



Silicon Valley Regional Economic Vitality Conversation

Fourth Street Banquet Center, San Jose

April 23, 2004

Meeting Minutes

Welcome

Russell Hancock, President and CEO, *Joint Venture: Silicon Valley Network*
Focus on long-term economic strategy for Silicon Valley

Carl Guardino, President and CEO, *Silicon Valley Manufacturing Group*
Pleased that Sunne was selected—thanks to leadership and spotlight on Bay Area and SV—SV is a factory of innovation and ideas—today emphasis on solutions instead of problems.

Jim Cunneen, President and CEO, *San Jose/Silicon Valley Chamber of Commerce*
Today is important. What we all do here still matters. Worker's compensation and budget reform are feathers in the cap. The economy is beginning to pick up—we need entrepreneurs for things to flourish - to get things moving forward - need government.

Bev Alexander, Vice President, *Pacific Gas and Electric Company*
Pleased to offer funding as a fundamentally place based business—face same issues as business—recognize that since we're not moving to another state—integrally care about customers—delighted with Sunne's skills and facilitation—appreciate California Center for Regional Leadership's work.

The Honorable Ron Gonzales, Mayor, *City of San Jose*
Welcome to San Jose—the meeting location is on top of a parking garage. In SJ, we are using space in a unique way and people are able to rent this facility for events. Downtown San Jose is a community that is thriving and recovering. Encourage all to see ongoing construction of civic center—will be completed in one year. Facility will provide services in one place, will save money for the city since it won't have to lease space, and will add to the skyline—designed by Richard Meyer (Getty Museum). We are adding more attractions to downtown which benefits local businesses—looking for incentives with private sector—to get families back to work and rebuild economy.

Delighted Governor chose Sunne for position. Economy so large—6th largest—revenue needed in general fund to get state back to number one. The best way out of a recession is education and transportation. Move workers from where they live to where they work. We need to find a better way to



make sure workers can get around in order to maintain our economic competitiveness in the world. We need to do a better job investing in public schools—resources needed for future workers to have tools. The two most important needs of businesses are stability and understanding what is expected of them. This is a partnership and we appreciate them in government - cities and government don't create jobs, businesses do. Cities help them locate. We are extending BART to San Jose, extending the light rail, and rebuilding the bus system. Good news—groundbreaking for 880 interchange—tied to improvements at airport--\$3B of airport funds (no state or city funds) over next 10 years to bring airport up to standard—880 part of transportation infrastructure. Sunne helped get project started on time—promises made through with previous administration. Results will be fewer traffic and people getting in and out of the airport more quickly.

Secretary Sunne Wright McPeak, Business, Transportation & Housing Agency (all comments from SMCp in italics): Great appreciation for leadership of those in room—applaud work—elevated cheerleader. The Cabinet and Administration is out there listening—hallmark of administration—to invite best ideas and to get past provincial, parochial, partisan thinking that has prevented us from moving. We are trying to move forward and build California and rebuild the economy. We are out listening to bring a tough minded discipline to conversation around renewing the California dream. Rooted in sound understanding of the economy. Will hear presentation by Doug Henton—refine and reassess assumptions. Real innovation and energy resides with people of the state. This has become clearer to me, with the evolution of economies in the regions, and even clearer with the globalization of the world marketplace and integration into one market. There is a premium on immediate response, real time problem solving—not far away in Sacramento—distributed digital economy concept. Start by trying to understand and validate working assumptions about what is going on with our economy. Ongoing validation of working assumptions. Understand what happens in state and support that. We have a working construct of California's comparative advantage—where does it come from? Taxpayers provided my education. We are working on a theory of comparative advantage—play to strengths, minimize weaknesses. Employers will remain if they can make a profit—will provide revenue to state, can invest in future. Five building blocks for comparative advantage:

- 1. California gets tremendous comparative edge from research base and institutes of higher education—unparalleled—we need to play to this strength and retain this. Recognize that California is not the cheapest place to do business—but we must get the highest return on investment. Value proposition—but have a lot of regulations that prevent profit.*
- 2. Infrastructure investment - housing, transportation, energy, water, workforce, environment- we need to do a lot better.*



3. *Identify where we have comparative advantage in industry clusters and play to our strengths by working closely with them.*
4. *Make a regulatory system that works—performance based. Worker’s compensation is a symbol of this—will overhaul regulatory framework.*
5. *Realign relationship between state and local governments—investments need to align with reality - provide incentives for local governments to collaborate on a regional level.*

Regarding infrastructure, Business, Transportation and Housing gets to connect more dots than any other place—plus Cabinet works together very closely and better than ever before - Vickie Bradshaw and I talk about workforce investment, CEQA reform with Chrisman, 3Es of smart growth. We need a higher return on investment in terms of greater mobility in transportation funding. Have struggled with transportation cuts—delivered set of recommendations on how to jump start transportation funding—tools to partner with private sector to redo Caltrans—you are now a mobility company. Different set of options—e.g., broadband deployment. We have to change the land use pattern in this state. Governor and Cabinet take a stand against “dumb growth.” 60 day time frame—not enough housing to match population increase and job locations. There are environmental impacts - need hydrogen highway. We are chewing up farmland. Our economy can not sustain that. Integrating set of challenges around context of smart growth—starts with an adequate housing supply. Will ask for leadership. Want to make sure industries stay in California and grow.

E.g., 880 mobility Mayor Gonzales brought up. Jurisdictions are under-building by 60,000 units – it doesn’t make sense to invest in this. Traffic created from commuters. Will ask for help from all of you to do more to change California over next three years. Taking input of all Conversations in real time – fed into Governor’s office and CPR – using in all briefings – important for me to listen. It is critical that we not lose this opportunity. Fragile recovery. Cautious optimism on what could be good news—bracing for it—can’t overwhelm infrastructure—don’t want to chase jobs away. Thanks to PG&E.

Economist Perspective: The Current State of Silicon Valley and Silicon Valley’s role in California’s Recovery

Doug Henton, President, *Collaborative Economics*

Where we are and where we need to go. Why is this region important to the state?

Silicon Valley’s growing contribution to California’s economy went from 9 percent in 1990 to 16 percent in 2003—we have added to the total output while the population has declined. This is important as we look at productivity per employee which has grown dramatically. There was a giant jump from 1994 to 1999. It continued to



increase through the downturn of the dotcom burst. Productivity continued to grow even as we lost jobs. Region constantly going through transitions and we are now at another transition point.

Silicon Valley Edge—we have an economy that goes through periodic surges. We were in a defense era in 1960, integrated circuit thru 1975, personal computer through 1990, internet through 2000. Nothing goes up forever - always has an S-curve. This valley is driven by waves of innovation. New technologies drive these dynamic waves of innovation, entrepreneurs take advantage of opportunities and what make this valley unique, new firms cluster around new technologies creating short term bubbles. We saw this with the development of personal computers with companies like Osborne. New products eventually become commodities leading to the breaking of bubbles. We just went through this. New technologies emerge from a convergence of old technologies and the process of creative destruction begins again. The next wave of innovation builds on prior waves of innovation and creates a new wave.

Recent short-term bubble: VC funding spiked in 2000. Bubble burst. 200 companies created for a market space appropriate for 30 companies. Some companies succeeded (Yahoo, Google, eBay). 2003 number is still higher than 1990's level. Boom, Bust, Build Pattern. Now we are back to normal. Silicon Valley jobs return to pre-bubble employment levels. Added 350K jobs, lost 200K jobs—net is 150K jobs but people don't think that way. They just look at the jobs lost. Most recent data suggest we've flattened out—jobs being created—high productivity is making this slower than would've been. Structural changes going on: losing concentration of software—portfolio shifting. VC shifts reflect this as well—shifting toward medical devices and biotech. For the first time biomedical is equal to software and it will continue to increase.

Innovation is key to Silicon Valley success across all industries in a global economy. This is where we compete. Continued reinvestment required to keep pace with change. Regional leadership makes difference in innovative regions: we have to build fundamental intellectual assets, connect entrepreneurs to assets, promote a habitat for innovation and entrepreneurship, make quality of life an innovation asset, and invest in our future.

Compared to the rest of the nation, Silicon Valley is much more concentrated in high paying occupations. 29 percent of jobs are innovation and research and development. This number is 15 percent in the entire United States. This is where people come to do this work.

The fastest growing industry in this region is healthcare—jobs growing—jobs of place.

Talent is most critical innovation asset in the Valley—talent is based on skills and training, technology is created by talent, quality of life attracts and retains



talent—housing, transportation, environment, creative people want to live in creative place.

Risks to the innovation region: Valley risks losing talent because of declining quality of education system, housing costs, declining quality of life, and transportation congestion.

For a good business climate we need a balanced approach to innovation - add positives and remove negatives, add productivity enhancing factors (K-12 education, colleges/universities, community quality of life), mitigate cost factors where we can (housing, health care, regulatory costs), create a high value innovation region - this should be the goal if we are going to move forward.

What’s the next wave: 1990s convergence hardware, software, media created internet revolution. Next convergence: infotech, biotech, nanotech→?

Examples of convergence. Biotech: Applied Biosystems (tools to map human genome), Gilead Sciences (vaccine for AIDS), Applied Materials (nano tools for nano chips), Affymetrix (gene chips using semiconductor tech), Nanosys (Nanotech leader). Next wave? How to make sure we’re on cutting edge.

Preparing for next wave:

Recent bubble broken---learn and move on
Goal—sustain habitat advantages in productivity and innovation
New convergence building on prior waves
Silicon Valley is well positioned but no permanent franchise
Need to work together to ensure next wave happens here.



Conversation Notes

Jim Cunneen, San Jose/Silicon Valley Chamber of Commerce: Last slide was key—goal being innovation. In terms of state government help, need to help nurture strengths—in manufacturing, for example. Manufacturing as a continuum—R&D and final test and assembly based here—policies need to nurture strengths. Policies like continuing to expand R&D tax credit, restoring MIC tax credit—priorities. Regulatory climate needs to be addressed. We want to be that innovative society.

Carl Guardino, Silicon Valley Manufacturing Group: 4 building blocks of SVMG:

- Education
- R&D: public and private sector
- Infrastructure



- Do No Harm: worker's comp/tort reform

Solutions: Have to maintain commitment to CSU and UC systems (K-12—local communities), keep open minds in legislature - 55 percent voter threshold needed for more local dollars to go to local and regional transportation needs. Build more homes, higher densities. CEQA Reform. Do no harm category: Administration is doing great, but the worker's comp example is not the only solution. Tort reform and unemployment insurance - as well as a variety of other issues—perception of climates.

Martin Chemers, University of California Santa Cruz: Three necessities for comparative advantage: education, creativity, and equity. We must save California master plan which made our education system the best in the world. Need to take care of Community Colleges, UC, and CSU. Need to move on research and tech—to create new technologies. NASA research park contract is \$330 million and the largest contract UC has ever received. There are incredible innovations by UCSC (example: microchip placed in the retina so the blind can see). They are going to ask the federal government to build bio-info-nano tech center. There is also the possibility to attach a school of management. Equity—at all levels - cannot run a society that doesn't care for all people.

Manuel Pastor, University of California Santa Cruz: Need to make sure no one is left behind as we move forward. Outreach programs in UC, WIB. Expanding Community Colleges. While regulatory reform is important, need to be cautious because some regulation is also important—as we are removing impediments we need to continue environmental and worker's safety regulations. Smart growth principles allow us to be business and workforce friendly.

Ray Rossi, Intel Corporation: Tax policy—coming out of economic downturn—state not well positioned. Urge to look at tax policy. State does double taxation—need to tax business outputs, not inputs. We are one of a small number of states that does not have this double tax resolved. Let's not reduce 15 percent R&D tax credit—doesn't apply to assets and is part of our comparative advantage. MIC can apply to R&D assets as well. Companies making decisions now that will not play out for 18 months. Urge Administration to look at tax policy now. *SMcP: Cabinet members have heard this a lot—have elaborated in a new way. Two comments: They haven't seen assembled the kind of information requested by the Department of Finance - a comparison of various tools that are of assistance to employers—MICs, enterprise zones, ETP, operating loss. Becoming concerned with timing issue as well—Department of Finance is primary input. They have no economic model to evaluate resources. Requesting that three organizations put together a discussion paper immediately. This same issue came up yesterday in the Tri-Valley and EDAB is working with UC on this as well to lay this out so she can get it some attention. At least submit a joint letter.*



Mark Linder, City of San Jose: Need to improve relationship with state. Quality of life is a local government responsibility. Money state takes has direct impact on services—parks, libraries, etc. Housing is a high priority. Primary source is redevelopment agency - the state tax profit will barely pay. Public safety fees make up the rest. Diversion of property tax—need a stable predictable source. VLF is third largest source of income for them. They will work with Sunne on this dysfunction.
SMcP: Employer community should work with you.

Russell Hancock, Joint Venture Silicon Valley Network: Pick up on Chancellor's discussion about nano/bio/info tech—think that this will lead the Valley out of the doldrums. Press release announcing Tech Convergence Consortium JVSVN just got started. Stress importance—previous waves of innovation were easier to pull off (technology, software - HP started in garage). Nano/info/bio is different—massive capital investments and labs are needed—not something led simply by entrepreneurial behavior. Governor needs to be outspoken on this—want to involve Governor's office. Other states are ahead of us and we are losing to the competition.
SMcP: Asked Governor to ask President for three percent of GDP. Homeland security not taking advantage of technology.

Bob Brownstein, Working Partnerships USA: Three points -

1. Recommend adding a building block—maintain a base of educated and hardworking employees.
2. Restore cuts to higher education—close tax loopholes
3. Link housing to job development within the cities/municipalities—is there a way? Housing reserved for economic expansion within municipality.

SMcP: With respect to housing, document submitted to Senate in January really hit hard regarding supply. Looking to every jurisdiction to have sufficient land supply. Every planning organization has been reporting 20-30 year numbers that have been remarkably accurate.

Ron Walter, Calpine Corporation: Reliable and reasonably priced electricity source is the key. There is not an energy policy in the state that is functioning. Energy issue is like an illness that needs to be cured—in remission. As soon as economy begins to recover, we will have big shortages in supply and there is no policy to promote more supply in this state. Calpine is a private company—four power plants that could be on line in two years—in order to deploy capital, they need contracts to sell—looking for a framework for fair and open competition. Not looking for AB2006—opposed—return to regulation—will give less and more expensive supply. Want to see a competitive procurement system in this state to supply new generation.

Seth Fearey, Joint Venture Silicon Valley Network: need to add “Information and communications infrastructure” to the state's vernacular. We went through an incredible boom - phase one - now we are thinking about phase two. How can we use the infrastructure we have in place better? The state government needs to be the



role model for telecommuting and telework, movie permitting online, e-government services online. We are scratching the surface but a lot more could be done. With respect to healthcare, the network can help improve care and reduce costs. We are leaping forward with speed of infrastructure - we need to set a goal of one gigabit everywhere by 2010. Gross state product and jobs could be greatly enhanced. We are way behind many countries in broadband use. TechNet study puts California fourteenth in the United States. The Bay Area is way behind in California - San Diego is number one.

Justin Bradley, Silicon Valley Manufacturing Group: This year is important to make a big breakthrough. If things aren't normal this summer, could be an issue. Governor's appointments—Joe Desmond. AB 2006: could be done far more cleanly. Silicon Valley Manufacturing Group has developed a Resource Adequacy Plan and would like Sunne's counsel on this. Competitive wholesale markets, fair playing field. Capacity market with tradable tax—load can follow tax. Telecom: recently got into—telecom bill of rights—testified at PUC that is was insufficiently justified. Never has someone asked to fix telecom. Test of Governor- May 22 is the vote. Ask that an investigation is done before then on what this might do. Also getting involved in offshoring bills. *SMcP: Her focus is to make it profitable to do business here. Regarding energy, she sat through a briefing with the Governor a month ago. He has more fundamental policy decisions. Energy Action Plan was his policy during platform. Desire to have hybrid system—IOWs need to reintegrate vertically—but also have market forces work in favor of consumers. Pushing to get to auction by third party process—resource adequacy important. Bid prices on approved projects.*

Chancellor Stan Arterberry: West Valley-Mission College District: Happy Community Colleges are being included in discussion. In this economy over 15 percent of students with bachelor's degrees or above. Charging some \$50/unit to take classes—needs to be eliminated as a policy. \$13 M for budget. Priority should go to citizens who don't have education. Self admittance policy—if they know loophole, get around paying higher price. Most needy students are being denied access. Eliminate policy of charging \$50 per unit for re-education. Don't place this burden on students. There are enforcement policies with this - self admittance is difficult to enforce. They are some of our most needy students and are crucial to economic recovery.

Anthony Waitz, Quantum Insight: Different from other speakers as he is not from a big company or large organization. Am a consultant and a concerned citizen with a unique perspective—he consults in the area of nanotech. He has worked for Venture Capitalists, Chevron/Texaco, as well as a select number of start-up companies from various perspectives (one out of UCB). Have an electrical engineering background. Concerned with how Silicon Valley will move forward and how nano will affect that move. In race for nano at the world level, to win we need to send our best—Silicon Valley is the best region for this work. Silicon Valley is an ecosystem—we don't want to damage it but the recession is damaging it. Unemployment rate is deceiving -



there is a large amount of fat left over. People are refinancing to maintain. Wants a smooth transition for Silicon Valley. To achieve this, need coordinated effort—have joined Joint Venture initiative to make sure their collective voice is heard and that they can influence appropriately. Previous administration—CNSI—UCLA and UCSB coordinating. Should use empty buildings in Silicon Valley. *SMcP: Once budget issue sorted, info tech will be emphasized as a priority—convergence of IT, biotech. Getting UCs to coordinate. The Governor has spent more time in Silicon Valley than in any other region.*

Judith Paulus, Semiconductor Industry Association: Look at the role of tax policy. California is not only in a race with other states but also with China. Governor Pataki spent time with us—have made state investments in nanotech. China is in the mix—very agile at studying others ecosystems—using tax policy to attract investors. Land and infrastructure leveraging. Also, use of tech in national security—broadband, file sharing not being used. Need to be able to communicate across country, vulnerable.

Sharon Landers, San Jose Redevelopment Agency: Silicon Valley an economic engine for the state and suffered more severely than any other part of state in the recession. Redevelopment is the tool we use - it is used in a place where the market is not going to step in. In 12 years - 10,000 units of affordable housing, created tens of thousands of jobs in the region, property values in redeveloped areas grow faster. Dollars leveraged with private companies. Coordination of redevelopment agencies. Concern they have is even though they lost money they are still the largest. *SMcP: Vickie Bradshaw and I are working as liaisons to commission. There is some advantage in that the Department of Finance has not looked long term on these issues. Redevelopment agencies are not just corporate welfare as some people say.*

Peter Penfield, CISCO Systems, Inc: Involved with 4-5 governments around the globe. Yesterday he was in St. Paul with the Governor—perception is that California is a hard place to do business. Gave him the San Jose example. San Jose has the One Voice project—customer centric—taking ownership of problems, holistic approach to solutions. In the past the answer lay in the agencies. Changing way of doing things from vertical to horizontal. Project means one contact for the future. Mayor of Stockholm and San Jose have presented on this. There's a problem - the city of San Jose can only do so much - city needs to be integrated with other counties and the state of California. Regarding the sniper issue in Washington DC, the agencies didn't talk to one another or have a coordinated system to track information. Homeland Security does not have the money to do this right. Bring down silo walls and share existing assets—link infrastructure and assets. The real issue in California is culture, not technology. Ports don't talk to police. City has to integrate with state and county governments. The assets are there, if we can get past the culture.



Rani Yadav-Ranjan: Testified regarding the budget. \$2B IT budget. The issue is access—agencies hiding behind the budget and special funding sources. Don't want to work on innovation. It is easier to push paper than get an issue passed. It takes nine months to get the paperwork completed to become a plumber. Lack of e-government efficiency. Need to blow up that box and bring into 21st century—encourage looking at new ways at doing things - businesses are not encouraged to do business with businesses.

Gary Hooper, Genencor International, Inc: Economic recovery leads to jobs. It has been shown that the next wave of jobs will come from bio/nano/IT. History is repeating itself—positive lessons should be drawn. Master Plan for Education—concerned with tinkering with that. Need to do things right. This is one reason we started here, grew here, and stayed here. From the Administration's point of view—need to redefine Silicon Valley—convergence of technology—need to look across the Bay.

Linda Mandolini, Eden Housing: There are still some barriers to building affordable housing. State role—first time homeowners. Encourage attached product. SB 800 a good start to reform defect legislation. Insurance Companies not in business—have to be brought into market. Regulation cooperation needs to be given consideration. Cities should get credit for investing in other regions. Trust fund—need credit in housing elements—effective tool to reward policies. Prevailing wage requirements are a big problem - need a wage increase.

Paul Krutko: There has never been a better time to rent space in the Valley. People here are ready to work. We are dead according to the east coast media. A global business model needs to be recognized—the Governor has a role to communicate this message to the world. We need to connect with other technology regions around the globe. We have a franchise the Governor could sell to companies in other countries.

Manuel Pastor, University of California Santa Cruz: The Governor was not elected because of policies, but around his message of leadership and hope. Attitude of can do and will do is refreshing. Echoes Bob's point regarding economic competitiveness strategy—inclusion and fairness. Paradise Lost is a PPIC study that shows states with the largest demographic divergence have the lowest level of infrastructure spending.

Mike Curran, NOVA Workforce Board: Wanted to reiterate what Stan said—structure around K-16. Reality is people come in and out of the labor force. We live in a place of lifelong learning. At NOVA, 60 percent of people have degrees. Often education is paid for by businesses. When you lose your job, you lose training. These people are competing with their kids for the same seat in school. Value of thinking about education as a lifelong process—importance of education being a lifelong investment. Just as important to me as it is to my kid. There does not have to be cuts. We can



borrow money for school - California should borrow money to send people back to work.

Kathy Heatley, OUTREACH: There are technologies not being used in public transit. Issue of intelligent transportation - can do a lot more with less money. Need to coordinate transportation at the federal level. This will increase the quality of life.

Karen Davis, City of Sunnyvale: The NASA Ames project gives tools to incubate products for new companies. Education component—can create a system there for the workforce of the future. Education commission at the state level—cities without strong redevelopment agencies -key partnership with public/private needed. From the education roundtable - we have to have a strong marketing message—strong perception that we are dead and not going anywhere. The Governor needs to change this. Upcoming Bio convention—there will be a number of Governors here to poach from us—need our Governor to say this is the place where they will stay. *SMcP: Will reclaim.*

Ted Olsson, IBM Corporation: Personal commitment to education. At a time when we are suffering in education with K-12 students, we sit in the intellectual capital of United States. Partner with companies to mentor/tutor students and teachers. Bring message of volunteerism—can pull ourselves up here in California—have resources and will—if we have the state leadership. Focus on problem, can solve this. Not limited to math, science, and engineering. Need all skills as society is composed of all of us—companies couldn't exist with just engineers and math people.

SMcP: Final comments—haven't heard anything today that isn't part of overall picture of overall strategy—reinforcing comments. Even if you've heard it before, you're getting it on the record, and in sense of religion—spiritual revival. To underscore theme—it is a matter of hope and inspiration—they recognize the need for a new form of governance that empowers, rewards, and places a premium on civic leadership in many forms—partnering with the state, local government, business based organizations, regional collaboration. Encourage everyone to participate in Joint Venture Silicon Valley Network, Silicon Valley Manufacturing Group, San Jose/Silicon Valley Chamber of Commerce. It is much more efficient for money to be spent this way than through Sacramento and the government. The First Lady has taken on GO-SERV and volunteerism as her personal priority. Citizen leadership is more important today in a global economy when the pace has changed. Your involvement is critical.