Report Type: Meeting Date: 6/14/2011

Summary Title: Economic Development Strategic Plan Update

Title: Review and Recommendation by the Policy & Services Committee on the Economic Strategic Plan Update

From: City Manager

Lead Department: City Manager

Recommendation
Staff recommends that the Policy and Services Committee review and recommend that the Council approve the attached Economic Development Strategic Plan.

Background
In March, 2011, the Economic Development Manager presented a draft Strategic Plan to the Policy & Services Committee for thoughts, discussion, and direction. Notes have been incorporated and the updated plan is presented here for further dialogue.

Discussion
The purpose of this report is to bring the core values, mission, and proposed action plan of the Economic Development Team forward to ensure that it aligns with Council policies and goals. The final report will incorporate charts, illustrations, and further data supporting conclusions. We are seeking feedback, suggestions, and additional thoughts as we move through the draft process into a final executable plan.

Palo Alto's Economic Development Team is taking a proactive role in attracting strategic new businesses to town, while helping to retain and grow existing firms. The focus is on understanding and meeting the needs of revenue-generating companies, which fund vital city services. We also aim to foster the diversity and innovation that maintains our status as a global center for innovation, which we see as the most essential element of our past, present, and future success.

Timeline
The timeline to bring this item to the Finance Committee is July followed by City Council in September.
Attachments:

- ED Strat Plan_6.5.11(P-S) (DOC)

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Department Head: James Keene, City Manager

City Manager Approval: James Keene, City Manager
City of Palo Alto
Economic Development Team
Strategic Plan
June 14, 2011

Executive Summary

This Strategic Plan is intended to serve as an evolving document for the Economic Development team to establish goals and prioritize resources. The plan outlines several important city revenue streams, and our efforts to improve them through an action plan. Steeped in our guiding principals and strategic objectives, planned deliverables will lead to our goal of growing City revenues while continuing to enhance Palo Alto as a community that fosters innovation and sustainability.

As an evolving document, there will be opportunity for on going discussion, and adaptation as well as a regular review to keep current with the economic fluctuations that we certainly will face.

Economic Development Team Mission statement

Working together, we will leverage our resources to keep Palo Alto a global center for innovation, while maintaining a strong, vibrant, and attractive economy. We will continue to make our City one of the most desirable places to live and work in the world.

Introduction

The City of Palo Alto is home to many successful and innovative companies. The City understands, however that to keep us economically diverse and sustainable, the City should focus its economic development planning on industry types that best help to fund vital City services and assist in making the City a desirable place to live and work.

Palo Alto’s Economic Development Team is proactive in attracting strategic new businesses to town, while helping to retain and grow existing firms. Our focus is on understanding and meeting the needs of tax revenue generating companies, which fund vital city services. We also aim to foster the diversity and innovation that maintains our status as a global center for innovation, which we see as the most essential element of our past, present, and future success.

This year, we are implementing new methods of strategic action to leverage city resources in partnership with revenue generating and innovative firms. We see many
opportunities to forge new relationships around emerging trends of technologies, while continuing to build on our existing foundation. One such example would be to identify certain Utility customers to become "test beds" for emerging clean-tech technologies. Such a partnership could help us attract such firms, which could eventually mass-market a taxable product from within our city.

Funding the high level of services that our community enjoys, Palo Alto most heavily relies on 4 streams of general revenue:

1. Property Tax 20%
2. Sales/ Use Tax (including Business-to-Business) 13%
3. Utility Users Tax 8%
4. Transient Occupancy Tax 5 % FY 2011 Adopted Budget

Currently, the main emphasis of the Economic Development Team is focused on the commercial businesses that contribute to our Transient Occupancy and Sales Tax base, since more hotel visits and increased retail spending in the community directly impact the city’s financial bottom line. Unfortunately, the inverse is also true. As our neighboring communities continue to develop big box retail and hotels within our market, Palo Alto residents and area visitors are induced to shop and stay outside of our community. Meanwhile, other outside forces also impact our revenues. These include internet retail sales- where taxes, if collected, do not flow back to the city. In addition, the state of the current economy with lagging retail activity, and less business and leisure travel, are among the biggest contributors to the recent decline in tax dollars so important to our quality of life.

As we move forward with economic development and sustainability goals, we intuitively know that they must fuse. Emerging technology companies that strive to be innovative and clean certainly want to locate in a community that shares such values; they will find their core customers and talent there.

We understand that in order to maintain our leadership as a global center of innovation, we must continue to attract the next wave of start-up entrepreneurs, cutting edge clean-tech, bio-tech, and research-based firms, while retaining the existing companies that keep our character and charm. We must also build key partnerships (including those with Stanford, trade associations, the School District, the Arts, etc.). By engaging the dynamic firms and people already here, we can work to understand their needs, and ultimately maintain the jobs that fuel our creative culture.
Background/ Trends

Historically, the strength and diversity of Palo Alto’s overall economy along with strong fiscal responsibility has allowed us to maintain financial stability. Since the economic challenges of the last decade have caused reductions even to these sources, our overall challenge has been further compounded.

In the post- Prop 13 era, sales tax is a significant revenue source for municipalities. In the recent past, we could rely on sources other than property tax revenues to fill the gaps. Because property taxes may only increase by 2% a year, which often falls far lower than the Consumer Price Index, and the City’s share is relatively small, we must rely on more economically sensitive revenue sources such as sales, real estate transfer taxes and Transient Occupancy Taxes.

Property Tax

Historically, Palo Alto collects 9.4% of every dollar of annual property tax assessed. The school district and the county collect the majority of the balance.

The City also receives $3.30/per $1000 as a documentary transfer tax when properties sell.

Sales Tax

Our largest single tax contributor, the Stanford Shopping Center (SCC) for many decades has set the standard for regional destination shopping. The radius on which Stanford attracted shoppers was one of the largest in the Bay Area and Northern California. In more recent years, significant competition has emerged which has had the effect of reducing the market area by as much as 30% [Simon Properties].

While SSC is the single largest contributor, the community has also enjoyed multiple and diverse other significant sources of sales tax revenue. University Avenue is an entertainment/shopping/ food & beverage destination. Meanwhile the recent enhancements to Town and Country have made it a local daily use center, with pedestrian scale and sense of place making elements that continue to be home to many small businesses. California Avenues proximity to research park companies and active residential neighborhoods provide a strong foundation for economic opportunities.
Midtown and Charleston Center continue to provide much needed residential services. Taxable retail sales by some companies in the research park should also not be overlooked.

Due to the vagaries of tax laws, the locations of offices determine which community receives the tax income. An example of this is Hewlett Packard’s recent decision to consolidate its Cupertino campus to Palo Alto which will include its sales office and will add significantly per year to the City’s tax base. Conversely, a sales generating company’s decision to relocate out of the City can result in dramatic and unanticipated declines in tax revenues. This idea underscores the need to build relationships with our entire business community.

The sale of taxable goods and services between companies (known as Business-to-Business or B2B transactions) are often overlooked as a source of revenue for cities. Because of the diversity of the research park, there are many B2B transactions that take place in a given year. They can significantly impact the bottom line (21.6% of taxes generated in Palo Alto [Q3 Muni Services Report]).

Fortunately for Palo Alto, B2B transactions account for nearly $3.6 Million/ year. [Q3 Muni Services Report] Sales taxes are largely collected based on Point of Sale (POS) location. However, for transactions that do not have a “brick-and-mortar” POS, the revenues flow to Palo Alto through the County Pool and Palo Alto loses out on a significant percentage, since we receive 6.58% based only on our residential population.

Another major incursion into Palo Alto’s sales tax development has been the popularity of online shopping, which has grown to an estimated $222 Billion [2011 US Census Bureau]. Many of these transactions in Palo Alto originate outside the state of California. Although taxes are required to be paid to the State on these transactions, often times they remain uncollected.

As a region, we are overbuilt in marginal strip retail (i.e. located on major traffic arteries [site source]). Our sales tax revenues are weakened due to this over-abundance of under-utilized retail space. Studies show that we should focus on consolidating retail uses so as to maximize our sales per square foot indicator not to spread our tax base even thinner.

**Transient Occupancy Tax (TOT)**

In 2007, the City passed a ballot measure to increase the Transient Occupancy Tax from 10 to 12%. Due to business travel, many of our hotels and motels do well during the week. The San Mateo Silicon Valley County Convention and Visitors Bureau works with
PA hotels to focus on increasing hotel stays especially during weekends. Other events such as the Palo Alto Gran Fondo bicycle race and Senior Games hope to attract 1000s of visitors.

**Use Tax**

Use tax must be paid on items that companies purchase from out-of-state entities or large construction projects (greater than $5M). If the company and construction contractor can self-assess, the tax revenues can come directly to the city and not the State Pool. Avoiding the State Pool can increase the City's revenue significantly.

**Utility Users Tax**

A significant portion [approximately $7M] of our UUT is passed through to the school district because of agreements reached in the 1980s.

**Guiding Principles:**

- Palo Alto should continue to have a full range of goods and services available for residents and businesses.
- Sustainability and Economic Development are complimentary.
- Innovation and creativity are keys to the Palo Alto value proposition for existing and potential businesses.
- Palo Alto's economy is sustained by its diverse mix of commercial industries.
- Promoting communication across departments is the key to efficiency and team-focused environment.
- Business is an integral part of the overall community in Palo Alto.
- Open dialogue with community stakeholders should be focused on consensus building and collective understanding.
- Short term goals should lead us closer to long-term vision.
**Strategic Objectives**

- Define and grow key partnerships with City Staff across departments/levels.
- Build relationships with business/property owners, brokers, advocacy groups, centers of influence, Stanford, sustainability leaders, and others.
- Promote revenue generators, innovators, and employment centers.
- Help reshape the Development Center into a customer service-focused and efficient service provider.
- Keep the community informed of business-related activities.
- Engage stakeholders in focused collaboration.
- Provide accountability for progress in meeting economic goals and objectives.
- Foster economic diversity.

**Action Plan**

- Use all available sources to compile a business directory for Palo Alto. Give to council and make available online.
  1. Deliverables:
     A. Produce Business Directory by April, 2011 (completed).
- Communicate with the City’s revenue generating and most innovative companies
  1. Meet at least once with key company leaders, especially those involved with real estate or facility issues
A. Identify future expansion, relocation, or renovations plans if applicable, and connect company reps with key staff at the Development Center.

B. Respond to any follow up items promptly. Also, coordinate with applicable city staff for additional follow-up as appropriate.

2. Deliverables:

   A. Conduct 20 general outreach meetings each month starting January 2011.

   B. Provide summaries of meetings to City Manager at regular meetings.

• Prepare and distribute survey to determine reasons why businesses locate in Palo Alto and what city services are required for them to remain successful

1. Gain input from stakeholder groups such as Chamber of Commerce, Research Park Managers, and Neighborhood Leaders to develop strategic questions.

2. Analyze and publish survey data to be made available online.

3. Report to Council and other decision making bodies.

4. Prepare recommended modifications to strategic plan as appropriate.

5. Deliverable:

   A. Business Survey Results distributed by December 31, 2011.

   B. Report to council including recommendations for changes to strategic plan based on survey results by March 2012.

• Increase staff awareness of Council’s strategic economic goals

1. Presentation of Strategic Plan to the Executive Leadership Team (ELT), Development Review Committee (DRC), and Development Center Staff as well as other departmental staff meetings.

2. Regular communication with department heads and Land Use Committee regarding Economic Development initiatives and business development issues.
3. Deliverable:

A. Minimum of 10 meetings with staff for Economic Development presentation by January 2012

B. Minimum of 10 meetings with Land Use Committee and Department Heads by January 2012

• Find new revenue streams, including innovative uses for under-utilized City Owned Property:

  1. Present to City Manager at least 1 possible income-producing idea for city-owned land by July 2012

• Take a leadership role in the Development Center Restructuring process with the launch of a user-friendly, transparent, and predictable experience for customers.

  1. Provide regular updates to business and community groups.

  2. Work with Public Information Officer to ensure public awareness of progress and goals by keeping close media contact.

• Liaison with local/ regional businesses and business groups, and commit to pursue all potential business development opportunities for the City.

  1. Actively involve the development team in working on projects that have an impact on the city’s revenue streams.

  2. Represent the city at Real Estate Broker Events, Business Openings and Expansion Celebrations, Business Mixers and other events throughout the year.

  3. Partner with Chamber of Commerce, Palo Alto Downtown Professional Association (Business Improvement District), Tourism Business Improvement District/ Convention Visitor’s Bureau, Stanford, California Avenue Area Development Association (CAADA), National Association of Office and Industrial Parks (NAIOP), International Council of Shopping Centers (ICSC), Silicon Valley Economic Development Alliance (SVEDA), Stanford Research Park Forum and other business associations to build better relationships, share information and continue a dialogue between business and the City of Palo Alto.
4. Deliverable:

   A. Perform 15 “business/community” outreach meetings per month including small/medium/large businesses throughout community, with a focus on top sales tax revenue generators and large commercial property owners.

   B. Provide at least quarterly update on the City's activities to each group (as appropriate).

   C. Create quarterly newsletter and send out to community, including using the City's social media accounts, website, and other electronic communications.

• Have additional site visits with strategically chosen businesses also including City Council, City Manager, and other key staff in 2011 to have a focused discussion on using city resources to help retain/ grow their presence in the City of Palo Alto.

   1. Work with City Manager, with input from Council, Finance, UAC, and other boards/commissions to develop plan to select companies to visit.

   2. Deliverable:

   A. Conduct 12 company site visits that include City Manager, Council Members, Boards and Commission members and Key Company Executives by January 2012

• Create “Test Bed” opportunities for partnership, especially with innovative green/ clean tech companies.

   1. Explore finding suitable business location for test bed help desk.

   2. Engage in promotional activities including:

   A. Utility Bill Insert

   B. Presentations to business trade organizations and neighborhood groups

   C. Marketing Collateral such as brochures, FAQs, etc, new business guide, etc.

   3. Deliverables:
A. Identify staff team and hold brainstorming meetings in March 2011 (completed)

B. Identify pilot projects and prepare draft policy framework by June 2011


• Provide Economic Development perspective to staff reports wherever appropriate (ongoing, when needed).

• Create an “Economic Development Focus Group”, organizing key stakeholders including residents to gain insight as specific issues arise (i.e. the changing face of retail, start-up attraction, etc).

1. Deliverables:

   A. Hold at least 2 Economic Development Focus Group meetings on California Avenue Streetscape Design Elements in Fiscal Year 2012.

   B. Report to City Manager regarding results and recommendations from Focus Group Meetings.

• Create engaging and effective marketing collateral geared towards Palo Alto’s diverse business environment (i.e. retention and attraction of different market segments). Transition to electronic marketing wherever possible.

1. Engage in creative “web 2.0” strategies to improve messaging base and information flow.

2. Deliverables:

   A. By end of calendar year 2011, have designed, produced, and presented at least 3 tactical marketing collateral pieces for CPA ED.

   B. By July 2011, present report to CM on options for social media and web-based software, including a determination on the efficacy of “Customer Analytics” software.
• Technology/ Fiber/ Wireless will be explored in 2011 including recommendations for options that will enhance the City’s ability to attract/ retain innovative companies.
Addendum

Goals for Economic Development from the City’s Comprehensive Plan (Revised 12/2/2002)

A thriving business environment that is compatible with Palo Alto’s residential character and natural environment (Goal B-1)

A diverse mix of commercial, retail and professional service businesses (Goal B-2)

New businesses that provide needed local services and municipal revenues, contribute to economic vitality, and enhance the city’s physical environment (Goal B-3)

City regulations and operation procedures that provide certainty and predictability and help businesses adapt to changing market conditions (Goal B-4)

Attractive, vibrant business centers, each with a mix of uses and a distinctive character (Goal B-5)

Thriving employment districts at Stanford Research Park, Stanford Medical Center, East Bayshore/San Antonio Rd area and Bayshore corridor that complement the City’s business and neighborhood centers (Goal B-6)

List of Suggested Charts & Graphs to include in final report

Map of Business Districts/ Shopping Centers

Marketing Collateral Samples

Historical Sales Tax Data/ Trends Analysis by Region/ Business Segment

Business-to-Business Report