



STAFF REPORT

To the Honorable Mayor and City Council From the City Manager

DATE: May 6, 2019

SUBJECT

Proposed FY 2019-20 and FY 2020-21 Economic Development Work Plan

RECOMMENDATION

By motion, approve the Proposed FY 2019-20 and FY 2020-21 Economic Development Work Plan

STRATEGIC INITIATIVE

Economic Development

BACKGROUND

In the past decade Redwood City has experienced a major transformation as a community primarily due to new residential and commercial development. There has been a positive change in Redwood City's image and its desirability as a location for new residents and businesses. The City's Downtown has also undergone a transformation and now thrives as a destination for workers, residents and visitors.

As one of the City's seven Strategic Initiatives, economic development is integrally tied to the City's six other Strategic Initiatives and also has significant synergy with the City Council's priority initiatives that support housing, children and youth and transportation. In the Proposed Work Plan, there are specific tasks that support these three initiatives. Economic development helps build and strengthen the economic foundation of the community, which includes the Downtown and the employment and commercial and industrial corridors throughout the city. Economic development creates wealth in the community by facilitating new development that increases property values and by supporting the growth of new and existing businesses that generate sales/use tax revenue and creates jobs for residents. Increasing wealth in the community, in turn, strengthens the City's tax base which pays for services, infrastructure, public safety, and sustains a higher quality of life for all residents.

While it is not possible to control most elements of an economy or market, a community can be better prepared for economic fluctuations by having a comprehensive economic development program and work plan in place. The plan should be based on goals and objectives that address the community's economic strengths, weaknesses, and threats and leverage new opportunities. The work plan must be

flexible and responsive to rapid changes in the market place such as retailing and new developments and programs that add value to the community. Consequently, staff expect tasks in the work program and other City priorities may need to shift to accommodate these economic and market changes.

A comprehensive economic development work plan is based on fundamental practices used by practitioners in the field and implemented in communities in the U.S. and the rest of the world. The fundamental practices are tailored to meet a community's specific economic strengths, weaknesses, opportunities and challenges. For example, communities which have lower paying jobs or high unemployment (the California Central Valley or Mid-western States) focus on recruiting new businesses. Most economic development programs in the Bay Area emphasize business retention and expansion (referred to as BRE). The attraction effort is captured in business expansion. Bay Area community economic development programs typically direct their efforts towards growing new start-up businesses and retaining those currently located in the area. Business attraction opportunities are usually comprised of knowledge driven businesses in need of top talent and less sensitive to high operating costs in the Bay Area.

The City's economic development function is located in the City Manager's Office and is staffed by an Economic Development Manager.

ANALYSIS

Development of the Proposed Economic Development Work Plan began with a high level scan of Redwood City's economic strengths, weaknesses and challenges (SWOC). The opinions and concerns heard from many business and community stakeholders and City Council over the past year were included in City staff's analysis and are outlined below.

Redwood City Economic Strengths

- Economic development is one of the City's Strategic Initiatives and also aligns with the City Council's priorities of housing, children/youth and transportation
- Redwood City is a central location on the Peninsula for businesses, visitors, workers and residents.
- Redwood City has a thriving Downtown with a diverse number of restaurants and entertainment options.
- Redwood City also has a diverse range of neighborhood business districts.
- There is an inventory of commercial and industrial space to accommodate businesses that include technology, retail, construction, manufacturing and service sectors.
- The City Council supports affordable housing for residents and workers.
- The City Council supports upward mobility for residents with the approval of a \$15.00 minimum wage.
- The City Council has accommodated new residential and commercial development.
- Redwood City has a positive image as a location for businesses, their workforce, visitors and residents.
- Redwood City has a large number of auto dealerships estimated to generate approximately 20% of the City's total sales tax revenue for the City's General Fund in FY 2018-19.

Weaknesses

- Redwood City currently lacks diversity in the types of tech businesses located in its office and industrial parks. New technologies such as biomedical, biotechnology, fin tech and clean tech present opportunities to the diversity of tech businesses in Redwood City.¹
- The General Fund relies heavily on sales tax revenue from limited sources that are not growing.
- Redwood City's location near three large regional malls (Stanford, Hillsdale and Valley Fair) affects its competitiveness for the location of higher profile brand retailers.
- There is a lack of hotels serving the Downtown and Redwood City.
- Redwood City's demographic and economic indicators are changing but still less robust than other Peninsula cities.
- Downtown Redwood City lacks vacant, affordable space for retail stores.
- Redwood City is "built out" which limits new residential, commercial and industrial development.
- The auto industry is changing with respect to the types of vehicles produced (electric and other alternative fuels and factory automation) and the way they are serviced and sold.

Challenges

- Sales/use tax revenues for the City's General Fund continue to decline as a result of the ways goods are sold and changes in shopper preferences.
- Retail brick and mortar stores continue to close leaving large vacant stores that are difficult to re-tenant.
- Continual shifts in business operations at the national and global level result in economic and market fluctuations at the national and local level.
- The cost of doing business and the high cost of living in the Bay Area forces business to expand or relocate outside of the Bay Area. Business operating costs are not sustainable for many local businesses.
- The high cost of housing and living is increasingly unaffordable for residents and workers.
- Funding for infrastructure (housing, transportation, utilities) and capital improvements and services to support continued job growth cannot meet demand.
- There is continued pressure to rezone industrially zoned land and buildings for higher value residential and office space development.
- The cost of living affects the ability of businesses to fill service and entry-level jobs.
- Redwood City continues to lose family entertainment venues due to the high cost of land, rent and labor.

¹ Fin tech is new technology and innovation that aims to compete with traditional financial methods in the delivery of financial services. Clean tech is a general term used to describe products, processes or services that reduce waste and require as few non-renewable resources as possible.

- Transportation infrastructure cannot meet demands of increased traffic.

Opportunities arise in the form of actions or tasks that help address Redwood City's weaknesses and challenges. Weaknesses and challenges can also be addressed by developing new City policies and programs. For example, the potential loss of industrially zoned lands can be addressed in the upcoming General Plan update. Concerns about lack of retail in Redwood City's Downtown have been addressed by specific recommendations of the Downtown Retail Task Force that will be included in a Retail Action Plan that will come before the City Council this summer.

Many of the weaknesses and challenges, such as transportation and affordable housing, are shared by other Bay Area communities and require solutions developed with regional cooperation and collaboration. Consequently, there are tasks in the Proposed Work Plan that involve working with regional organizations such as the Silicon Valley Economic Development Alliance, SamTrans, SAMCEDA (San Mateo County Economic Development Association), NOVA (North Valley) Workforce Development and Joint Venture Silicon Valley. At the local level, implementation of the Work Plan will require collaboration and coordination with the Redwood City-San Mateo County Chamber of Commerce, the Redwood City Improvement Association, the Downtown Business Group, and other neighborhood business associations and community groups.

Based on Redwood City's economic development strengths and weaknesses, nine key objectives were developed that provide a framework for specific tasks in the Proposed Economic Development Work Plan (Attachment A):

Economic Development Work Plan Objectives Fiscal Years 2019-20 and 2020-21

1. Expand tax and other revenue opportunities.
2. Maintain a strong business retention and expansion program to ensure that Redwood City has a business friendly environment that reduces barriers to success for local businesses and development projects.
3. Expand and diversify employment opportunities for adult and youth residents and workers.
4. Identify resources and facilitate opportunities that support upward mobility for residents especially those who have greater barriers to economic sustainability.
5. Expand workforce housing for residents and workers.
6. Increase entertainment opportunities for families and youth.
7. Strengthen and attract retail businesses to the Downtown.
8. Collaborate with local and regional transportation and economic development programs and major employers to identify solutions to transportation and congestion management challenges.
9. Explore potential business investment opportunities and affordable housing developments within Redwood City's two Opportunity Zones.²

² The federal Opportunity Zone incentive is a potentially important economic development tool that could generate workforce housing and business expansion in these geographies. Experts estimate up to \$6 trillion exists in unrealized capital gains, and the idea behind Opportunity Zones is to encourage investors to roll over some of that

Each task in the proposed Economic Development Work Plan (Attachment A of this report) supports one or more objectives. Outcomes or deliverables for each task were developed that can be used to measure results achieved by the plan. The City Council may wish to add objectives that may be addressed by existing tasks or require additional tasks but it is important to keep the Work Plan focused and realistic based on staffing and resources.

An annual progress report on achievement of the Work Plan's outcomes or deliverables will be provided to the City Council during the City's mid-year budget process; other updates, as needed, will be included in quarterly communications to the City Council. This Work Plan is a living document that will be annually reviewed, and as needed, revised by the City Council.

In advance of the May 6, 2019 City Council meeting, City staff contacted representatives from the Redwood City Downtown Business Group and the Redwood City-San Mateo County Chamber of Commerce to invite them to attend the City Council meeting and to provide input on the Proposed Work Plan. City staff plans to share the City's Economic Development Work Plan at upcoming Redwood City Downtown Business Group and Redwood City-San Mateo County Chamber of Commerce meetings.

FISCAL IMPACT

Staff time is required to administer the Work Plan. Additionally, the City Council approved \$100,000 in one-time funding for implementation of the Retail Action Plan which is an initiative included in the Economic Development Work Plan. No additional appropriation is required at this time.

ENVIRONMENTAL REVIEW

This activity is not a project under California Environmental Quality Act (CEQA) as defined in CEQA Guidelines, section 15378, because it has no potential for resulting in either a direct or reasonably foreseeable indirect physical change in the environment.

PUBLIC NOTICE

Public Notification was achieved by posting the agenda, with the agenda items being listed, at least 72 hours prior to the meeting.

ALTERNATIVES

- 1) Do not approve the Proposed FY 2019-21 Economic Development Work Plan.
- 2) Approve the 2019-21 Economic Development Work Plan with changes as directed by the City Council.

capital into areas that need investment and economic development. Staff plans to explore Redwood City's Opportunity Zones for potential catalytic investment opportunities that could achieve city goals around workforce housing production and equitable job opportunities. A map of Redwood City's two Opportunity Zones is provided in Attachment B.

ATTACHMENTS

Attachment A: Proposed Economic Development Work Plan for Fiscal Years 2019-20 and 2020-21

Attachment B: Map of Redwood City Opportunity Zones

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