

**“State of the Downtown” speech by Scott Knies, SJDA Executive Director
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San Jose Downtown Association Annual Meeting

Title: “Finding diamonds in the gravel”

Good morning everyone. I heard something the other day that kind of summed up the year for me: If you think you are leading but there is nobody following, you are just taking a walk.

Last year I started my remarks by describing the layoffs of 24 San Jose Redevelopment Agency staff and talked about how downtown must adapt in the “new normal” of a sputtering economy with drastically less public sector resources. I wish I could tell you things were really different now: that business has improved for most of our members and the city is back in the black. Unfortunately, that is not the case. In a moment of *deja vu*, 14 more RDA employees were laid off a couple weeks ago. And ironically, at the same time, the Feds announced the Great Recession is finally over. Well, tell that to our cash registers and property values; all the folks working two jobs to stay afloat; the plummeting numbers in our 401ks – for those of us fortunate to still have a job.

In the face of these extreme conditions, downtown did adapt at an accelerated pace – seizing the recession as an opportunity to instigate reform and create new systems. I’d like to share with you three examples of these changes: how the downturn continues to impact the Association and the internal responses to keep the organization healthy; and two new business models – one proposed at the citywide level, the other along our downtown sidewalks.

As soon as the layoffs at RDA were announced last year, we realized a substantial cut to the Downtown Association’s promotional services contract was coming. Sure enough, our contract was slashed 20 percent – \$130,000 in the current year. The board of directors had anticipated this reduction six months earlier with a number of strategic moves that included a significant shift in the board culture. We started with the requisite board retreat to look at recommendations worked out in advance by committees.

The board showed little appetite for cutting Association staff and reducing programs in the midst of the recession. The reasoning was basic: many members are struggling to make ends meet and services from the Association are needed more than ever, especially while the city and RDA were cutting back. If the answer to balancing the budget is not primarily on the expense side, that means we had to address revenue.

The board adopted a smorgasbord of funding concepts: improve earned income from events; increase grant funding; sell more advertising; increase contract services; and well, more fundraising events in general. Still, the board was not sure these initiatives would generate enough new net revenue. Our outdoor special event productions are by their nature risky ventures and the terrible economic climate has made selling any

sponsorships difficult. So the board put its own money where its mouth was and for the first time in the Association's history established a "give or get" minimum pledge for each board member. These combined board-initiated actions allowed the Association to fund its current budget without substantial reductions – yet.

Because next year looks even worse with the Redevelopment Agency facing unprecedented fiscal challenges and the Association bracing for another round of steep cuts while at the same time the city increases fees and service charges. How are we going to break out of this depressing spiral?

The Association board had a piece of the solution last year: grow our way out of it, but this only goes so far with the difficult challenge of finding new revenues. For the RDA, whose primary funding comes from real estate values, this means the economy must cycle back and property values – especially on the commercial side – need to rebound. Until this happens, RDA, the Association, major landlords and many others are looking at continued belt tightening – and more cuts in the near term may be unavoidable.

The downward spiral for the city is different because no matter how much the city grows its revenues, it cannot keep pace with its expenses. You heard the mayor: the city's revenues went up 20 percent the last decade, but the average city employee costs ballooned 80 percent in the same period. That is why Measures V and W are on the November ballot: to make city charter amendments that would allow some reining in of city employee pension and benefits costs. Business owners especially understand the numbers, and it is easy for us to look objectively at the issue in black and white terms. This is a reckoning for our city – long overdue, recession or no recession.

I would offer there are other reasons besides closing \$118 million budget holes and stemming the erosion of vital city services. The budget deficit passion play – we see it at its most dysfunctional in Sacramento, but it's been creeping into San Jose for several years – is now an annual production that saps energy, time and resources away from the work of running our city. The countless hours spent negotiating which worthy program to save or imposing conditions on unions has evolved into a months-long distraction. Moreover, much of the budget dialogue has disintegrated into an obnoxious screed and the council meetings a parade of scripted actors while the dais becomes a mind-numbing jumble of substitute motions and friendly amendments.

Measures V and W offer a chance to break from this stupefying repetition. If passed by San Jose voters on November 2, the door swings open for a new era of dialogue. While it will still be some years before the reforms impact city expenses and help balance the budget, the opportunity for a fresh spirit of cooperation can start immediately. Measure V does not repeal arbitration for police and fire unions, it sets up a different process for arbitrators to consider. Measure W does not take away any current employee benefits, it allows the city to consider a second tier system for new hires. That new system still has to be negotiated and agreed to with the unions. This allows some space to make real change in our civic engagement and for a different conversation to emerge about how the City of San Jose balances its checkbook.

There are many city employees in the room here this morning. You are our partners and we respect and value you, and your work. We cannot have downtown be fully successful without you. While there are some that continue to demonize one side or the other around these issues, that is not the language you will hear from us. We simply view it as dollars and cents. Can you imagine the outcome of the V/W campaign being the moment where San Jose finds a way to work together on a new, reasonable pension system and we go back arm-in-arm – business, neighborhoods and labor – and cement it in the city charter through a mutual endorsement at the next general election? Hey, a man can dream.

Another benefit of a unified city approach would hopefully be an end to the crazy allegations and campaign nonsense, such as the current police union ads attacking the downtown ballpark project as if baseball is somehow responsible for public safety employees retiring with 90 percent of their highest annual salary and lifetime medical benefits. The downtown ballpark is the highest priority economic development project for the city and Association. The \$490 million stadium would be privately financed and create jobs and a tax revenue stream that would actually help to hire more cops and firefighters. The project is poised to go to San Jose voters for approval as soon as Major League Baseball gives us the nod. The speculation is baseball will wait until after its owner's meetings in December to determine the next home of the Oakland A's. That would meet our deadline to mount a successful special election in March 2011. Stay tuned.

The final model I want to talk about involves trees. One of the first city services to be pruned out of the budget several years ago was tree trimming. But even though the city stopped pruning trees, those trees kept growing. The city's position is the trees are the property owner's responsibility, and if the city performs emergency trimming, then it would bill the property owner.

As many of you know, we have a property assessment district downtown, called the PBID, that funds the Groundwerx clean and friendly services, and the beautification programs. The PBID Board didn't cotton to the idea of members being billed after the fact when big branches snapped off or a tree toppled in a storm. Plus, downtown's trees are beginning to look straggly. Last winter, we lost a handful of trees, and if we didn't begin a preventive maintenance program, we knew we'd lose more. We started to work with our partners at the city and RDA to develop a comprehensive program that would care for all of downtown's urban forest. We needed to design a new structure; one that combined the experience of the city with the flexibility of the PBID to create something better than either group could do on its own.

First, we had to count and identify all the trees. Some trees, like the palms and jacarandas, need annual trimming while the sycamores – the predominant species downtown – can be pruned once every fourth year. Since roughly 20 percent of the street trees downtown were in medians, the city pledged to contribute that level of funding along with the PBID, and the board approved the program. We expect to begin trimming

trees later this month, finishing well before the winter storms hit.

While this \$105K a year program is certainly modest compared to budget gaps one thousand times larger, it is an example of a key public service being retained by an approach not imagined just a few years ago. Being creative and thinking outside the box is not the exclusive domain of the private sector or non-profits. The city staff we worked with were every bit as innovative. Sure, we were motivated by budget cuts and shabby-looking trees, but at the end of the day it was a community problem that needed a community solution. Our downtown trees are a wonderful asset, and we can now take care of them with all the attention to detail we bring to cleaning the sidewalks, picking up trash and installing flowers and planters.

On quite a larger scale, there is another important issue that is still in search of a community solution: high-speed rail. Some of you know a high-speed rail system between San Francisco and Los Angeles is currently being planned, with the section contemplated through downtown San Jose proposed to be elevated as high as 60 feet in the air. The Downtown Association believes there are other alternatives to an aerial alignment, such as underground, however the California High Speed Rail Authority does not even want to study another option in the project's EIR besides the aerial structure.

Now, I have always had trouble with authority, so it's not surprising I am struggling with the High Speed Rail *Authority's* treatment of San Jose. If you think about an aerial structure that begins rising at Taylor Street on the north, comes into an elevated Diridon Station, then peaks on some sort of bridge soaring above the 280 and 87 freeways, then not reaching the ground again until Alma Street, you are talking about one of the most critical land use decisions in the city's history – and the full city council has had a single meeting on the project. This is the most important San Jose decision you have never heard of.

After that one council meeting last month, the Downtown Association, chamber of commerce and 10 neighborhood associations – from College Park to Willow Glen – formed a community coalition and sent the rail authority a list of the logical questions that normally would be vetted if the project went through any semblance of the San Jose public outreach process. We are convinced additional study of options and time to gather more facts will ultimately improve the high-speed rail alignment for San Jose, whichever one is ultimately selected.

In the meantime, we are really onto something with this community coalition of downtown business and frame-area neighborhoods working together on common good projects. The basic principle at play here is the Law of Attraction. Like the Downtown Association, our center city neighborhoods are also working on positive, incremental steps to better San Jose. For sure, there's plenty of stuff still wrong with downtown – and plenty of folk who want to focus on that – but there's also plenty more of the right stuff:

South First Fridays; the vine bed and flower boxes on San Carlos Street; the counter at OJs; Maestro Cleve conducting Beethoven's Seventh last Sunday at the California Theater; the brilliant Leo Villarreal light installations at the Museum of Art; the

Casablanca blend at Satori Tea Company in San Pedro Square; a shiny new rubber duck back on the roof of the Children's Discovery Museum. Yes, there's much to be thankful for downtown, and that's what is really attractive, especially to our neighbors. The reality is, the number of resident members in the Downtown Association is growing, and our collective voice is stronger because of it.

That strength is exactly what you are about to hear as our volunteer members present their reports in the upcoming two-minute drill. Harvard professor Edward Glaeser says humans are a social species that get smart by hanging around smart people. We are all about to get smarter here this morning.

There are so many demands on each of us with our jobs and our families it is sometimes difficult, especially in this expensive, high-paced valley, to find the time for community service. Yet, it is because of the time and talent of our dedicated volunteers, residents, business and property owners that we have so many achievements to tell you about.

Please listen to them – they are the real stories of downtown's progress and potential.

Thank you for attending, and enjoy the rest of the meeting.