



City of Palo Alto

City Council Staff Report

(ID # 12232)

Report Type: Action Items

Meeting Date: 6/1/2021

Summary Title: Discussion and Direction on the Scope of Economic Development

Title: Discussion on the Scope of Economic Development and Resources Needed for Implementation and Direction to Staff on the Desired Scope and Goals of Future Investment

From: City Manager

Lead Department: Administrative Services

Recommendation

Staff recommends that the City Council discuss and provide direction on the scope of the economic development function for the City of Palo Alto, including the amount and type of resources Council views as appropriate for implementation of desired economic development program elements.

Executive Summary

Through the City's work on Community and Economic Recovery (CER), there have been multiple conversations about the current, and desired future, state of Palo Alto's local economy. These conversations included a panel discussion with AvenuInsights, Professor Nickelsburg from the UCLA Anderson forecast, and Professor Nick Bloom from Stanford as part of Council's discussion of City Manager's Report (CMR) #11790 (<https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2020-2/id-11790.pdf>) in November 2020. That conversation underscored and emphasized that the City of Palo Alto is facing impacts from COVID-19 that vary in both extent and magnitude from neighboring jurisdictions, specifically with greater decreases in sales tax and Transient Occupancy Tax (TOT) revenues.

Through subsequent conversations, Council affirmed the importance of defining the scope and extent of the City's economic development function. This was included as a work item (Item G) in the Community and Economic Recovery workplan that was approved by the City Council on March 22, 2021 through discussion of CMR #12111 (<https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/2021/id-12111.pdf>).

As outlined in the May 3, 2021 Community and Economic Recovery Update to City Council (CMR #12206, <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/2021/id-12206.pdf>), the City has contracted with the Good City Company to facilitate a discussion regarding the economic development landscape in Palo Alto and make recommendations to inform the scope and breadth of the City's ongoing economic support activities.

The Good City Company's report is included as Attachment A and they will facilitate the discussion with the City Council on June 1, 2021. Following the discussion with the City Council, the Good City Company will work with staff to develop a scope of work, and potentially a Request for Proposal (RFP), that incorporates City Council feedback on the scope, extent, and intensity of the City's desired economic development function. This may take the form of a recruitment for a City staff position, an RFP for a consultant to perform the work, or some hybrid model where work is done by in-house staff and consultant resources are used for special, complex, or technically challenging assignments.

In reviewing the Good City Company report, City Council could consider a variety of approaches related to economic development. The following excerpt from the Good City Company report, demonstrates surrounding cities approaches to economic development and demonstrate the varying degrees of staff resources and types of activities involved with implementing those programs. Some cities do not have a formal program or dedicated staff but respond as needed to business needs (such as the impacts on businesses from the pandemic) using staff from other city departments.

City Council feedback on the scope of the City's desired economic development function may take the form of:

- a recruitment for a City staff position
- an RFP for a consultant to perform the work
- some hybrid model where work is done by in-house staff and consultant resources are used for special, complex, or technically challenging assignments such as economic impact analyses

Good City Company Comparison of Local Cities Economic Development Work:

CITY	ECONOMIC DEVELOPMENT PROGRAM ACTIVITIES	NUMBER OF STAFF
Santa Clara	No proactive program but City did support businesses in the pandemic by offering grants and responds to business inquiries and issues.	No dedicated staff but a team from the city manager's office responds to business needs

CITY	ECONOMIC DEVELOPMENT PROGRAM ACTIVITIES	NUMBER OF STAFF
Sunnyvale Assistant to the City Manager Economic Development Specialist	<ul style="list-style-type: none"> • Business retention/expansion effort; • Facilitate and support businesses with permitting issues and new development • Proactive efforts to support downtown revitalization 	Two full time dedicated economic development staff
Cupertino	<ul style="list-style-type: none"> • Business retention/expansion effort; • Assist businesses with permitting issues and provides access to resources and tools for local businesses 	Half-time dedicated economic development contract position.
Mountain View Economic Vitality Manager Business Development Specialist Part-time support	<ul style="list-style-type: none"> • Business retention/expansion effort • Facilitate and support businesses with permitting issues and new development • Proactive efforts to support downtown revitalization and relationship with major high-tech companies 	2.5 full time dedicated economic development staff; \$70,000 ongoing budget for Economic Support; One-time allocation \$275,000 for businesses impacted by COVID-19
Los Altos Economic Development Coordinator	<ul style="list-style-type: none"> • Business retention/expansion effort • Facilitate and support businesses with permitting issues and new development • Proactive efforts to support downtown businesses 	One full time dedicated economic development staff
Menlo Park	<ul style="list-style-type: none"> • Responsive assistance for local businesses 	No dedicated full-time economic development staff. There was a full-time housing/economic development position three years ago, but it not currently filled.
Redwood City	<ul style="list-style-type: none"> • Business 	1.5 full time dedicated economic

CITY	ECONOMIC DEVELOPMENT PROGRAM ACTIVITIES	NUMBER OF STAFF
<p>Economic Development Manager</p> <p>Part-time support</p>	<p>retention/expansion effort;</p> <ul style="list-style-type: none"> Facilitate and support businesses with permitting issues and new development Proactive efforts to support downtown businesses 	<p>development staff; One-time allocation of \$450,000 for assistance to businesses impacted by COVID-19. No ongoing funding allocation.</p>
<p>San Carlos</p> <p>Economic Development & Housing Manager</p> <p>Economic Development Coordinator</p>	<ul style="list-style-type: none"> Business retention/expansion effort Facilitate and support businesses with permitting issues and new development such as biotech expansions Proactive efforts to support downtown businesses 	<p>Two full time dedicated economic development staff</p>
<p>Burlingame</p> <p>Economic Development & Housing Specialist</p>	<ul style="list-style-type: none"> Business retention/expansion effort Facilitate and support businesses with permitting issues and new development Proactive efforts to support downtown businesses 	<p>One full time dedicated economic development staff</p>
Belmont	The city responds to inquiries and business issues as needed.	No dedicated economic development staff
<p>Fremont</p> <p>Economic Development Director</p> <p>Two Economic Development Managers</p> <p>Economic Development Specialist</p>	<ul style="list-style-type: none"> Business retention/expansion effort; Facilitate and support businesses with permitting issues Proactive efforts to build a new downtown Facilitate growth of advanced manufacturing sector and innovative technology companies 	<p>4.5 full time economic development positions but only two are currently filled.</p>

Background

The City of Palo Alto has not had a formal Economic Development Manager role since the departure of staff in 2016. In the absence of a formal role, the City has dispersed a number of tasks and work items that fall under the definition of economic development across staff in various departments.

During the COVID-19 pandemic, this work has been taken on primarily by a temporarily assigned staff member in the City Manager's Office. This staff member did extensive work throughout the pandemic, ranging from coordinating tailored communication to various business sectors, to helping lead the Uplift Local initiative, to cultivating a closer relationship between the City of Palo Alto and the Chamber of Commerce, and ensuring businesses could connect with City staff to discuss and understand rules, regulations, and restrictions that were changing on a real-time basis. This staff member functioned very similar to the "Economic Development Coordinator" role described in Attachment A in other jurisdictions. Ongoing work of this quality at this level will require the affirmation and commitment of ongoing resources. To go beyond that caliber with additional work will require additional resources.

As the City seeks to emerge from the pandemic, it is anticipated that the staff member who has been temporarily assigned to the City Manager's Office to assist with economic recovery efforts will transition back to the Police Department in the coming months. The transition underscores the timeliness of this discussion to refine the scope of ongoing economic development in Palo Alto in the aftermath of COVID-19 and its impacts on our community.

Timeline

Following the discussion with the City Council, the Good City Company will work with staff to finalize the scope of work for the City's ongoing economic development function. Staff will pursue the necessary next steps to implement an economic development program equal to the desired scope as discussed and recommended by the City Council. Staff will provide updates on this work through the regular Community and Economic Recovery Updates to the City Council.

Resource Impact

While there are no direct resource impacts from discussing the scope of the economic development function in the City of Palo Alto, the resource impact will be proportionate with the scope as defined by Council. The desired scope of the economic development function will directly correlate to the resources necessary to implement that scope. Additionally, the scope of the economic development work will likely impact potential revenues depending on what elements are included in that work on an ongoing basis.

Stakeholder Engagement

The City's ongoing work related to Community and Economic Recovery from the impacts of COVID-19 includes various stakeholder engagement elements. This Council discussion to define

the scope of economic development with the City Council represents the next step in stakeholder engagement. Following the discussion with the City Council, staff anticipates coordinating with the Chamber of Commerce to discuss the scope and solicit further feedback.

Environmental Review

The action recommended is not a project for the purposes of the California Environmental Quality Act.

Attachments:

- Attachment A: Good City Company Report - Overview of Economic Development.5.20.21



CITY OF PALO ALTO:

An Overview of Economic Development

Prepared and Submitted by:

The Good City Company

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May 20, 2021

Palo Alto City Council Study Session: Overview of Economic Development

I. Introduction

The City's FY 2021 Adopted Budget reflected a reduction in General Fund revenues of \$40 million which was anticipated due to financial impacts of the COVID-19 pandemic and resulting economic challenges. The Adopted Budget projected a nearly 40-50 percent reduction in major revenue categories such as Transient Occupancy Taxes and Sales Taxes. As a result of the economic characteristics of revenue generation in Palo Alto, the City's revenues have been more significantly impacted by the COVID-19 pandemic than neighboring jurisdictions.

The Community and Economic Recovery Strategy workplan was adopted by the City Council on March 22, 2021 ([https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/2021/id-12111-\[80602\].pdf](https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/2021/id-12111-[80602].pdf)). The workplan (specifically, Item G) referenced a need for the City council to refine the scope and breadth of the City's economic support activities.

The focus of this report and the presentation on June 1 is to define economic development and the role it can play in a community and economic recovery effort. Topics that will be covered in the presentation include:

- A definition of economic development
- Typical economic development goals and objectives
- Types of economic development activities undertaken by cities
- Approaches to implementing an economic development program
- What kind of effort is appropriate for Palo Alto and what resources are required for that effort?

This report provides additional background information for the presentation. Please keep in mind, that the information is intended to help the City Council make an informed decision regarding initiatives and actions that best support and accelerate local community and economic recovery. The report does not advocate for any specific actions that support economic recovery but recognizes that each community has unique needs, opportunities, and goals that shape its approach to economic development.

The presentation will conclude with questions from the City Council and a facilitated discussion of the City's economic strengths, weaknesses, and opportunities and the City's priority recovery goals. The conversation will allow the City Council to discuss and provide direction on what elements should be included in the scope of the City's ongoing economic development activities and what resources will be necessary to implement that scope. These elements will then be incorporated into the next steps for the implementation of that economic development scope, which could range from hiring staff to developing a Request for Proposal for the provision of ongoing work by an outside consultant.

II. What is Economic Development?

Economic development means different things to different communities and the definition can change with fluctuations in economic cycles. There is no universally accepted definition. The California Association for Economic Development states that¹:

“Economic development is the creation of wealth from which community benefits are realized. It is an investment in growing the economy and enhancing the prosperity and quality of life for all residents.”

Just as there is no universally accepted definition, the goals and objectives of economic development vary from community to community depending on its demographics and economic strengths, weaknesses, assets, opportunities, and challenges. A common goal of a successful city economic development effort enables a city’s general fund to support a high quality of life for the community that includes a diverse range of goods and services and amenities desired by residents.

Goals and objectives of economic development can include the following:

- Retaining and supporting local businesses that provide goods and services desired by residents
- Increasing city revenues so that the general fund can provide high quality services for residents
- Improving upward mobility for residents

All of these needs play an important role in the larger ecosystem of sustainability.

The chart below provides a demographic comparison of Palo Alto, Mountain View, Burlingame, Menlo Park, Redwood City, San Carlos, and Sunnyvale. A community’s economic development goals often address its demographics.

¹ The California Association for Local Economic Development members are public entities and practitioners in economic development.

Demographic Comparison²

	Palo Alto	Mtn. View	Burlingame	Menlo Park	San Carlos	Redwood City	U.S.
Total Population	65,364	82,739	30,889	34,698	30,185	82,595	328,239,523
Median Household Income	\$157,120	\$128,252	\$122,999	\$147,824	\$169,640	\$107,469	\$62,843
Per Capita Income	\$89,205	\$73,924	\$70,519	\$81,562	\$83,961	\$53,836	\$34,103
Poverty Level	5.9%	7.3%	5.5%	8.4%	2.9%	9.6%	10.5%
Median Age	41.9	35.0	40.5	38.0	42.6	37.0	38.1
High School Degree or Higher	97.4%	93.4%	95.2%	93.6%	97.2%	86.1%	88.0%
B.A. Degree or Higher	81.9%	68.5%	65.3%	69.7%	68.6%	48.0%	32.1%
Ethnicity							
• White	59.7%	54.9%	60.0%	68.6%	75.2%	57.9%	76.3%
• Hispanic or Latinx	5.7%	17.8%	12.4%	15.7%	8.6%	37.2%%	18.5%
• Asian	32.6%	31.4%	25.3%	13.5%	16.2%	14.3%	5.9%
• African American	1.6%	1.8%	1.5%	4.6%	0.7%	1.9%	13.4%

Cities that have lower educational attainment and median household income, a higher poverty level, and greater ethnic diversity may have economic development goals that focus on improving upward mobility by attracting and retaining businesses with higher paying jobs. Other cities with high educational attainment and a concentration of knowledge firms may want to implement proactive efforts to retain these businesses or diversify the types of companies located in the community. They may also focus on important issues and challenges such as sustainability of the environment and preserving natural resources that may be threatened by global warming.

Besides maintaining a desired standard of living, sustaining a high quality of life for residents is a priority community goal. All the cities in the table have downtowns with unique characteristics. The vitality of these commercial centers is important to each community. In

² U.S. Census, American Community Survey Quick Facts, 2019. The American Community Survey (ACS) is an ongoing survey that provides vital information on a yearly basis about U.S. demographics.

addition to tax revenue, downtowns are often viewed as the “heart and soul” of a community. Sustainability of small businesses that provide goods, services, and amenities that contribute to a community’s quality of life is another important goal.

Demographic indicators such as income, age, ethnicity, education, and home ownership are also used by brand stores to determine the types of goods and services preferred by shoppers. The COVID-19 pandemic has profoundly changed shopper preferences and behavior in the following ways many of which will continue as the economy recovers:

- Shoppers are placing less importance on brands. When there is a scarcity of goods, they buy whatever brand that is available. E-commerce has also opened a global market for online shoppers.
- Shelter-in-place generally resulted in less concern about personal appearance that has translated into fewer purchases of clothing, personal services (hair, nails, etc.) and accessories.
- There has been a strong response from shoppers to buy local but large format retailers like Costco, Target and Home Depot have generated the strongest sales and tax revenue during the pandemic.
- According to the U.S. Department of Commerce, online sales increased 32.4 percent with U.S. retailers from 2019 to 2020 and represented 21.3% of total retail sales last year compared with 15.8% the year prior. Continuation of this trend does not bode well for brick-and-mortar retail which has been undergoing a restructuring prior to the onset of the COVID-19 pandemic.

As noted in Professor Nicholas Bloom’s “work from home” presentation to the City Council in November 2020, remote work will have an impact on the recovery of small businesses, especially restaurants in downtowns that rely on office workers as weekday customers.

III. What Types of Businesses Contribute to the Local Economy?

Today, small businesses are truly the backbone of the U.S. economy. The Small Business Administration (SBA) estimates that small businesses with less than 500 employees make up 99 percent of the businesses in the U.S. and employ 47.1% of the private workforce. Firms with 20 to 99 employees have the largest share of employment and create the most jobs. Profiles of businesses in urban, more densely populated areas, show that most employ less than 20 workers and are primarily service businesses (either personal or professional services). This profile applies to businesses in the cities listed in the demographic chart on page three of this report. These small businesses are primarily locally serving and are an important component of a community’s ecosystem.

Private sector employers also play a critical role in the local economy. Besides their workers patronizing businesses, many firms are involved in business-to-business commerce that

generates sales/use tax for the general fund. “Traded sector” businesses are involved in manufacturing, consulting, engineering, technology, finance, etc., while the non-tradable sector consists of local serving businesses that include health, education, retail, and personal services. Traded sector businesses contribute the most value to the local economy because goods and services are sold in competition with firms in other states and countries. Traded sectors jobs are more permanent and pay higher wages which create a multiplier effect by supporting additional jobs inside and outside the local area which means stronger resilience during an economic downturn or natural disaster like the pandemic. Consequently, traded sector technology companies in Palo Alto, no matter the size, make significant contributions to the local economy. Government and healthcare jobs do not create the same multiplier effect as traded sector businesses because they are service jobs many of which pay lower wages than knowledge or manufacturing companies.

The chart below shows a list of major employers located in Palo Alto and Mountain View.

MOUNTAIN VIEW MAJOR EMPLOYERS		NUMBER OF EMPLOYEES³
1. Google		23,324
2. Symantec		2,789
3. El Camino Hospital		2,500
4. Synopsys		2,377
5. Intuit		2,370
6. LinkedIn		1,177
7. Samsung		1,100
PALO ALTO MAJOR EMPLOYERS⁴		
1. Stanford Healthcare		5,500
2. Lucile Packard Children’s Hospital		5,700
3. Stanford University		4,500
4. Veteran’s Affairs Palo Alto Healthcare System		3,900
5. VMWare, Inc.		3,500
6. SAP Labs Inc.		3,500
7. Space Systems/Loral		2,800
8. Hewlett-Packard Company		2,500
9. Palo Alto Medical Foundation		2,200
10. Varian Medical Systems		1,400

³ Source: City of Mountain View, 2020

⁴ Source: City of Palo Alto; list of major employers as of 2019. Some of the businesses may have downsized or relocated from the City prior to the pandemic.

Employees from larger businesses support smaller business, as the latter cannot thrive on the patronage of residents alone. This is the ecosystem that has been broken by the pandemic, but it should recover albeit gradually as office workers return in the next year.

The three major sources of general fund revenue for cities are sales/use tax, property tax, and transient occupancy tax (also called hotel tax). On average, sales and use tax revenue provides 30 percent of city general purpose revenue and often as much as 45 percent.⁵ The percentage for Palo Alto in fiscal year 2019-20 was 14.6% of the total \$209,669,000 revenues in FY 2019-20 (ending June 30, 2020). Before online shopping, sales tax was generated from point-of-sale transactions (a physical location). Cities aggressively recruited retailers that generated significant sales tax such as box stores and auto dealers. With the shift to E-commerce sales and the demise of brand retail stores, many cities now receive more sales tax revenue from county pools.

The “Top Sales Tax Generators” for cities typically include large format stores such as Target, Costco, Walmart, and Home Depot. During the pandemic these retailers have been top performers due to home remodeling and construction of new housing. Costco, Apple stores, and Walmart are considered “recession proof” retail stores that perform better instead of others in good and bad economic times.

If possible, the list of top sales tax performers for a city should reflect a balance of retail store types that include those that draw shoppers from other cities. Even if this a desired goal, some cities lack sites and trade areas that meet the requirements of retailers.

Below is a chart that compares top sales tax generators for Palo Alto, Mountain View and Sunnyvale:

City of Palo Alto: Top Sales/Use Tax Contributors, FY 2019	
Anderson Honda	McLaren San Francisco
Lucile Packard Children’s Hospital	Tiffany & Company
Tencent	Bon Appétit Management Co.
Apple Stores	Neiman Marcus Department Store
Macy’s Department Store	Urban Outfitters
Tesla	Hermes
Audi Palo Alto Magnussen’s	Nest Labs
Toyota of Palo Alto	Varian Medical Systems
Tesla Lease Trust	Houzz Shop
Bloomingdales	Nordstrom Department Stores
Hp Enterprise Services	Volvo Cars Palo Alto
Shell Service Stations	Integrated Archive Systems
	Stanford Outpatient Clinic Pharmacy

⁵ League of California Cities, *A Primer on California City Finance*, 2016.

City of Sunnyvale: Top Sales/Use Tax Performers, FY 2020	
Bon Appetit Cepheid Chick Fil A Costco Gener8 HCL America Home Depot IHealth Lab Intuitive Surgical Sunnyvale Chrysler Dodge Jeep Ram Sunnyvale Ford Sunnyvale Volkswagen Target	Juniper Networks Inc Keysight Technologies Larry Hopkins Honda Lockheed Martin Lowe's Nissan Sunnyvale Pine Cone Lumber Safeway (all Sunnyvale sites) Sierra Circuits Tesla Motors Thoughtspot Inc. Toyota Sunnyvale

City of Mountain View: Top Sales/Tax Performers, as of December 2019	
Allison BMW Benson Industries Best Buy Bon Appetit Boosted Boards Chevron Costco Financial Services Vehicle Trust Kiwi Crate Kohls Mr. Russell Lee Marshalls Mentor Graphics	Mountain View Shell Omnicell Project Fi by Google REI Safeway Siemens Medical Solutions Synopsis Target Total Wine & More Valley Oil Walmart Zones

Retailers that sell high end goods are prominent in Palo Alto's list but not on Sunnyvale's or Mountain View's list. Sunnyvale and Mountain View do not have regional shopping centers, but they have large format retailers such as Target, Costco, and Home Depot. The Stanford Shopping Center is a destination retail center that draws international travelers as does Santana Row in San Jose. The ideal retail advantage is to have stores that draw shoppers from

other nearby cities. Costco can be a destination retail store as there is not a store in every community.

Business-to-business tax generators and those that sell online from one location (such as Poshmark and Shutterfly) are also highly desirable. However, online sellers can move the location where orders are taken so it is important for cities to monitor sales tax reports.

In summary, the retail environment and shopper behavior are changing constantly which will continue to make sales/use tax a less stable source of revenue for cities. Diversification of retail and other businesses can help increase resilience to the variability of both the retail environment and shopper behavior.

Equally important is the sustainability of small businesses which play an important role in enhancing quality of life for residents. Like many cities, most businesses in Palo Alto have less than fifty employees (see table below that highlights only retail businesses).⁶ They are primarily service businesses (professional and personal), retail and restaurants but there are also businesses in the “middle” that are involved in the trades, manufacturing/production, and supply of materials. These businesses pay higher wages than restaurants and retail. All have a role in a community’s ecosystem. Higher wage jobs are needed to support small businesses.

Palo Alto Retail Businesses

Number of Employees	< 5	5 - 9	10 - 19	20 - 49	50 - 99	100-249	250 - 499	Total:
Number of Retailers	119	46	34	21	13	6	1	240
Percentage of Total:	49.6%	19.2%	14.2%	8.8%	5.4%	2.5%	0.4%	

Source: Quarterly Census of Employment and Wages (QCEW) EDD - City of Palo Alto 2020 Q3 Preliminary. NAICS code 44 & 45.

IV. What are Community Economic Development Assets or Advantages?

Communities vary when it comes to assets that support a thriving economy. The list of assets below are not present in every community. Some are regional serving such as a port, airport, or public transit. The size and type of community (rural or metro) also determines the physical community assets and the types of businesses that start-up or locate in a community.

- Port, airport, public transit
- Downtowns
- Neighborhood business or commercial districts

⁶ The City of Palo Alto has a number of small retailers, with more than two-thirds employing fewer than nine employees. 90% of local retail employees have fewer than 50 employees.

- Industrial – R&D, production
- Office
- Diverse retail
- Rural – agriculture
- Labor force
- Consistent, streamlined, timely planning entitlement and building permit process

Occupied and improved retail storefronts, industrial and office space are community assets that contribute to the quality of life, vibrancy, and desirability of a city as a location for businesses and residents. Cities like Redwood City and Palo Alto have an advantage in the current office market because they have an inventory of smaller size quality office space located in a downtown business district.

Most cities struggle with the last advantage—the permit process – even though many cities have made improvements with online applications for many simple applications. COVID-19 and the resultant closure of city halls, which has required the use of technology to review plans and conduct inspections, should result in more efficient, timely processing but the volume of permits primarily for home remodeling and difficulty finding sufficient staff has slowed the process in many cities and created a huge backlog of applications.

Palo Alto can check the boxes for most of the assets listed above which makes the City a desirable location for businesses and residents.

V. Types of Economic Development Activities Implemented by Cities

Most Bay Area cities have a program to help ensure economic and community vibrancy. The approach and program activities depend on the community's economic development goals. Typical goals and activities of an economic development effort include:

- Small business assistance, especially for those located in downtown or neighborhood commercial districts. Thriving business districts with restaurants and retail are desirable amenities for residents.
- Business retention and expansion – helping all businesses start-up and expand capacity (sales) and achieve sustainability.
- Marketing and promotion of city for new businesses and development to fill vacant commercial and industrial space.
- Targeting of specific industry clusters to attract investment and higher quality jobs. For example, the cities of San Carlos and South San Francisco have a strong biotech company presence that is growing. New development sites will accommodate expanding biotech companies.

- Workforce development – ensuring there is a plentiful supply of qualified workers that meets the needs of businesses.
- Adequate supply of housing

During the last economic expansion, Silicon Valley cities did not focus on business attraction like other California communities. Accommodating the start-up, growth and expansion of existing businesses was the priority of economic development in the valley. The reality was that not many non-high technology businesses choose to relocate to the area from outside the region or state unless there is a market imperative to have a presence. The high cost of doing business and living in the area are the primary reasons. Other communities in the state that need better jobs and investment have proactive efforts to attract new businesses, especially technology companies.

Consequently, the approach depends on the goals of the community. A less proactive approach would have a basic program that could include business retention and expansion, providing access/information to resources and tools for businesses, and responding to requests for assistance from businesses. A more proactive approach can include efforts to attract specific types of businesses such as large format retail, relocation, or expansion of businesses to occupy vacant office space or allowing more flexibility in interpretation of planning and building requirements to accommodate the unique conditions of a project. This approach is common in communities that are built-out with few vacant sites. The following actual examples illustrate the three types of approaches and responses.

SITUATION #1: Restaurants and businesses in a downtown are struggling to attract local customers. They have little time or money for marketing and promotions even use of social media.

MORE PROACTIVE RESPONSE: City staff coordinate with the chamber of commerce to develop a “shop local” campaign that includes use of a web directory for all local businesses and restaurants that allows customers to easily find and contact the business. The web directory also facilitates transactions between the business and the customer and is easy for businesses to upload information. The chamber hosts the directory with financial support from one of the city’s larger businesses. The city and chamber partner to promote the directory to residents on social media and other communication channels.

LESS PROACTIVE RESPONSE: City staff informs businesses there is nothing the city can do to assist businesses and encourages them to join the chamber so they can be included in the chamber directory.

MIDDLE GROUND RESPONSE: The city encourages residents to shop local in email communications and social media posts.

SITUATION #2: A large format retail store that generates significant sales tax has identified a site in the community. It is the only available site that meets their location requirements and is in the desired trade area. The site has challenges: it is smaller than what the retailer needs and, if possible, will require flexibility on parking and setback requirements.

MORE PROACTIVE RESPONSE: City staff invites the business's representative to meet for the purpose of working out a solution to the site's limitations. Respecting zoning requirements and community process, a solution is found that includes adjustments to parking and setback requirements.

LESS PROACTIVE RESPONSE: The city responds that based on its zoning requirements, no meeting is necessary because there are no alternatives and the business should find another location in the city.

MIDDLE GROUND RESPONSE: The city cannot make the adjustments because of the zoning but would like to work with the applicant to find another location, if possible. The city would appreciate having a store.

SITUATION #3: An auto dealership that has been in a city for thirty years needs to make modifications to its site to accommodate more new cars and expand the showroom and service center as required by corporate office of the automaker. ⁷

MORE PROACTIVE RESPONSE: City staff invites the dealer to a meeting to review the requested changes to determine if they can be accommodated. Staff is willing to use a more flexible interpretation, or clearly define the land use entitlement process, to allow the modifications so the dealer can continue its operations in the city.

LESS PROACTIVE RESPONSE: Staff informs the dealer it needs to find another location that can accommodate the site modifications.

MIDDLE GROUND RESPONSE: The city is not able to find a solution for this site but is open to pursuing other options for finding parking for new cars or the service center.

Each city needs to determine what approach is best suited for the community. No city is required to have an active economic development program, but a formal program has staff who are experienced and understand the needs of businesses and achieving the community and economic goals. At the end of the day, many businesses will expand and locate in a

⁷ Auto dealers have specific operating and location requirements mandated by automakers. The automakers also govern the location and number of dealerships in a region.

community without an active economic development program, but others may choose to find another location if there are too many challenges and issues that cannot be resolved.

VI. Examples of City Economic Development Programs

The following chart shows a sample of cities in the region that have economic development programs including the number of staff and types of activities. Some cities do not have a formal program or dedicated staff but respond as needed to business needs (such as the impacts on businesses from the pandemic) using staff from other city departments.

CITY	ECONOMIC DEVELOPMENT PROGRAM ACTIVITIES	NUMBER OF STAFF
Santa Clara	No proactive program but City did support businesses in the pandemic by offering grants and responds to business inquiries and issues.	No dedicated staff but a team from the city manager's office responds to business needs
Sunnyvale Assistant to the City Manager Economic Development Specialist	<ul style="list-style-type: none"> • Business retention/expansion effort; • Facilitate and support businesses with permitting issues and new development • Proactive efforts to support downtown revitalization 	Two full time dedicated economic development staff
Cupertino	<ul style="list-style-type: none"> • Business retention/expansion effort; • Assist businesses with permitting issues and provides access to resources and tools for local businesses 	Half-time dedicated economic development contract position.
Mountain View Economic Vitality Manager	<ul style="list-style-type: none"> • Business retention/expansion effort • Facilitate and support businesses with permitting issues and new development 	2.5 full time dedicated economic development staff; \$70,000 ongoing budget for Economic Support; One-time allocation \$275,000 for businesses impacted by COVID-19

CITY	ECONOMIC DEVELOPMENT PROGRAM ACTIVITIES	NUMBER OF STAFF
Business Development Specialist Part-time support	<ul style="list-style-type: none"> Proactive efforts to support downtown revitalization and relationship with major high-tech companies 	
Los Altos Economic Development Coordinator	<ul style="list-style-type: none"> Business retention/expansion effort Facilitate and support businesses with permitting issues and new development Proactive efforts to support downtown businesses 	One full time dedicated economic development staff
Menlo Park	<ul style="list-style-type: none"> Responsive assistance for local businesses 	No dedicated full time economic development staff. There was a full-time housing/economic development position three years ago but it not currently filled.
Redwood City Economic Development Manager Part-time support	<ul style="list-style-type: none"> Business retention/expansion effort; Facilitate and support businesses with permitting issues and new development Proactive efforts to support downtown businesses 	1.5 full time dedicated economic development staff; One-time allocation of \$450,000 for assistance to businesses impacted by COVID-19. No ongoing funding allocation.
San Carlos Economic Development & Housing Manager Economic Development Coordinator	<ul style="list-style-type: none"> Business retention/expansion effort Facilitate and support businesses with permitting issues and new development such as biotech expansions Proactive efforts to support downtown businesses 	Two full time dedicated economic development staff
Burlingame Economic Development &	<ul style="list-style-type: none"> Business retention/expansion effort Facilitate and support businesses with permitting 	One full time dedicated economic development staff

CITY	ECONOMIC DEVELOPMENT PROGRAM ACTIVITIES	NUMBER OF STAFF
Housing Specialist	issues and new development <ul style="list-style-type: none"> Proactive efforts to support downtown businesses 	
Belmont	The city responds to inquiries and business issues as needed.	No dedicated economic development staff
Fremont Economic Development Director Two Economic Development Managers Economic Development Specialist	<ul style="list-style-type: none"> Business retention/expansion effort; Facilitate and support businesses with permitting issues Proactive efforts to build a new downtown Facilitate growth of advanced manufacturing sector and innovative technology companies 	4.5 full time economic development positions but only two are currently filled.

Each of the cities above have different economic strengths and weaknesses and, consequently, different goals. Most of the cities have downtowns which are considered valued amenities by the communities. They have office and industrial parks and the presence of iconic high-tech companies. City staff have established mutually beneficial relationships with these companies as part of business retention and expansion.

As noted in the table above, most cities have at least one permanent staff position. Depending on skill and experience required, economic development titles range from economic development coordinator, economic development specialist, or economic development manager/director. Below is a list of recent recruitments for economic development staff:

CITY	POSITION	SALARY RANGE	MINIMUM QUALIFICATIONS
City of Mountain View	Economic Vitality Manager	\$126,553 to \$204,830	<ul style="list-style-type: none"> Five years of increasingly responsible experience in economic development, redevelopment, real estate financing, and planning one year of supervisory responsibility Bachelor's degree from an accredited college or university with major course work

CITY	POSITION	SALARY RANGE	MINIMUM QUALIFICATIONS
			<p>in urban economics, finance, business or public administration or related fields</p> <ul style="list-style-type: none"> Competitive candidates will possess general knowledge of real estate and land use laws Experience working in a municipal environment, interacting with elected and/or appointed officials and familiarity with the Silicon Valley economy
City of Morgan Hill	Economic Development Director/Manager	\$125,832 to \$217,200	<ul style="list-style-type: none"> Bachelor's degree or equivalent with course work in urban planning, economics, business administration, marketing, public administration, political science or related field Master's degree in the above fields is highly desired Five years' experience as former economic development manager or community development including two years at a supervisory or management level
City of San Carlos	Economic Development Coordinator	\$107,353 to \$130,476	<ul style="list-style-type: none"> Bachelor's degree in planning, economics, political science, public administration, or business administration Three to five years experience in economic development, real estate or real estate finance. Graduate degree in appropriate field may substitute for one year experience

Typical roles and responsibilities for each of the positions listed above include the following: (Note that for the economic development manager positions, the roles and responsibilities are defined at a more strategic, leadership level.)

Economic Vitality Manager (Mountain View): 2.5 staff

- Build and maintain effective relationships with both internal and external stakeholders and provide outstanding customer orientation.
- Inspire team members to perform beyond what they believe they are capable of.
- Cultivate followership and excitement around goals that advance the big picture of an organization.
- Research, evaluate and introduce create and groundbreaking ideas that best serve the business community while supporting the vision for the City.

Economic Development Manager (Morgan Hill) – 1 staff

- Create economic development policies, programs and practices and showcase leadership across departments and with external stakeholders.
- Ensure that land development, business attraction and retention, job creation, commercial growth, housing, and amenities to round out and balance the community are strategic and consistent with the Council's goals, priorities, and policies.
- Ensure that economic Development accomplishments are measurable, create high-value jobs, increase general fund revenues, tourism, retail and commercial investment.
- Leads and directs on-going business retention and attraction efforts in a proactive manner, ensuring increased industry jobs, commercial/industrial investment, and economic growth in Morgan Hill.
- Conduct outreach to affected parties on development issues, market constraints and opportunities, and economic opportunity is paramount to good governance.
- Ensure that all City departments are engaged to become "Ambassadors" for economic development and to facilitate permit processing of economic development projects.
- Provide timely, well documented studies and analyses provide a sound foundation for policy decision recommendations by the economic development team and policy decision making by the City Council

Economic Development Coordinator (San Carlos) 2 staff (manager and coordinator)

- Develop and implement programs relating to revitalization, business recruitment/retention, economic development, and job creation.
- Administer economic development projects and programs from conception, design, budget development, implementation, and financial overview, to final effectiveness evaluation.
- Act as liaison between developers and businesses in the evaluation of real estate developments, and landlords/brokers and potential tenants in pursuing leasing of commercial vacancies.
- Plan, schedule and coordinate real estate, marketing, site development, and business development programs, including developing marketing strategy, evaluating financing, and preparing public information materials.
- Negotiate development transactions consistent with City policies. • Acquire, manage and dispose of property on behalf of the City.
- Resolve legal, financial, environmental, and technical real estate issues involved in development projects and commercial leasing opportunities.

- Encourage and facilitate development by communicating with citizens groups, individuals, and public and private organizations.
- Conduct field investigations of development sites.
- Collect, compile, organize, and analyze data for use in economic development programs and development objectives.
- Prepare comprehensive reports, proposals, and studies related to economic development opportunities and implementation activities.
- Represent the City at a wide variety of community meetings.
- Monitor legislation related to economic development and make recommendations concerning policy and procedural improvements.
- Develop contracts, retain, and coordinate the work of engineers, appraisers, architects, etc. for economic development projects.
- Identify and prepare applications for outside funding sources (grants).

The roles and responsibilities for San Carlos' economic development coordinator detail more specifically the implementation tasks associated with a comprehensive economic development program. Mountain View and Morgan Hill's programs replicate many of these at an implementation level.

Very few academic institutions offer a major or minor in economic development. Most economic development professionals have degrees or a background in planning, public administration, economics, or real estate and learn the fundamentals of economic development on the job augmented by coursework offered by professional associations. Even if the candidate is qualified at the manager or director level, he/she may not have specific expertise in real estate economics, marketing and promotions and strategic planning. This may limit the ability of the city to conduct in-depth analysis on these topics. In cases when the in-house employee does not have that specific expertise, cities often use outside consultants for discrete tasks that warrant greater research and analysis or are more complex. The costs for consultants on such tasks vary depending on the task and the size of a city. An economic benefits analysis for a development can cost between \$25,000 to \$50,000. The cost for something more complex like an economic development strategy for a city ranges from \$50,000 to \$150,000 or more.

Not having permanent staff does not preclude a city from providing basic economic development services. Some cities rely on dispersing the function throughout the organization, but this necessarily limits the scope of work. Other cities may use firms to augment the function. Currently only two firms provide economic development staff who their employees on a contract basis to a city. Staff work should be done by an employee of either the provider or the city not as an independent contractor because of federal (IRS) regulations that define the work of contractors.

Depending on how proactive the economic development program is, some cities allocate funds annually for implementation activities (such as special studies, promotional tools for downtowns or events, and other related activities), but in many cities, staff implement a program without a dedicated budget. Funds are appropriated as needed or taken from another department budget. Each city's approach to economic development is unique depending on its goals and city council's priorities.

VII. What Kind of Economic Development Effort Works for Palo Alto?

Assessing a city's community and economic strengths helps define goals and an appropriate approach to economic development. Opportunities can arise from strengths and weaknesses. A high-level scan of Palo Alto's economic strengths (including assets) shows the city has many advantages of a major metro center but on a smaller town scale which is very appealing to knowledge companies and their employees.

Strengths:

- The City offers a high quality of life for residents with desirable amenities such as parks, regional retail, defined downtown with diverse, unique restaurants and retail, and a diverse range of commercial (office and retail) space.
- Proximity to Stanford University and the research park.
- Availability of professional services
- Proximity to two major airports
- Walkability and "bike-ability" of the city
- Access to Caltrain

Weaknesses:

- Perceived availability of parking in the downtown (pre-COVID)
- Adjacency to major freeways
- High cost of housing (true of every city in the Bay Area)
- Limited verticality if high-rise space is in demand or preferred by businesses

In terms of priority economic development goals, as previously explained, they are different for each community. For Palo Alto it can be one goal such as:

Ensure the City has strong, diverse business base that supports a high quality of life for residents.

The types of city actions that support this goal include:

1. Business retention/expansion efforts

- Contact the top sales tax generators and employers to determine how they are doing and if there are any specific issues the City can help resolve; extend the City's appreciation for their contribution to the community.
 - Small businesses outreach and support
 - Email a monthly newsletter to businesses with current information about business resources such as federal and state grants and loans; free webinars on marketing and promotions offered by various private and public providers; and information about changes in City regulations or other information that concerns local businesses.
 - Create a business resource webpage that has same information in newsletter as well as basic information about the City (as provided in the City's budget report).
 - Distribute an annual survey of businesses asking how they are doing, what resources are helpful, and how can the City assist them?
2. Monitor the City's internal sales/use tax revenue reports to note any changes in revenue from the top sales tax generators. Often City staff can work with its sales tax consultants and the business to make corrections.
 3. Monitor retail trends and new store formats to see if any concepts might be appropriate for Palo Alto to help fill vacant retail space. Not all vacant space is represented by brand brokerage firms and formally listed. There are many times when retail stores in search of a location are not aware of available spaces especially if they are not formally on the market.

These are City activities and actions that can help businesses thrive which, in turn, achieves the goal of supporting a high quality of life for residents. Metrics that annually measure the effectiveness of these efforts include:

- Increase in sales tax or TOT because of a new retail store or hotel that located in the City with the assistance of staff;
- The number of new retail or office businesses that fill vacant space because of the City's efforts;
- An annual survey of businesses to determine their current needs, how they are doing, effectiveness of City business retention/expansion efforts.

The continuous changes occurring in the world today ensures there is no certainty or guarantees about the sources of funding cities rely on to provide the high-quality services and physical infrastructure improvements residents expect. An economic development program can be scaled up or down depending on the goals, the economy; community priorities; and the City's budget. Efforts can be proactive or less proactive. Many of these actions listed above

have already been implemented by the City. The facilitated discussion on goals and current economic strengths and weaknesses that follows the presentation can help the Council determine if the City needs to enhance its economic recovery efforts.

A city can also choose to let economic development happen organically on its own momentum. There is no “right” or “wrong” way. In conclusion, the information provided in this report is intended to help the City Council decide what role, if any, economic development can play in the City of Palo Alto and what resources may be needed for implementation.

Attachment I: Biographies of Presenters

Aaron Akinin is a Principal and Co-Owner of Good City Company. He has nearly two decades of Bay Area municipal experience, including serving in an executive capacity for several different Peninsula cities, including Redwood City, Palo Alto and San Bruno. He is a member of the American Institute of Certified Planners (AICP) and the American Planning Association.

Leslie Fujino-Parks has led and assisted with a diverse range of programs in economic development, workforce development, redevelopment, and affordable housing. In addition to her consulting work for urban and rural communities in California and the U.S., Leslie has served as Director of Economic Development for the City of San José; Director of Downtown and Industrial Development for the San José Redevelopment Agency; Director of Community Development for the City of San Carlos; Economic Development Coordinator for the City Burlingame; and Interim Director of the San Mateo County Workforce Development Program. She has also served as interim manager for the City of Redwood City's housing and economic development programs. Most recently she developed a "Small Business Action Plan" for the City of Mountain View and assisted with a "Business Recovery Plan" for the City of Vacaville. She is currently providing use tax consulting services to the cities of Menlo Park, Burlingame, and San Jose. Leslie is also a trained facilitator in consensus building, community engagement, public process, and strategic planning.

The Good City Company is pleased to have the opportunity to make a presentation and facilitate a discussion on economic development.