

**“State of the Downtown” speech by Scott Knies**

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**San Jose Downtown Association Annual Meeting**

**Title: “Cloudy With a Chance of Meatballs”**

Two weeks ago, the San Jose Redevelopment Agency laid off 23 percent of its employees and virtually all RDA projects not already under contract were placed in hibernation. The swiftness and severity of the RDA lay offs sent a sobering chill throughout the city – as if the world’s biggest financial bust since the Great Depression finally hit home. It certainly is cause for fresh thinking for both downtown and the Downtown Association: what does the so-called “new normal” look like in a city long accustomed to having significant Redevelopment resources?

I know for most in the room, the severity of the recession hit home a while ago. After the face plant that started in 2008, flat sales are the new up. I am overwhelmed by the courage and hope of many of our members and how they have adjusted their operations to fit the times – owners working the counter, changing hours and staffing levels, managing inventories to the penny, attempting new concepts, slashing payroll and prices.

Local governments are going through the same painful realignment process as our businesses, and some public entities, like our Redevelopment Agency, have begun shedding jobs. However, life without super-sized RDA budgets does not mean we are suddenly on an irreversible downward slope to wither and waste away as America's next Detroit. Quite the contrary, this is an opportunity for San Jose to collectively accelerate the transformation of our center city in bold new ways so that as the economy recovers and RDA resources rebound, we are ready to circle the bases because we never stopped swinging for the fences when the times were tough.

This week's issue of The Economist magazine says the economy is already in recovery. It is hard to tell that to the 12 percent unemployed in the state, or the two-dozen people who lost their jobs at RDA the week before last. The financial shenanigans of the State of California – where to begin? How about taking \$75 million from the San Jose Redevelopment Agency this year or paying workers a day late at the end of year so the expense shows up on next year's budget – that stuff just digs the hole deeper and shifts a greater burden onto the backs of local governments and cities. The Economist and others espouse the obvious when they say policymakers must act to foster growth and fix their balance sheets – and the bulk of the balance sheet adjustments should come from spending cuts. Where is

government going to cut to possibly make that much of a difference? It has to include the public employee compensation system – the current level of salaries, benefits and pensions are not sustainable for our state, counties and cities. And let's be clear, for local governments to make much of a dent in the expense side of their balance sheet, police and fire employee costs have to be addressed, too. County Assessor Larry Stone has caught some flak recently for being proactive and suggesting that policymakers ought to get going on reform now before the voters legislate it at the ballot box.

Taxpayer revolts seldom create the best legislation. This is among the most divisive of civic issues and it will take great fortitude for everyone to stay focused on the greater good. It is incumbent for the business community, including our friends at the Chamber, to collaborate with both city and labor officials to help fashion meaningful balance sheet solutions for San Jose.

This fundamental budget issue will impact all who do business in and with the city, and the Downtown Association is no exception. Whether you support public employee compensation reform or not, the balance sheet problems will eventually force us to stop digging the hole deeper, because, like, we're out of dirt and we can't afford any more shovels. One example that affects the Association: at Music in the Park this summer, we paid off-duty San Jose Police Officers \$38,195. On July 1, the hourly rate for these

officers automatically increased. For the traffic officers we hire their hourly rate jumped from \$44 hour to \$48 hour, a 9 percent increase we were not aware of so failed to budget for. In just about every other expense category for our concert series, we realized substantial discounts from our private sector vendors as the recession has squeezed prices downward, but the city has these binding arbitration deals that guarantees an increase. We saw no improvement in police services between our four concerts in June and nine in July and August – we just paid more. For event producers, the automatic increase in costs – while our sponsor, grant, admissions and concessions revenue all decrease – is a recipe for extinction. The America Festival folded this year, Tapestry is on the ropes.

The Downtown Association's business struggles are a microcosm of all of yours. Certainly higher city fees and charges are not the only factor, but they do contribute to the difficulty of staying afloat. It is fair to ask: should public costs go up automatically without regard to performance or economic conditions? Almost any economic indicator you look at right now is down. For instance, our Business Improvement District (BID) revenue has plummeted 22% compared to last year. This interrelationship of government and commerce is symbiotic: if there are less businesses there

are less jobs; and when there are less businesses and jobs, there are less tax revenues, fees and charges paid to government.

And with declining tax revenues, comes reduced funding for organizations such as the Downtown Association. Compared to other budget priorities, marketing programs are perceived as “non-essential” services. That is fair game – especially during times of shrinking public budgets. Government is constantly doing a high wire balancing act: how do we raise fees or cut services that help city budgets today without jeopardizing the long term investments central to maintaining and growing a city’s competitive edge, including generating higher revenues? The short term, parsimonious decisions, might be politically expedient, but they are not always best for our communities.

Why do we consider our services essential? First, it’s good to understand the role of our organizations. BIDs and PBIDs are assessment districts and quasi-public organizations. We are a bit different than a traditional contracting of services model: we are run by citizen-created not-for-profit organizations and substantively free of government control – not totally public, not totally private, we bring the most effective pieces of both together. Do BIDs provide some government services – YES: management of public spaces, marketing, retention/recruitment, some public safety with

the ambassador program. Are BIDs free to make their own decisions – YES: we are truly independent -- publicly sanctioned but privately managed organizations. However, we have no rights as a taxing authority and all assessments are collected by the city, so in the end, government holds veto power for that funding. The main reason BIDs have flourished in North American cities and towns, is because if run well, like this one, BIDs more tightly link tax to service. In the world of public/private partnerships, BIDs have become one of the most successful models, channeling the energy of passionate champions, like all of you here this morning, in a unified and organized effort.

The reason our services are more essential than ever is because in these difficult times of cutbacks and layoffs every dollar must be leveraged and weighed against competing interests, and BIDs perform extremely well when compared to most other similar public investments on every metric you can think of – bang for the buck, accountability, speed of delivery, customer satisfaction.

On many levels – especially because our mission is to encourage growth and not just hold the fort – we are in the reassurance business. For downtown, we are under pressure, some of it recession-inspired, but some of it, I'd call Santana Row-inspired. We cannot just remake our downtown, we

must transform it and this crucial work has really progressed the last few years. Downtown revitalization has become so much more than just reviving storefronts. With all the competition in the Bay Area and from the Internet, we must add value downtown in everything we do. What that means is creating an experience, one that is people-centered, walkable, intimate – design at a human-scale, tailored for visual delight and the urge to linger; adding the local-identity to our brand through retail, arts, entertainment and sports; enlivening the sidewalks with fresh plants, seating and murals; constantly fine-tuning the quality of place. It's not so much the individual pieces but the ensemble of these pieces, the entire ecology must trigger the senses. We are all, by virtue of being in this room this morning, interested in this business of place-making – and each of us has our own idea of the personality and soul of our favorite places, the mix of different experiences, and when this downtown is delivering them to us.

The Downtown Association must also rise to this call for transformation of our center city. It is not enough for us simply to be clean and safe. Keeping business districts clean and safe is the prerequisite for making both public and private spaces viable. BIDs may be the visual evidence of a cleaner city because we pressure wash sidewalks every day, or reduce crime and fear because uniformed ambassadors are walking about,

but do we really produce enough place-marketing to make a difference without RDA and city support? Probably not – we are already chronically under-funded in marketing. But regardless of the budget level, we can always improve the ways we promote the downtown experience. We realize we cannot support retail from downtown residents alone – there simply aren't enough of you yet – and a larger niche is required that includes students, employees, visitors; citywide and regional residents; and each of our sub-districts from San Pedro to SoFA has a different role, and this in turn plays into the creation of that elusive local identity, one that I believe celebrates our region's authentic diversity, one that is inclusive of techies, empty nesters, artists, hipsters, gays, entrepreneurs, families, yuppies, dog owners and cat owners: the Creative Urban Center of Silicon Valley with the very best of the best weather in the world. That's not a bad brand niche for our downtown to carve out.

We have made much progress the past year towards these goals. The new SoFA streetscape completed in June is a remarkable example of place-making at a human scale: who would have thought that San Jose traffic engineers would actually agree to narrow a street to make more room for pedestrians? City Manager Debra Figone earlier this year consolidated downtown operations functions in her office with a focus on improving

downtown night culture. After a couple years of police department heavy badge behavior and scores of “attitude” arrests downtown, police and nightlife business owners have worked together the past nine months with immediate positive results; Mayor Chuck Reed has provided solar-powered leadership baking the green agenda into everything the city does – an effort that will reward both our environment and economy; and the First ACT vision continues to engage Silicon Valley companies in downtown, especially as it relates to the cultural and artistic health of our region.

It’s a good thing there is plenty of credit to go around because that is a key ingredient to our continued success. We are blessed to have an incredible alignment of the downtown mission and values with our public, private and third sector partners. Even in this tortuous economy we must stay the course and sustain our capacity for transformation. While the velocity of some of our projects is likely to slow until the recovery takes hold, we must continue to balance the small wonders with our big deals. It was just 11 months ago that Santa Clara County voters approved a second tax to support BART by the required two-thirds margin. In May, San Jose hotel owners voted to tax themselves to support an expansion and renovation of the convention center. We have a focused Redevelopment Agency assembling land on the west side of downtown that might one day

accommodate a Major League Baseball stadium. High speed rail recently received billions in federal stimulus funds and transit planners are holding public meetings this month about which is the best right of way into Diridon station. These are not the grand public works investments of a metropolitan region in decline.

There is a reason all four of these great projects are being planned with downtown San Jose in common. All trends show cities are growing population more rapidly than suburbs. Overall, commercial and housing values held up far better in this recession in walkable, transit-oriented places. Downtowns, with their concentration of amenities and experience, attract more of the creative class. All national indicators point to a future where our cities will be more dense, more vigorous, more racially mixed and greener. Without a doubt, competitive local tax and development policies will still be essential. But for those cities and regions – like San Jose and Silicon Valley – that break old habits, climb out of fox holes and let go of turf, the returns on collaboration – across agencies, city and suburb, public and private, business and labor – will be enormous.

There's one more thing I want to leave with you: Ask yourself what story are you telling about downtown? Are you still talking about the Mardi Gras incident from 2003? Or the time 45 years ago when Penny's and Roos

Atkins occupied the corners of 1<sup>st</sup> and Santa Clara Streets? Man, it's time to let that go. There are many beautiful new stories awaiting your discovery in downtown – on this very day. Remember: we all trade information all the time. The Downtown Association endeavors to give you the best information possible about this downtown because we need each of you to be an advocate. Those first impressions are lasting ones, and we grab people instantly, or repel them, with the messages we share.

Let's make our personal stories part of the transformation, too, and we will all get there sooner.