

Jan. 15, 2010

San Jose Mayor Chuck Reed responds to questions from the San Jose Downtown Association, as asked by President Art Bernstein.

Note: Some answers, marked (E), were edited for inclusion in the Downtown Dimension newsletter.

Art Bernstein, SJDA president: The dire budget news has dominated city business. The RDA budget has particularly been hard hit by the state, but one of the things you have been working on is negotiating the RDA payments to the county. How is that going, and can you explain what reduced payments to the county would mean short term for our RDA budget?

(E) Mayor Chuck Reed: Look at the Redevelopment Agency (RDA) budget and all the obligations we have: 20 percent goes to affordable housing by state law, 60 percent to debt service, 10 percent goes to the city, 10 percent goes to the county, and 5 percent goes to pay the agency operating budget. I didn't even mention capital projects or programs and I'm already over 100 percent. That's a problem.

We have to change the way we manage our tax increment money so that it is sustainable. You can't pay for operations by borrowing. The cash-borrow ratio needs to give us the certainty that when we have tough economic times, we don't have to shut the agency down.

We're dependent on growth and tax increment. Even if we didn't have the state takeaway of \$75 million, there's still not enough money. The tax increment is actually up a couple of points this year and we're hoping for it to be flat next year, because flat is the new up. But if we stay flat, we'd still run out of money. New development and the improvement of the economy are important.

This year is going to be particularly bad. All we have to work with is the ending fund balance. We have to take a fundamental review of our relationships and one of those is with Santa Clara County. We're negotiating with the county so we can issue bonds. We may be able to borrow \$30 million based on tax increment growth this year, which is really important. Negotiating with the county, so they don't have to have all their money this year or next year, helps toward a sustainable structure.

We have no other choice but to go to the affordable housing fund to cover the payment to the state. At the same time, we need to keep the housing department in operation. These are critical things that have to happen and it looks like they are possible. If these things don't come together, we'll be in bigger trouble. We postponed making decisions on the budget until Feb. 23 so that we can be more certain. We're already more than half way through this fiscal year, and we haven't figured out the budget. Almost everything is getting "futures out." We just can't spend money on the projects and programs that we hoped for this year. If you look at the budget you'll see a lot of projects pushed out five and six years.

We will still continue to fund and build affordable housing. We're not taking all the affordable housing money. It just means we have to delay 1-5 years on programs. Eventually, the money will come back for affordable housing.

My two highest priorities with the RDA budget - besides keeping the agency alive - are the baseball stadium and convention center. If you line up all the things that we can spend our money on, those are the two that give us the most bang for our buck. With baseball, there is maybe a \$500 million private

investment, which will add \$3 million in extra tax revenue to the city and agency combined, another couple million to other agencies - \$1 million a year to the county, \$1 million to the schools and others - which totals \$5 million. That doesn't include the benefit to all of you businesses, restaurants and hotels.

The same kind of analysis is applied to the Convention Center. The private investment isn't quite the same type of ratio but still a substantial private investment. The hotels have approved an additional 4 percent tax to fund a piece, and we'll have to fund a piece. Both big projects take a lot of money. We have lots and lots of small projects that have to be considered later while we put together the money to fulfill these larger projects.

The RDA budget is bad compared to previous years. But I think we can count on tax increment growth in the future. The innovation and creativity in this valley is still going on. Clean tech companies are growing and hiring here. I think this will be a breakout year for some of the clean-tech companies that want to expand - finding capital in the market as the economy turns around. The agency will see that tax increment growth and will have more money to work with so we can move ahead.

Bernstein: Will we see cannabis dispensers downtown?

Reed: Legally, they aren't allowed use under the San Jose zoning code. We've been asked to consider adopting some sort of zoning regulation to do so. We're trying to decide if it's important enough to prioritize. We have one planner and one lawyer. They have 28 other zoning assignments. We have to decide if this jumps to the top of the list. This is mostly a workload assessment. Like any other business in our city, if they are operating illegally, we'll deal with them like any other non-permitted business. We've already received a couple of complaints.

Bernstein: Those of us who advocate for the convention center expansion project were bewildered with the City Council action in December, supported by Team San Jose, that connected the convention center project to affordable housing. From our perspective, shifting the funding to affordable housing potentially leaves less money for the convention center. How did that action advance the convention center project?

Reed: We're all advocates of the Convention Center project. If the City Council takes \$10 million, or \$20 million, or \$25 million off the table, which was sort of the proposal, there won't be a Convention Center project for anytime soon. I challenge anyone to take \$25 million out of the Redevelopment Agency budget and accomplish anything anytime soon. It is that thin. We don't have the extra money. People still believe it's the old days of the RDA that there's extra money somewhere, and that just isn't true. Advocates of the Convention Center should communicate to affordable housing advocates that this is a zero-sum gain; that there's only so much money; and if we start pulling out \$10 million increments, we won't be able to do the Convention Center until later when we've recovered from the economy. But affordable housing is important, and we'll keep doing that. What I'm hoping is that we find more sources of revenue for affordable housing. I just got a press release today; we just got \$25 million from the federal government that will help us in some areas of affordable housing. We'll keep looking for more money - affordable housing is important to the City Council. We have the most successful affordable housing program in the state. We spend a lot of money on it. We will continue to do that because it is important. But in this particular budget, there's not enough money to go around.

Bernstein: Are there any new plans related to gang activities?

Reed: I hope to hang onto the money we have for gang prevention, about \$3 million in funding each year. The funding peaked in 2007 and has gone down since then. We've made extra effort that has paid off. We've worked with schools and churches – any extra resources help. The mayor's gang prevention task force is one of the best in the country and a model program.

Bernstein: We think a new federal courthouse should be downtown. Some are looking at the Old City Hall as the location for the new courthouse. Your thoughts?

(E) Reed: We should do everything we can to keep the federal courthouse downtown. It is an anchor tenant - some of you can remember when there wasn't much else downtown beside the courthouse and a few other things. The courthouse is just part of what you have downtown, and I know the judges feel the same way.

We thought we had it scoped out for them to take the Valley Transportation Authority (VTA)/Mitchell block off Market Street between Santa Clara and St. John streets for the Bay Area Rapid Transit (BART) lay down. That was acceptable to everybody, except that the BART schedule has become so lengthy, that it doesn't seem feasible to do the construction project, then build a courthouse. So they began to look at other sites.

I've been to Washington trying to sort out who's in charge on the federal side. They have a courthouse program around the country. San Jose was No. 11 on the list for about a decade. Other courthouses jumped over San Jose and moved up the list because San Jose did not have a capacity issue. Now, we do and I'm hoping to get higher on the list. We still need a site and I think the the Oracle / Sobrato building would be good. If they need more space for security, we may be able to reroute Almaden Boulevard a little bit.

As for the old city hall, we're hoping to sell that to the county as part of our payment for revenue sharing with the Redevelopment Agency and then have the agency pay back the city, who owns it. That's part of that negotiation and beyond that we don't have plans for the old city hall.

Bernstein: High Speed Rail (HSR) announced last month they would not consider a tunnel option through downtown, but last week, again thanks to your leadership, they changed their mind somewhat and said they would still keep the tunnel on the table — at least for a couple months. Do you agree the tunnel option should be carried through the environmental process for the downtown San Jose section of HSR?

Reed: The tunnel option should be studied until we are confident we have the right answer. High-speed rail is committed to studying the underground option through the draft Environmental Impact Report (EIR). I understand they have already done a lot of work, but I haven't seen it. Depending on the quality of their work, we may ask them to continue studying it. I want to be in a position where I'm confident they've done the studies and analysis, and these are the answers and choices that are the right decisions. That way I can thoroughly explain it to you and everyone else. The quality of the work and information is really important because ultimately, we're supportive of high-speed rail and we want it to come through San Jose. We just want the very best deal for the city as a part of it.

I know there are some technical issues with under-grounding and the aquifer, but I'm not settled on it and don't know if it should be up or down. Besides making sure high-speed rail does a good analysis, I think we should also be talking about what do we want to have on that site? All we have are some

conceptual drawings. We need to get more specific and look at older stations and those built recently around the world so we can decide collectively what it should look like. Maybe that's more important than up or down - I don't know yet. We shouldn't depend on the High Speed Rail authority to decide for us. They are in the rail business; we are in the downtown business. We need to work with them.

Assemblyman Jim Beall and I are trying to organize everyone with a stake in Diridon Train Station and form a policy advisory board to talk about how we develop that station, find funding, and develop something we can all be proud of. To start our work within the next month or so, we'll need to get together everyone who may be able to help provide funding – that means state, fed, regional, rail. We need to get everyone involved to put together a good solution for us. It's a huge opportunity. A lot of transportation comes together there, perhaps more than anywhere else in the country.

It was the Good Neighbor Committee's action that drew my attention to this matter.

Bernstein: What is your take on the use of force policies of SJPD and specifically their effect on the image of downtown's night culture?

Reed: I ask anyone who wants to be critical of the San Jose Police Department (SJPD) to look at what we're actually doing. Don't look at just what is reported or think you know what we're doing. We have a series of initiatives that the department and the City Council have undertaken, which began more than a year ago. Some changes have already had an impact, and more changes are to come. So before you criticize us, you ought to at least know what we're doing.

Let's talk about use-of-force specifically. Our police department gets more than 400,000 calls for service and help every year. They respond and make about 38,000 arrests. During the course of making those arrests, they use force about 1200 times. We're talking about a small percentage of potential issues. It's not 99 percent of what they do, it's 1 percent of what they do. Keep that in perspective. But in that 1 percent, there may be serious issues, because 99 percent isn't good enough. We want to be 99.9999 percent right. We have the City Council directing the city manager, independent police auditor and the city auditor to go back and look at the 2009 use-of-force incidents. But if you look at the 1200 use-of-force arrests where the only charge was resisting arrest, that's a good place to start. In 2009, how many cases were there like that? 50. We're talking about small numbers. It doesn't mean it's not important, but don't paint with a brush saying the entire police department is doing something wrong. That's not fair to the men and women of the police department.

The city manager and auditors will come back in about a month with their recommendations on what next to do -- look at more records, do things within the department, implement things here or there ... They have an open-ended request to look and make recommendations. I think that work will be useful and productive to try to look backwards. We did that with the public intoxication arrests a year ago and we discovered that the report writing in most cases was not very good or helpful. So the chief instituted some changes – and this has been obvious downtown – that require better report writing, that require supervisors to sign off on the reports, that require everyone to understand their roles, and the number of arrests for public intoxication have dropped as a direct result of what the department did. We still have issues in this area, to be sure. The chief is in the process of implementing an internal review of use-of-force reports as they come in, so we're looking at them in real time. I think that will have a good effect on any problems that there may be. Because I want every police officer in our department to have the skill to get out of a situation without using force; the judgment to do the right thing; and to use force when necessary and within the limits of the law. We need to be certain that they are trained and

properly supervised to do that. But they will always have to use force in some number of cases to do their job. There's no doubt about that – it's appropriate and certainly lawful and required.

Some of you are participating in the Consortium of Police Leadership and Equity (CPL) effort. Thanks to those involved. We'll be getting a report back soon from that, looking broadly at the department. We're doing that voluntarily. We're doing this because we want to improve the police department. I don't think there's a big city in the country that has solved the problems at the intersection of people of color and law enforcement. Every city has issues.

We also have an effort with the La Raza roundtable in cooperation with Harvard Law School, looking at the overrepresentation of Hispanics in our criminal justice system. You can look at the arrests and see that 60 percent of the arrests in the city of San Jose are Hispanic. And 60 percent of victims are Hispanic. That's a problem. But that's not just the police department. Look at juvenile hall, ranches and places where kids are, jail, prisons, we have an overrepresentation of Hispanics throughout the criminal justice system. So we're taking a broader look at what we can do collectively as a community to deal with this issue. One of the things that I'm doing with Santa Clara County Superintendent of Education Chuck Weis is we launched SJ 20/20, which is a collaborative effort to try to close the achievement gap. Too many Hispanic kids are dropping out of school, performing poorly in schools and in gangs. There's a direct correlation between doing poorly in school, being involved in a gang, dropping out of school and being in prison. If we can break that cycle by getting all our kids to perform at grade level, we'll have an impact on our gang problems and our criminal justice system. That's a big task – no other city in the country has done it.

Bernstein: Christmas in the Park closed a week early last year. How can we avoid this scenario repeating itself in 2010?

Reed: Raise another \$100,000 from the private sector. That's one way. Improve the economy so that we can get more money into our Redevelopment Agency – that's another way. Because it closed early directly as a result of not having enough redevelopment funding available to support the effort. It was purely a budget issue.

Bernstein: Do you have a favorite restaurant in downtown San Jose?

Reed: I'm not going to pick favorites. I have several sentimental favorites that I've been dining at for a very long time. I don't have a favorite, but many favorites, and most of them are downtown.

Bernstein: The Downtown Association believes the city does not need to reduce building heights in both the west corridor and straight ahead over the core of downtown. We also want an airport that is successful and can attract new flights. Is the height of downtown buildings really that big an obstacle to the airport's recruitment of new business?

(E) Reed: The One Engine Inoperative (OEI) is a very technical and complicated issue with 20 different answers depending on which airline you're talking to. Do we really need two corridors? Right now we do because we have a bunch of different rules for different airlines.

But it may be possible for the Federal Aviation Administration (FAA) to nudge the airlines or make a rule about a specific corridor and maybe including that in their regulations to control obstacles. The FAA has so far taken a position that it's not a safety issue and wants us to work it out. Nonetheless, I've

asked the FAA to include San Jose as part of a pilot study of airports with this kind of issue to come to resolution with airlines that deal with OEI and communities like San Jose that want to continue development.

We have worked on this for four years and still don't know the answer. We need to understand the impact we might have on the airlines. Some of you think the airlines are bluffing and that we can tell them whatever we want and they will do that. In some cities that's probably true, but I'm not so sure that's true in San Jose. As we've seen over the last couple of years, they have choices. They have shrunk routes in San Jose and built routes in San Francisco. We're being driven by the economy.

But I don't want to give them one more reason not to want to fly out of San Jose. I want to give them reasons to want to fly out of San Jose. We have a fantastic new terminal: convenient, comfortable, safe, a state-of-the-art baggage screening system, the first airport to be built to new security standards since September 11 (2001). It will be cheaper to operate the baggage system because it's automated. It will be easier to get from the runway to the taxiway to the terminal than most other airports. We have great things going for us and we're the capital of Silicon Valley, so our goal is to have airlines to come back to San Jose and increase activity here.

We need some certainty on these issues so that we can make an informed decision. We need to collectively come together and help the airport rebuild its traffic, especially as we reopen the airport June 30.

I'm reluctant to tell the airlines that we don't care about OEI, that they need to do what we say. Some may say fine, but others may not bring back long-haul flights. Our airport's success and viability depends on getting those flights. I'm hoping to get this sorted out with the FAA's help. The good and bad news is that there are no projects under way, so we have a little bit of breathing room. Hopefully we have some projects, like a baseball stadium, which is the first project coming that I see.

Bernstein: Can the city partner to provide incentives to buy a residential unit?

Reed: Right now we're trying to make sure that Mark Tersini can stay in the Axis project. We think we've successfully extended the time for him to make payments on the parkland in lieu of fees for another year. He posted a bond last year to guarantee the payments. The agency stepped in and made payments to the city and went into Watson Park, but the agency needs the money as I mentioned earlier, so the agency couldn't extend it, so the city has gone to the parkland trust fund and found some money there that we can use to backfill, but we have to have a bond to secure that, because that \$3.5 million belongs to the taxpayers. So we're working with the Axis project and all the projects to try to help them continue to be viable. We want them to succeed, and it ultimately is about being able to get financing. I don't think people need a lot of incentives from us. People want to buy these units, but financing has been a difficult thing. A lot of deals have not come together because of the financial markets.

Bernstein: Recent polls show that your approval ratings are off the charts across the city. You are facing no serious opposition. To what do you attribute your popularity?

Reed: I don't know, maybe I should let others opine on that. I've tried to be as straightforward as I can. To deal with the issues openly and to engage with many people across as many parts of the city as possible, representing all the people, all political and ethnic groups, and to be the mayor for everybody. That seems to work. In addition, I've done what I said what I was going to do. When I was elected, I

ran on the platform of honesty, fiscal responsibility and open government. Since I was elected the Council has approved over 90 fiscal, ethical, open government reforms, over 30 Reed reforms, over 40 sunshine reforms, over a dozen of my biennial ethics review recommendations. So we have changed the way we do business in this city. I said I would do that, I worked very hard to make that happen, I think people respect that, and of course that's not enough, we've got more to do, there's a lot more work to be done, and that's why I'm running for a second term.