (developer)

1. Does project have high floor-area ratio?
2. Does site have high housing density?¹³?
3. Is parking above or below grade?

5.4 Transportation Choices (TDM) (developer)

1. Does project include characteristics that encourage travel by any means other than automobile?
2. Is residential eco-pass provided to tenants?
3. Is extra parking paid for by individual tenants, or built into cost of unit?
4. Will a shuttle be provided for residents and employees to access transportation?
5. Is there car-share provided?

5.5 Diversity (developer)

1. Does project include housing for a mix of income levels?
2. Are small businesses (particularly local small businesses) likely to find sites in the project?
3. Are civic facilities and community amenities (i.e. child care centers) available?
4. Are such amenities accessible to low income households? (City provides assessment tool)

¹² Example of Standards: Project must be ½ mile within major transit service or job center, or ¼ mile of an historic town center that could provide a future location for transit service.
¹³ For example, 40 units per acre
6. ENVIRONMENTAL QUALITY ASSESSMENT

6.1 Building Design (developer)

1. Does project incorporate energy conservation systems?
2. Does project incorporate water conservation systems?
3. In what ways does project incorporate recycled materials?
4. In what ways does project protect, preserve, and/or restore on-site natural features (wetlands, riparian corridors, watersheds, etc.)

6.2 Environmental Impact (developer)

1. Does the project generate toxic or hazardous waste?
2. To what extent would the project pollute the air, water or land in ways that could affect neighbors?
3. What are the proposed working conditions for employees? (interior noise levels, suspended particle concentrations, harmful gases, carcinogenic substances)
4. Do cumulative impacts noted in 6.1 and 6.2 create a disproportionate negative environmental effect on the community surrounding the project when compared to the environmental history described in section 1.2?
7. COMMUNITY SERVICES ASSESSMENT

7.1 Community Market Needs

If the Proposed Project includes a retail component, the CIR shall contain the following information:

1. Existing Retail (developer)
   If the type of retail store has been identified (i.e. supermarket, department store, drug store), the CIR shall include a list of names and addresses of stores of that type that are located within one-half mile of the Proposed Project.

2. Need for Services (developer)
   The developer shall indicate whether the services that the Proposed Project will provide are lacking in the trade area.

3. List of Displaced Businesses (city)
   The city shall provide the name, address, and type of business for any business that will be physically displaced to make way for the Proposed Project.

4. Comparison to Past Projects (developer)
   If the Developer has completed a project that is similar to the Proposed Project, the developer shall indicate the amount of new business development that the past project has induced in the surrounding neighborhood.

7.2 Community Service Needs

1. Community Asset Map (city):
   Provide a community asset map of the key services located within a one-mile radius around the project. To the greatest extent possible, the map should include schools, libraries, parks, day care centers, community medical clinics, and youth centers.

2. Project Contributions to Community Services (developer)
   Detail what contribution the project will make to needed community services such as parks, open space, child care, or medical clinics, by completing grid provided

3. Project Impact on Community Needs (city and developer)

   Evaluate effect of project on key services including:
   - Determine whether project area meets thresholds (see grid on page 13)
   - Evaluate community needs in relation to thresholds to help determine recommendations for project improvements.
   - Describe impact of project on need for key services, including parks, health clinics, affordable child care, job training, community centers and public education for residents and proposed tenant employees using formula provided by city;
<table>
<thead>
<tr>
<th>Indicator for project area (city)</th>
<th>Threshold[^14] (city)</th>
<th>Above/ Below threshold? (city)</th>
<th>Geographic Area Around Project</th>
<th>Information Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Park acres per 1,000 people:</td>
<td>City average: 4 acres per 1,000 people</td>
<td>One-mile area around project</td>
<td>Community Plan</td>
<td></td>
</tr>
<tr>
<td>Residents per community health clinic:</td>
<td>County and state average</td>
<td>Zip codes around the project</td>
<td>U.S. Department of Health and Human Services, <a href="http://www.bphc.hrsa.dhhs.gov/">http://www.bphc.hrsa.dhhs.gov/</a></td>
<td></td>
</tr>
<tr>
<td>Job training centers:</td>
<td>City average</td>
<td>Zip codes around the project</td>
<td>Redevelopment Agency and Recreation and Parks Department</td>
<td></td>
</tr>
<tr>
<td>Community centers:</td>
<td>City Average: 1 per 50,000 residents</td>
<td>Zip codes around the project</td>
<td>Recreation and Parks Department</td>
<td></td>
</tr>
<tr>
<td>Vacancy rate at day care centers for</td>
<td>Vacancy rate of 20% or higher</td>
<td>Centers located in one mile radius or affected service area</td>
<td>• Community Child Care Council of Santa Clara County (4 C’s)</td>
<td></td>
</tr>
<tr>
<td>• Infants:</td>
<td></td>
<td></td>
<td>• Child Care Local Planning Council (LPC) bi-annual child care needs assessment</td>
<td></td>
</tr>
<tr>
<td>• Preschool:</td>
<td></td>
<td></td>
<td>• First 5 Santa Clara needs assessment and asset mapping</td>
<td></td>
</tr>
<tr>
<td>• School age:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vacancy rate for subsidized spaces for</td>
<td>Vacancy rate of 20% or higher</td>
<td>Centers located in one mile radius or affected service area</td>
<td>Ibid</td>
<td></td>
</tr>
<tr>
<td>• Infants:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Preschool:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• School age:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Availability of affordable child care</td>
<td>10% of household income by income decile</td>
<td>Centers located in one mile radius or affected service area</td>
<td>Ibid</td>
<td></td>
</tr>
<tr>
<td>• Infants:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Preschool:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• School age:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Major crimes reported per year:</td>
<td>Total per capita Major Crimes</td>
<td>City of San Jose Beat District</td>
<td>SJPD (<a href="http://www.sjpd.org/crime_stats.html">http://www.sjpd.org/crime_stats.html</a>) <a href="http://sanjoseareaconnect.com/crime1.htm">http://sanjoseareaconnect.com/crime1.htm</a></td>
<td></td>
</tr>
</tbody>
</table>
| Average class size at public education facilities | Average county class size[^15]:
  Elemen: 19
  Middle: 28
  HS: 27 | Affected schools in the project area | Santa Clara County Office of Education |
| Additional needs may be relevant to specific projects | | | |

[^14]: The city average is the minimum standard—the project should meet or surpass the city average to indicate positive contribution
[^15]: Statistics pending changes based on new budget
# APPENDIX B: COMMUNITY IMPACT REPORT SAMPLE

## ATTACHMENT 1:
**QUESTIONNAIRE FOR DEVELOPERS, CONTRACTORS, SUBCONTRACTORS, PROSPECTIVE OWNER-OPERATORS, TENANTS, AND SERVICE CONTRACTORS**

1. Name of developer ____________________________________________

2. Name of contractor ____________________________________________

3. Name of subcontractor(s) _________________________________________

4. Name of owner-occupier(s) or tenant(s) _______________________________________

5. Name of service contractor(s) _______________________________________

6. Do you expect to use service contractors or temporary agencies on an ongoing basis to do work at the site (e.g. security guards, janitors, or for a specific department)?

   Yes
   No

   If yes, how many contract workers or temporary workers do you expect to hire in a year? _____

   For which occupations? ________________________________

   What are the names of the (sub) contractors you plan to use?
   _______________________________________________________
   _______________________________________________________
   _______________________________________________________

To be answered by all employers at site, including but not limited to developer, contractor, subcontractor, service contractor, and owner-operator(s) and tenants:

7. How many employees do you anticipate hiring to work at the project site? __________

8. How many non-exempt employees will work
   a. part-time (0-34 hours/week)? __________
   b. full-time (35 hours or more/week)? __________

9. How many jobs at the project site do you expect will be temporary? __________

### Wages/Benefits

10. What do you expect the average wage to be at this location? __________

11. Hourly pay for employees (based on your experience at other locations)\(^6\):

\(^6\) Wage levels based on California minimum wage, San Jose living wage level, ELI and VLI housing income eligibility levels, and typical entry level wage for sales workers
a. $6.75 - $8.03 How many employees? ________
b. $8.04 - $10.31 How many employees? ________
c. $10.31 - $11.56 How many employees? ________
d. $11.56 - $17.76 How many employees? ________
e. More than $17.76 How many employees? ________

12. Will the workers at the project site be covered by:

A collective bargaining agreement?

A card check neutrality agreement?

None of the above?

[If workers are covered by a collective bargaining agreement, skip questions 13 through 18, and enclose contract]

13. Will you offer general medical benefits to your employees? ________

a. If yes, which employees?
   _____ All employees _____ Management
   _____ Full-time _____ Employees who work over 20 hrs/week
   _____ Other (please explain below)

14. Will there be a waiting period before employees are eligible for medical benefits? ________

a. If yes, what is length of that period
   _____ for full time employees? _____ for part time employees?

15. Will you offer family coverage to your employees?

   _____ Individual health benefits only
   _____ Partial family health benefits
   _____ Full family health benefits

16. What will be the cost to the employee for these health benefits?

<table>
<thead>
<tr>
<th></th>
<th>Individual</th>
<th>Full Family</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee contribution</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(monthly)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Co-Payment for doctor’s</td>
<td></td>
<td></td>
</tr>
<tr>
<td>visit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deductible</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
17. Do you offer any other benefits to employees? (check all that apply)

   ☐ Pension plan   ☐ Dental/Vision benefits
   ☐ Life insurance ☐ 401K plan
   ☐ Subsidized meals ☐ Profit sharing
   ☐ Transit/parking subsidy ☐ Other (please specify)____________

18. What is your current policy on:

   a. Number of employer-paid vacation days?__________
   b. Number of employer-paid holidays?__________
   c. Number of unpaid sick/personal days?__________
   d. Number of employer-paid sick/personal days?__________
   e. Jury duty?__________

**Training/Opportunities for Advancement**

19. How many jobs at the project site do you expect to be entry level?__________

20. How many jobs at the project site do you expect to be career-path jobs (leading from lower to higher paid occupations)?______________

21. Do you participate in a state-certified apprenticeship program? How many people graduate annually?

22. Do you plan to work with the City of San Jose’s One-Stop Centers?

23. Do you plan to adopt a First Source hiring policy?
<table>
<thead>
<tr>
<th>The Developer Provides</th>
<th>Responsible Agency Provides</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Project Overview</strong></td>
<td>• Project Description</td>
</tr>
<tr>
<td></td>
<td>• Land use zoning map</td>
</tr>
<tr>
<td></td>
<td>• Demographics of neighborhood affected by project [at minimum, within one mile radius of the project]</td>
</tr>
<tr>
<td><strong>Fiscal Assessment</strong></td>
<td>• Details of public and private financing</td>
</tr>
<tr>
<td></td>
<td>• Impact of low wage job creation on fiscal return for public sector and other community services</td>
</tr>
<tr>
<td></td>
<td>• Projected net public return (tax revenue minus subsidies)</td>
</tr>
<tr>
<td><strong>Employment Assessment (see also questionnaire in appendix)</strong></td>
<td>• Number and type of jobs created.</td>
</tr>
<tr>
<td></td>
<td>• Training requirements for jobs created</td>
</tr>
<tr>
<td></td>
<td>• Analysis of job quality</td>
</tr>
<tr>
<td></td>
<td>• Accounting of net new and retained jobs</td>
</tr>
<tr>
<td><strong>Affordable Housing Assessment</strong></td>
<td>• Profile of housing created or rehabilitated at the project</td>
</tr>
<tr>
<td></td>
<td>• Estimated direct financial contributions to affordable housing and contribution from tax increment</td>
</tr>
<tr>
<td></td>
<td>• Profile of housing to be destroyed or affected and availability of comparable housing</td>
</tr>
<tr>
<td></td>
<td>• Effect of Project on Housing Element</td>
</tr>
<tr>
<td><strong>Smart Growth Assessment</strong></td>
<td>• Range of project uses (e.g. mixed use)</td>
</tr>
<tr>
<td></td>
<td>• Transportation options offered</td>
</tr>
<tr>
<td></td>
<td>• Project density</td>
</tr>
<tr>
<td></td>
<td>• Commercial and residential diversity</td>
</tr>
<tr>
<td></td>
<td>• Evaluation of project location</td>
</tr>
<tr>
<td><strong>Environmental Quality</strong></td>
<td>• Extent of environmental damage of a project</td>
</tr>
<tr>
<td></td>
<td>• Effect of work environment on employees</td>
</tr>
<tr>
<td></td>
<td>• Extent of incorporating efficient technology into building design</td>
</tr>
<tr>
<td><strong>Community Services Assessment (see also chart on page 11)</strong></td>
<td>• Assessment of project’s impact on existing businesses</td>
</tr>
<tr>
<td></td>
<td>• Assessment of project’s impact on retail needs in the market area.</td>
</tr>
<tr>
<td></td>
<td>• Impact of similar projects by developer</td>
</tr>
<tr>
<td></td>
<td>• Project’s contribution to public and non-profit services (i.e. child care, parks)</td>
</tr>
<tr>
<td></td>
<td>• List of potentially displaced businesses</td>
</tr>
<tr>
<td></td>
<td>• Community asset map</td>
</tr>
<tr>
<td></td>
<td>• Neighborhood needs assessment</td>
</tr>
</tbody>
</table>
NOTES

SHARED PROSPERITY AND INCLUSION:
THE FUTURE OF ECONOMIC DEVELOPMENT IN SILICON VALLEY


5 Analysis of census data from the Current Population Survey

6 Brenner et al supra, pp. 6, 10.


15 Available at <http://www.goodjobsfirst.org/gjf.htm>


17 This section provides a summary of findings. Based on extensive research of the San Jose Redevelopment Agency. See appendix for full report.


19 Affordable housing development includes downtown and surrounding areas. San Jose Redevelopment Agency http://www.sjredevelopment.com/housing.htm

20 RDA project industry data was collected from UNICOR 2002. The number of below living wage jobs is based on a weighted average of occupational staffing patterns per industry, from the CA Employment Development Department, 2000. Below living wage calculations are based on entry-level wages earning under $11.35/hr. Job estimates from the RDA’s Sedway report vary substantially from Employment Development Department numbers.

21 Additional clawbacks are applied on a project-by-project basis


24 Power point presentation by the CIM Group, September 17, 2002


27 Estimated 270 living wage jobs, between $1 and $1.8 million annually.
NOTES

APPENDIX A

THE RECORD OF PUBLIC SUBSIDIES IN SAN JOSE: THE SAN JOSE REDEVELOPMENT AGENCY

1 The Community Guide to Redevelopment, California Redevelopment Association 2002

2 The Redevelopment Agency of the City of San Jose Adopted 2002-03 Capital Budget, Operating Budget A-266

3 San Jose Redevelopment Agency, Mapping Department

4 Goldfarb and Lipman; A Legal Guide to California Redevelopment, 1994 p. 46


7 San Jose Redevelopment Agency: Adopted Capital Budget 1998-99

8 San Jose Redevelopment Agency: Adopted Capital Budget 1998-99

9 Both PAC’s were formed within the last three years

10 Housing and Community Development Reports 1982-2002

11 San Jose Redevelopment Agency: Adopted 2002-03 Capital Budget

12 San Jose Redevelopment Agency: Adoption of Ordinance(s) by the City Council Adopting Redevelopment Plan Amendments to delete the time limit on establishment of indebtedness in the Alameda, Alameda Gateway, Alum Rock, Century Center, East Santa Clara Street, Edenvale, Guadalupe-Auzerias, Japantown, Julian Stockton, Market Gateway, Olinder, Park Center, Pueblo Uno, Rincon de los Esteros, San Antonio Plaza, Story Road and West San Carlos Street Project Areas. Board Item 7.1 October 15, 2002

13 Ibid.

14 San Jose Redevelopment Agency, Impacts on San Jose from State Budget Proposals, page 1


16 Amount reflects only required 20% funds over 20 years. Due to the significant increase in RDA’s tax base, total TIF for the housing reserve has grown roughly 50% over the last five years. Housing and Community Development Reports 1982-2002

17 Housing and Community Development Reports 1982-2002

19 San Jose Redevelopment Agency, Progress Report on the Five-Year Implementation Plan 2000-05 and the Civic Plaza Implementation Plan


21 San Jose Redevelopment Agency <http://www.sjredevelopment.org/real.htm>


23 Paul Gunsky, San Jose Mercury News: “City Deal with Theatre Unfair to Competition”, Almaden Twin Theatres, February 8th, 1994

24 Baker, Dean The Run-up Home Prices: Is It Real or Is It Another Bubble? Center for Economic and Policy Research, August 2002

25 Silicon Valley Manufacturing Group Projections 2002

26 San Jose / Silicon Valley Business Journal.

27 Only reflects required 20% housing funds. Housing and Community Development Department 1982 - 2002

28 Census 2000

29 Census 2000. Number of households based on the San Jose jobs/household ratio. Affordable housing need is based on the San Jose income distribution.

30 Santa Clara County Controllers Office. Includes all redevelopment agencies in Santa Clara County.


32 The Redevelopment Agency of the City of San Jose Comprehensive Annual Financial Report 2000-01 p 22. In the Proposed Redevelopment Agency 2003-04 Capital Budget, the RDA estimates the County Agreement Payment to reach $100 million between FY 2003-04 and FY 2007-08

33 Dardia, Michael Subsidizing Redevelopment in California, Public Policy Institute of California, January 1998, p 60

34 Census 1970, 1980
NOTES: APPENDIX A


37 Ibid.

38 Ibid.


44 RDA project area industry data is collected from UNICOR 2002. The number of below living wage jobs is based on a weighted average of occupational staffing patterns per industry. Below living wage calculations are based on entry-level wages earning under $11.35/ hour. Employment Development Department, 2000. San Jose employment estimates from the RDAs Sedway report differ substantially from EDD numbers.

45 Assumes 1.54 jobs per household, Census 2000.

46 Only 58% of California workers earning below $9.51/hr and 87% of workers earning between $9.52-14.25/ hr are offered health insurance. California Health Interview Survey, 2001. UCLA Center for Health and Policy Research.

47 UCLA Center for Health Policy Research, Santa Clara County numbers are the same as California’s, however, some results were statistically unstable due to sample size. 2001 Health Interview Survey.

48 Assume 1.54 jobs per household and .296 infants and preschoolers per household. Households earning 50-75% of State median income qualify for partially subsidized child care, and households earning below 50% of State median income qualify for fully subsidized child care. In September 2002 thee were 4,558 San Jose children on the waiting list for

49 Housing and Community Development Reports 1985-2002

50 City of San Jose Redevelopment Agency, Informational Statement for Families and Individuals


52 Urban Land Institute, *Downtown San Jose, California: Enriching the Quality of Retail Revitalization: 2000*, p 13.

53 San Jose average rent: $13,555. Real Facts, August 2002

54 Selected District 5 census tracts 5031.12, 5031.13 and 5037.02. Both census tracts were similar in demographic and economic characteristics to the downtown core in 1970.


56 San Jose Redevelopment Agency, *Disposition and Development Agreement with 303 Almaden*, June 24th, 1993 p 92


58 Ibid, p. 45.

59 Redevelopment Agency of San Jose <http://www.sjredevelopment.org/aboutsjra.htm>

60 The California Health Interview Survey (2001) estimates 39% of CA workers earning $20,000 or less are uninsured and an additional 31% are on Medicaid. In downtown San Jose approximately 29% of households are earning less than $25,000 annually compared to the City average of 14%. Census 2000

61 Downtown households represent 17% of the City’s demand for ELI and VLI units. Based on San Jose median income. Census 2000

62 Vacancy rates for both full cost and subsidized child care in downtown and San Jose were similar, however rates for child care were higher in downtown and represented up to 30% of median household income, signaling a greater demand for subsidized child care.

63 A child care vacancy rate of less than 20% indicates that there are few options for parents to choose from, Community Child Care Council of Santa Clara County, 2002.

64 This does not include the estimated $1.3 million in public funds to McCormick and Schmick for improvements to the retail site.
NOTES : APPENDIX A


66 A non-weighted average of hotel workers, wage includes tips

67 Based on industry occupation distribution, using 1998 wages and 1998 Living Wage requirements.

68 California Health Interview Survey 2001, UCLA Center for Health Policy Research

69 San Jose Redevelopment Agency Disposition and Development Agreement with Light Tower Associates, p 32, June 16th, 1998

70 San Jose Redevelopment Agency Disposition and Development Agreement with Light Tower Associates, p 41, June 16th, 1998

71 At the end of the 20-year lease the developer is required to purchase the site. San Jose Redevelopment Agency, Reuse Appraisal, De Anza Hotel, Keyser Marston Associates, May 1988

72 Employment Development Department, average industry wage, 2002.

73 California Health Interview Survey 2001

74 Ibid.

75 Assumes $2.4 million spent on construction over 1.5 years. Construction jobs calculated based on 1998 wages, Employment Development Department. Average construction wage for 1990 unavailable.

76 Current San Jose living wage: $11.65/hr with health insurance, $10.31/hr without health insurance

77 A full time worker earning $12.64/ hr earns $26,291 annually.

78 California Health Interview Survey 2001

79 De Anza Hotel <http://www.hoteldeanza.com/>

80 Includes land valuation.


82 Ibid. Actual revenue may differ from initial projections.
Ibid, p. 10.

Based on 1997 median household income, $60,140. Bureau of Economic Analysis, Census Bureau, Regional Financial Associates

San Jose Redevelopment Agency Disposition and Development Agreement with Sobrato Development Company, June 10th, 1994, p 47

Summary Report Pursuant to Section 33433.

Assumes $20 million spent on construction over 2.5 years, 1998 wages, Employment Development Department.

Does not account for the cost of retail.

Number of below living wage jobs based on percent of industry occupations that pay below a living wage and do not offer health insurance. Employment Development Department, 2000; 2001 Health Interview Survey, UCLA Center for Health Policy Research

Employment Development Department

Assumes $17.7 million spent on construction over 1.5 years. Construction jobs calculated based on 1998 wages, Employment Development Department.

Number assumes all RDA subsidy was spent on housing and parking

San Jose Redevelopment Agency, Economic Impacts, United Artists Theatre Downtown San Jose, prepared by Keyser Marston Associates: January 1994, p. 3.

Ibid.

Housing affordability need was calculated by dividing the amount of below living wage jobs by the city's jobs per household average.

50 West San Fernando Associates owned the UA building from 1994 to 1998. In 1998 Forest City Enterprises purchased the building and took over the ground lease agreement with the Redevelopment Agency.

Prior to the UA departure, the RDA had received an estimated $297,000 in property tax revenue Estimated from the anticipated present value gross property tax calculations in the Economic Impacts, United Artists Theatre Downtown San Jose Report Keyser Marston Associates, January 1994.


Employment Development Department
Assumes $2.5 million spent on construction over 1.25 years, 1998 wages, Employment Development Department.

San Jose Budget Office, 2003. The RDA estimated $11 million in (net present value) over the initial 15-year lease agreement. In addition, the RDA would receive 20% of luxury suite and building name proceeds ($1.3 million in net present value), and a portion of hockey ticket sales. Management Agreement with San Jose Arena Management Corporation, December 12th, 1990

June 1988 Election Documents, San Jose City Clerks Office

Arena Authority, assumes an average of 12,000 to 13,000 visitors per event for approximately 170 events.


The 2001 Amended Management Agreement extended the term of the lease by to 2018. San Jose City Council Memorandum, Amended and Restated Arena Management Agreement: December 15th, 2000

Phase 2 originally included a child care center for Adobe employees, however that project has been postponed indefinitely.

Costs do not include the full relocation cost mentioned in the relocation section


Employment distribution unknown, thus average is not weighted, Employment Development Department

Employment Development Department, Santa Clara County 2000 wages

Assumes $159 million on construction in six years for all three projects.

“Second Adobe Tower Planned Construction to Begin in August Next to First San Jose Building,” San Jose Mercury News, June 7th, 1996

San Jose Redevelopment Agency, Summary Report Pursuant to Section 33433 of the California Community Redevelopment Law on the IBM Plaza Disposition and Development Agreement and Lease Agreement by and between, the Redevelopment Agency of the City of San Jose and 303 Almaden Partners, L.P. August 5, 1993

Employment Development Department. 2001 Health Interview Survey, UCLA Center for Health Policy Research
Employment Development Department. Santa Clara County 2000 wage.

Assumed $20 million was spent on construction, over 1.5 years

San Jose Redevelopment Agency Disposition and Development Agreement with Almaden 303, L, P; June 24th, 1993, p. 92.

Scott Herhold, “IBM Leaves San Jose Holding Bag on Subsidy,” San Jose Mercury News, September 14th, 1995
ACKNOWLEDGEMENTS

Working Partnerships USA would like to recognize the following people for their support in this project:

Community Benefits Initiative Advisory Board

Jaime Alvarado
MAYFAIR IMPROVEMENT INITIATIVE

Rabbi Melanie Aron
CONGREGATION SHIR HADASH

Prof. Chris Benner
THE PENNSYLVANIA STATE UNIVERSITY

Chris Block
SILICON VALLEY CITIZENS FOR AFFORDABLE HOUSING

Leona Bulter
SANTA CLARA FAMILY HEALTH PLAN

Joe Coto
EAST SIDE UNION HIGH SCHOOL STREET

Irvin Dawid
SIERRA CLUB

Hon. Manny Diaz
CALIFORNIA STATE ASSEMBLY, 23RD ASSEMBLY DISTRICT

Enrique Fernandez
HERE LOCAL 19

Frederick J. Ferrer
ESTRELLA FAMILY SERVICES

Jessica Fitchen
GREENBELT ALLIANCE

Rev. John Freeseman
CHAIR, INTERFAITH COUNCIL

Hon. Mike Honda
U.S. CONGRESS, FIFTEENTH DISTRICT OF CALIFORNIA

Laura Leete
WILLAMETTE UNIVERSITY
PUBLIC POLICY RESEARCH CENTER

Fr. Bill Leininger
IF/WHEN COMMUNITY

Hon. Sally Lieber
CALIFORNIA STATE ASSEMBLY, 22ND ASSEMBLY DISTRICT

Ron Lind
UFCW 428

Rev. Michael-Ray Mathews
GRACE BAPTIST CHURCH

Derek Mehrens
ACORN

Hon. Madison Nguyen
FRANKLIN-MCKINLEY SCHOOL DISTRICT

Prof. Manuel Pastor
UNIVERSITY OF CALIFORNIA AT SANTA CRUZ

Fr. Jon Pedigo
ST. JULIE BILLIART CHURCH

Rev. Lindi Ramsden
Prof. Michael Reich
INSTITUTE OF INDUSTRIAL RELATIONS

Neil Struthers
BUILDING AND CONSTRUCTION TRADES COUNCIL

Loyd Williams
PLUMBERS AND STEAMFITTERS LOCAL 393

Additional thanks go to:

Jeremy Madsen
GREENBELT ALLIANCE

Howard Greenwich
EAST BAY ALLIANCE FOR A SUSTAINABLE ECONOMY

Jessica Goodheart
LOS ANGELES ALLIANCE FOR A NEW ECONOMY

Murtaza Baxamusa
CENTER ON POLICY INITIATIVES

Dr. Jerry Hiura, DDS
Working Partnerships USA is dedicated to understanding the emerging work patterns of the 21st century and to ensuring that working families are able to thrive in Silicon Valley.

This report provides the public with the opportunity to understand the difficulties working families face in a high cost region and to learn how their hardship can be offset by local government actions that subsidize economic development. Millions of tax-payer dollars are invested annually in San Jose with no consistent mechanism to measure the effects of this allocation, and no community based process to determine what these funds should produce.

Addressing this issue head-on, Working Partnerships has crafted policy tools that can enable the Redevelopment Agency both to operate sound economic development policies and to respond to the needs of working families. These tools would increase public participation in making decisions about the type of projects the agency should support and would set out a clear direction to produce measurable community benefits from publicly invested tax dollars.