

CITY OF MILPITAS ECONOMIC DEVELOPMENT STRATEGY AND IMPLEMENTATION ACTIONS

FINAL REPORT

Prepared for:

City of Milpitas

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I. EXECUTIVE SUMMARY

The *City of Milpitas Economic Development Strategy and Implementation Actions* report (EDS) is a policy document that will guide the City's economic development activities over the next five years. The EDS will serve as Milpitas' road map to grow and diversify the City's economy, support businesses and workers, and improve quality of life in the community.

The EDS is being published during an unprecedented period of economic uncertainty resulting from efforts to slow the spread of the coronavirus responsible for COVID-19. The City of Milpitas is undertaking immediate efforts to assist businesses harmed by legally mandated restrictions on travel and business operations. These actions are expected to dominate the work of the City for at least the next year. Since the EDS is a five-year plan, the strategies and actions in the EDS provide a roadmap for stabilizing and growing the Milpitas economy as the City, region, nation, and world recover from the current economic crisis.

The EDS report's analytical findings, strategies, and implementation actions were developed in conjunction with input provided by the City of Milpitas' City Council, Economic Development and Trade Commission (EDTC), and numerous community stakeholders. Input from stakeholders was gathered via a series of industry-specific stakeholder focus groups, a meeting with the Milpitas Chamber of Commerce, a public community workshop, input stations in Milpitas City Hall and at Milpitas High School, an online community survey, and one-on-one interviews.

COVID-19 Economic Impacts and Responses

On March 16, 2020 and subsequently on March 31, 2020 and April 29, 2020, the Santa Clara County Public Health Department issued or modified Orders directing individuals, businesses and government agencies to shelter-in-place to slow the spread of COVID-19. While this pandemic is clearly a public health and safety concern, the financial impacts our local and regional markets are experiencing is unprecedented and will likely have long lasting effects. The City of Milpitas recognizes that businesses are an important part of the fabric of the local community. Since the first Order was established, the City's Office of Economic Development has been addressing the pandemic's impacts to the business community, the immediate and future challenges staff expects to face, and the Office of Economic Development's role within the City organization.

The Office of Economic Development has re-prioritized its mission to assist with business continuity, resiliency and recovery through researching, organizing, and consulting with Milpitas City departments, Santa Clara County's Office of the Executive, business advocacy groups, financial institutions, and community based and philanthropy organizations. Aside from collaborating with various partners to ensure the corporate community is well informed about available resources, the following represents a proactive approach to providing critical relief programs that promote business continuity, resiliency and recovery.

- **COVID-19 Website Updates** – Commencing on March 13, 2020 staff added coronavirus related business assistance and guidance information for employers and employees onto the Economic Development webpage. Since then, staff has been updating vital business resources information and have developed a new webpage exclusively for information on available loans from the U.S. Small Business Administration (SBA), California's Infrastructure

and Economic Development Bank (IBank), and other private funding sources as well as non-financial relief programs.

- **Small Business Assistance Subcommittee** – On March 17, 2020, City Council established a Subcommittee to explore recommendations for the City Council regarding small business loans including those that other cities may have, relief assistance, small business survey, tracking of business assistance requests, and other relevant possibilities. The Small Business Assistance Subcommittee met on March 24, 2020 and April 6, 2020 to develop a purpose statement, draft a work plan, and to recommend to the City Council that a small business loan program be developed.
- **Milpitas City Council** – City Council met on March 17, 2020 and April 21, 2020 to discuss how the City may be able to assist the small business community including the establishment of the Small Business Assistance Subcommittee to focus on exploring small business loans and other relief programs, and to consider development of a small business loan program. Staff is engaged in discussions with the Silicon Valley Community Foundation and Opportunity Fund on the potential collaboration as fiscal agent and administrator should Council approve the development of a City sponsored small business loan program.
- **Business Survey** – Staff developed a Business Survey in English, Chinese, Spanish and Vietnamese languages. To date, staff has received over 180 responses to the Business Survey and has learned about some pinch points that the business community is experiencing such as the need for financial assistance for rent/mortgage, payroll and utilities, business operation modifications required and workforce reductions.
- **Virtual Business Assistance Center** – In order to improve customer service delivery, the Office of Economic Development, with the assistance of colleagues in other departments, have developed a Virtual Business Assistance Center, to assist business representatives on their respective assistance requests. To date, staff has received over 90 business assistance requests and staff is now proactively connecting with over 250 representatives from the corporate community vis-à-vis those that have completed the Business Survey, participated in the City hosted webinar and/or emailed staff through the newly created BusinessAssistance@ci.milpitas.ca.gov email address.
- **Assistance in Multiple Languages** – In addition to the Business Survey, the Office of Economic Development stands ready to assist with federal, state and local government financial and non-financial resources, as well as additional resources available in the private sector, to business representatives in English, Chinese, Spanish and Vietnamese. Economic Development staff have developed a standard business assistance template and have trained City language experts on the use of the template and the process of following up to business requests for assistance.
- **Restaurant Promotions Campaign** – The Office of Economic Development initiated a Restaurant Promotions Campaign to determine which restaurants are open and providing delivery or take-out services during the pandemic. The Economic Development website illustrates this information in order to help restaurateurs in a shop local campaign. This successful initiative included a partnership with the Chamber of Commerce and Lions Club as they assisted in contacting over 225 restaurants.

- **Grocery Stores** – Staff contacted all local grocery stores to ensure that social distancing practices were in place and to keep the shopping carts clean for public health and safety.
- **Business Resiliency and Recovery Webinar** – Staff hosted a Business Resiliency and Recovery Webinar on April 16, 2020. The webinar included speakers and co-hosts from the Silicon Valley Small Business Development Center, Dennis King, Small Business Development Corporation of Orange County including Mike Ocasio and Ed Brugman, Warren Wettenstein, President of the Milpitas Chamber of Commerce and Superintendent Cheryl Jordan of the Milpitas Unified School District. Approximately 130+ people participated, and staff has received positive comments from various business owners since then.
- **Communications Strategy** – The corporate community is seeking the City's response, guidance and regular communications. A communications strategy with an emphasis on empathy, flexibility and accessibility has been implemented to provide valuable business assistance and guidance from various sources with the expertise in the areas of technical guidance and financial resource aide. Staff has been communicating frequently with the local business community through Constant Contact messages that provides critical information related to financial assistance through SBA and lending institutions, County Order explaining the definition of “essential business,” staff offering businesses technical assistance, California’s Employment Development Department programs for employers and employees, and much more. To date, nine messages have been distributed to business representatives who have active business licenses.
- **Bay Area Urban Manufacturing (BAUM)** – Staff has been participating on weekly Bay Area Urban Manufacturing calls to ensure that the Office of Economic Development team better understands the specific needs of the technology and advanced manufacturing industries. These industries are vital to the health of the local economy because they make up approximately 30 percent of all Milpitas businesses and jobs.
- **Education and Learning** – Information is being shared at rapid speed and is constantly evolving, so in order to stay up-to-date on such things as stimulus packages and employee benefits, staff continues to participate in various webinars for more education and learning.

It is important to note that the role of the newly established Small Business Assistance Subcommittee is to focus on the immediate small business response related to COVID-19. On the other hand, the Economic Development Strategy and Implementation Actions document also contains longer-term Economic Development programs and initiatives that promotes the economic vitality of the local economy under a five-year plan. The Economic Development Strategy and Implementation Actions document represents general policy statements and goals for future programs and initiatives. Economic conditions are evolving rapidly, and the Office of Economic Development continues to monitor, research and connect our business partners with essential resources and assistance for business continuity, resiliency and recovery.

Summary of the Economic Development Strategies

The strategies are organized within seven topic areas based on challenges and opportunities identified through outreach activities and data analysis. The EDS report also includes detailed implementation actions for each strategy, identifying the lead organization/department, supporting organization/department, potential partners, and need for additional funding. The numbering of the topic areas and strategies has no relationship to their relative importance for implementation.

Over the next 12 months, the EDS assumes that the City of Milpitas' economic development activities will be dedicated to assisting the business community and unemployed workers through the economic crisis caused by efforts to slow the spread of the coronavirus responsible for COVID-19, and hopefully the path to recovery.

SMALL BUSINESS, ENTREPRENEURSHIP, AND DISPLACEMENT PREVENTION STRATEGIES

Small businesses, defined as having between 2 and 49 workers, account for one-third of all jobs in Milpitas and include a wide diversity of industries. The overall number of businesses in Milpitas had grown in the last decade, including office-based small businesses, retail and personal services stores, and restaurants and drinking places. However, there was a slight decline in small industrial businesses, mostly due to the ongoing transformation of the Transit Area Specific Plan (TASP)¹ area from an industrial area to a largely residential area.

Small businesses are especially vulnerable to harm and potential permanent closure resulting from shelter in place orders and social distancing requirements issued to prevent COVID-19. These businesses are less likely to have the financial resources and access to capital available to larger companies. Small businesses are also experiencing difficulties in accessing newly available federal assistance through grant and loan programs. Strategies to support small businesses include:

- Providing immediate assistance and resources for small businesses in response to COVID-19,
- Strengthening partnerships to provide technical assistance and outreach,
- Targeting support to small businesses in areas expected to undergo significant change,
- Requiring developers to plan for relocating or accommodating small businesses that are displaced, and
- Expediting and reducing the time and expense of permits and inspections for small businesses.

RETAIL AND RESTAURANT STRATEGIES

The number and diversity of restaurants and retailers in Milpitas is one of the City's major strengths, both economically and culturally. Restaurants performed very well in recent years with sales increasing significantly. However, the share of sales generated by retail stores citywide is declining, matching national trends. Performance also varies greatly by retail center; several retail centers continue to perform well, and are some of the largest contributors to the City's fiscal health (such as the Great

¹ The specific plan may be renamed the Milpitas Metro Specific Plan as part of an update.

Mall, McCarthy Center, and Milpitas Square). In contrast, some of Milpitas' older retail centers are disinvested and underperforming. Certain employment areas in Milpitas also lack amenities preferred by workers, including cafes, gyms, restaurants, and daycare facilities.

Regardless of positive long-term trends, retail and restaurant businesses are now suffering significant economic harm as a result of efforts to combat the COVID-19 pandemic. In the short term, shelter in place orders have eliminated onsite dining entirely, and most restaurants cannot compensate for this lost business through takeout and delivery orders. "Nonessential" retail stores are also shut down, including nearly all businesses at the Great Mall. As a result, significant numbers of Milpitas restaurant and retail employees have been laid off or furloughed. Retail and restaurant businesses may continue to suffer even as restrictions are loosened, since social distancing requirements may limit the number of customers in a space, and customers themselves may be wary of crowded spaces for a long time to come. The declines in retail and restaurant activity will also result in a major decline in Milpitas' overall tax revenues since sales and use tax typically constitutes the second largest source of General Fund revenue.

Strategies include:

- Immediate assistance in response to COVID-19 impacts on this sector,
- Assisting in promotion of shopping centers/districts and the City's diverse mix of restaurants and retailers,
- Providing storefront façade improvement assistance when resources are available,
- Proactively monitoring sales performance of retail centers and reaching out to owners, and
- Encouraging placement of retail, restaurants, services, and amenities near office space

WORKFORCE DEVELOPMENT AND EDUCATION RESOURCES

Employers in Milpitas offer a wide variety of job opportunities, with a mix of high skill, high-wage workers in computer, mathematical, and engineering occupations, as well as middle-wage, middle-skill workers in manufacturing occupations. Milpitas also has a sizeable share of low-wage service industry jobs. Many employers reported that they have struggled to find highly skilled workers in recent years. Now that unemployment rates are rising due to layoffs resulting from the COVID-19 pandemic, job seekers are likely to require workforce development and education opportunities more than ever in order to enhance their skills and compete for high quality job opportunities. Furthermore, the need for affordable housing—already a significant challenge identified by Milpitas stakeholders—will further increase as workers lose their incomes.

Strategies include:

- Assisting workers that have been laid off or furloughed due to the COVID-19 crisis,
- Identifying opportunities to develop more workforce housing so that employees can live and work in Milpitas,

- Establishing regular meetings with workforce development and education partners to coordinate their activities around training and educational programs for employment in growing target industries,
- Collaborating with MUSD Board and staff leadership to develop a shared work program,
- Exploring collaborations with regional educational resources, such as promoting apprenticeship programs, and
- Continuing to provide support for the FlexFactor program and Manufacturing Day to introduce youth to potential opportunities and to connect job seekers with employers.

TECH AND ADVANCED MANUFACTURING STRATEGIES

Milpitas has a unique strength in attracting and retaining high-tech companies engaged in R&D and advanced manufacturing activities. These firms are at the forefront of new technological innovations, both regionally and globally. In particular, Milpitas is highly specialized in computer and electronics design and manufacturing. Strategies to support tech and advanced manufacturing businesses include:

- Immediate assistance in response to COVID-19 impacts on this sector,
- Pursuing growth and retention of businesses within the City's existing concentrated and specialized tech, advanced manufacturing, and related research and development sector,
- Diversifying the types of production and research and development activities and businesses in Milpitas,
- Creating a “demonstration partnership policy” for demonstrating innovative solutions to City needs via public-private partnerships, and
- Assisting in the promotion and tenanting of vacant office and flex/R&D spaces.

LIGHT INDUSTRIAL/MANUFACTURING AND WAREHOUSE/DISTRIBUTION STRATEGIES

Milpitas has a competitive industrial market which includes a variety of building types ranging from manufacturing, R&D, and warehouse/distribution. There is strong demand for warehouse and distribution space in Milpitas, and this building type accounts for most of the commercial development activity in the City, besides hotel and retail projects. However, compared to other uses such as manufacturing, office, and R&D space, warehouse and distribution buildings generally consume large amounts of land, produce a lower number of jobs in lower skill occupations, and generate minimal local tax revenues. Therefore, the strategies seek to position Milpitas to prioritize the attraction and retention of light industrial, manufacturing, R&D and office land uses, which can generate greater economic benefits for the community. Strategies include:

- Prioritization of light industrial/manufacturing uses relative to warehouse/distribution centers,
- Supporting conversion or redevelopment of warehouse/distribution properties to tech office/R&D, production, and research and development uses, and

- Monitoring business-to-business sales tax collection in commercial and industrial subareas.

INNOVATION DISTRICT/REAL ESTATE DEVELOPMENT OPPORTUNITIES STRATEGIES

Residents, workers, and business owners and representatives in Milpitas agreed that the City lacks a mixed use, walkable, downtown-like district or corridor with a clear sense of place, as well as certain types of sought-after amenities such as public gathering spaces, entertainment and nightlife establishments, and arts/cultural uses. The introduction of BART service to the Transit Area Specific Plan (TASP) area, which may be rebranded as “Milpitas Metro Specific Plan” as part of a forthcoming plan update, presents a tremendous opportunity to create a transit-oriented, truly mixed-use district. The Midtown Specific Plan area, which may be renamed “Calaveras Gateway/Milpitas Main Street Specific Plan” as part of an update, also holds potential to become a more vibrant, walkable corridor. The following strategies outline the steps required to achieve long-term change in these two areas of opportunity, and to more strategically deploy the City’s real estate assets to generate new sources of revenue for economic development:

- Encouraging the development of a walkable mixed-use environment with restaurant and office uses in the TASP area,
- Identifying and preserving high-priority office/R&D development sites in and near the TASP area,
- Investing in infrastructure to enable 5G technology, especially in under-served areas,
- Pursuing creation of business incubators/co-working spaces and event programming/temporary pop-up uses in the TASP area,
- Positioning Midtown as a community destination for local, independent retail and restaurants,
- Expanding staff capacity and funding for real estate functions to incentivize development of properties in Midtown, the TASP area, and other areas, and

CITY MARKETING AND PROCESSES

Milpitas is seen as lacking a specific brand and broader recognition as a business destination within Silicon Valley. Brokers, developers, and businesses also emphasized the need to improve the City’s permitting processes. The City has begun to proactively address these issues, including implementation of recommendations resulting from a comprehensive assessment of the development review process led by the Matrix Consulting Group. Strategies include:

- Developing consistent modern branding for economic development efforts, including updating the City’s economic development web presence, and
- Addressing delays and challenges in City permitting processes and requirements.

II. REPORT INTRODUCTION

The *City of Milpitas Economic Development Strategy and Implementation Actions* report (EDS) is a policy document that will guide the City's economic development activities over the next five years. The City of Milpitas and the surrounding Silicon Valley region have changed significantly since Milpitas' last economic development strategy, which was approved in 2006. This updated EDS will serve as Milpitas' road map to grow and diversify the City's economy, support businesses and workers, and improve quality of life in the community. The goals of the EDS effort include:

- Create a resilient and sustainable local economy
- Capture emerging innovation and technologies
- Identify forward-looking investment and growth opportunities
- Develop creative strategies to support economic vitality for today and the future
- Improve quality of life for residents, employees, and visitors
- Prepare students and the local workforce for future jobs
- Invest in the City's fiscal health
- Enhance competitiveness and strengthen Milpitas' position within the regional economy of Silicon Valley

The EDS is being published during an unprecedented period of economic uncertainty resulting from efforts to slow the spread of the coronavirus responsible for COVID-19. The City of Milpitas is undertaking immediate efforts to assist businesses harmed by legally mandated restrictions on travel and business operations. These actions will rapidly evolve in response to changing economic conditions, and are expected to dominate the work of the City for at least the next year.

Since the EDS is a five-year plan, the detailed forward-looking strategies and actions in the EDS also provide a roadmap for stabilizing and growing the Milpitas economy as the City, region, nation, and world recover from the current economic crisis. The EDS represents general policy statements and goals for future programs and initiatives. Economic conditions are evolving rapidly, and the Office of Economic Development continues to monitor, research and connect business partners with essential resources and assistance for business continuity, resiliency and recovery.

The EDS Development Process

From July 2019 to March 2019, the consultant team (Strategic Economics and Plan to Place) worked with the City of Milpitas' City Council, Office of Economic Development, Economic Development and Trade Commission (EDTC), Milpitas Chamber of Commerce and other stakeholders to develop the strategies, actions, and technical analyses of the EDS. The technical analysis effort identified strengths, weaknesses, opportunities, and threats of the Milpitas local economy, and conclusions from the analysis then informed the strategies and implementation actions outlined in the EDS. The consultant team and the Office of Economic Development thank all participants for sharing their time, opinions, and expertise.

Activities have included:

- **Data analysis:** an analysis of various quantitative and qualitative data sources was conducted, including: jobs by industry type, real estate market conditions for office, R&D, industrial, and retail uses, fiscal conditions, workforce and commute patterns, and small business health and growth.
- **Industry stakeholder focus groups and interviews:** a series of topic-specific stakeholder focus groups were held between September and December 2019. Focus groups were organized in the following six groups: technology and advanced manufacturing companies, developers / property owners / brokers, education and workforce partners and organizations, hospitality and leisure companies, retailers and retail center owners / property managers, and City executive staff.
- **Additional interviews:** The consultant team conducted additional interviews with office, R&D, industrial, and retail brokers, as well as workforce development organizations.
- **Outreach to Milpitas Chamber of Commerce:** The consultant team attended a Milpitas Chamber of Commerce meeting on October 24, 2019, to present findings and gather feedback from Chamber members.
- **Community workshop:** A community workshop was held at City Hall on October 24, 2019, to give Milpitas residents, workers, and other community members the opportunity to share their thoughts regarding economic development opportunities, weaknesses, and priorities for the City. The Office of Economic Development, Strategic Economics, and Plan to Place were joined at the meeting by Articulate Solutions to share the Community Identification and Branding Study's mission and objectives. The workshop material was also available for input in person after the workshop, with the feedback materials available at City Hall through November 2019 and at the Milpitas High School library in December 2019. Approximately 50 members from the community provided responses through these efforts.
- **Online community survey:** The City gathered additional community input by running an online survey from September to November 2019. The online survey received a total of 60 responses.
- **Outreach to City Council:** The consultant team presented preliminary findings to the City Council on November 12, 2019 through a Study Session. On February 18, 2020, City Council received a preview of the draft "Economic Development Strategy Framework." Milpitas City staff have provided additional updates to the City Council throughout the EDS process.
- **Outreach to Economic Development and Trade Commission:** The consultant team attended an EDTC meeting on September 19, 2019, to present findings and gather feedback from EDTC commissioners. Staff from the Office of Economic Development have been providing updates to EDTC since the commencement of the EDS project. On April 24, 2020, EDTC received a memorandum and presentation on staff's response to COVID-19 business assistance and guidance, the Public Draft Economic Development Strategy and Implementation Actions, and an update on the City's Community Identification and Branding Study. EDTC voted unanimously to recommend that the City Council adopt the Economic Development Strategy and Implementation Actions Draft Report.

Report Contents

The remainder of the EDS report includes two major sections consisting of the following content:

- 1. Strategies and Implementation Actions:** This section describes the strategies that the City should pursue to achieve its economic development goals. The strategies were directly informed by findings from the outreach and data analysis. Strategies are organized around seven topic areas, and each strategy includes specific action items to guide the City's efforts over the next five years. For each topic area, a summary table of implementation actions is provided, which includes details regarding time frame, responsible party, potential partners, and need for additional funding.
- 2. Technical Analysis:** This section summarizes the existing conditions and dynamics of Milpitas' local economy and identifies the City's strengths, weaknesses, and opportunities for future growth. It includes key findings from technical analyses and community outreach.

III. STRATEGIES AND IMPLEMENTATION ACTIONS

The following section of this report describes the EDS strategies and implementation actions for each strategy. These actions will guide the City's economic development activities over the next five years. The strategies are organized around the following seven topic areas (in no particular order) based on the types of challenges and opportunities identified based on the outreach and data analysis:

1. Small Business, Entrepreneurship, and Displacement Prevention
2. Retail and Restaurant
3. Workforce Development and Education Resources
4. Tech and Advanced Manufacturing
5. Light Industrial/Manufacturing and Warehouse/Distribution
6. Innovation District/Real Estate Development Opportunities
7. City Marketing and Processes

At the end of each topic area, a table summarizes strategies and implementation actions including:

- **Time frame:** In the first year, implementation will be focused on COVID-19 recovery, given minimal staff resources and anticipated budget constraints. Other items are shown as occurring within 2-3 years or within 3-5 years. The timing of an action is based partly on whether the action requires additional funding, given that tax revenues are likely to be limited until the economy recovers from efforts to slow the spread of the coronavirus responsible for COVID-19.
- **Relevant subareas (if applicable):** Indicates whether the action item applies citywide or to specific subareas. The subarea names are based on those used as part of the process to update the City's General Plan, as shown in Figure 1.
- **Lead organization/department:** Indicates the City department or outside organization with primary responsibility for implementing the strategy.
- **Supporting agencies/partners:** Lists major partners for implementing the strategy.
- **Additional funding required:** Identifies whether significant additional funding will be required to implement the action/strategy beyond allocation of current revenue sources through the City Council's annual budgeting process. Substantial reductions in revenue for transient occupancy tax, sales tax, and fees are likely to occur due to the economic impacts associated with responses to the COVID-19 pandemic. Therefore, the EDS may be affected in terms of available staff and financial resources to implement specific actions.

ONGOING MONITORING AND RESPONSE TO COVID-19 IMPACTS

The strategies and descriptions of implementation actions incorporate consideration of the immediate economic crisis triggered by shelter-in-place orders issued to slow the spread of the coronavirus responsible for COVID-19. The strategies and actions focus one-year implementation actions on high-priority efforts to support businesses through the crisis and assume that City financial resources will be limited in the next few years due to reduced tax revenues. Given the importance of the City's immediate responses to the COVID-19 crisis, a detailed description of recent City efforts was included in this report's Executive Summary. Please refer to page 2 for this information.

The introductions to several of the sets of strategies provide qualitative information about the ways in which efforts to combat the COVID-19 pandemic are likely to specifically impact related businesses, organizations, or workers. Unfortunately, it will take time before data is available to assess these impacts, and to assess the resulting changes in City tax revenues. Staff from the Office of Economic Development should closely monitor, at minimum, the following categories of data in order to understand and respond to trends:

- **Business survey data:** The City should continue to survey businesses to determine specific needs and performance concerns. The survey should be especially targeted to understanding the unique needs of small businesses.
- **Job counts:** The total number of jobs located in Milpitas should be monitored through data available from NOVA Workforce and compared to the county and region to compare performance. This data can also be analyzed to examine trends in specific occupations.
- **Workforce employment and unemployment rates:** The total resident workforce count and unemployment rates should be monitored through data available from NOVA Workforce, with comparison to the same data for the county and region.
- **Transient occupancy tax revenue:** TOT receipts should be monitored both overall and for individual hotels in the City so staff can quickly respond to overall and property-specific needs.
- **Sales and use tax revenue:** Sales and use tax revenue should be monitored overall, by business category, and by subarea to identify and respond to relatively rapid declines or lagging recovery rates.
- **Commercial and industrial rents, vacancy rates, and absorption:** Staff should monitor real estate market reports with this data for office, flex, R&D, manufacturing, and warehouse/light industrial uses for both the City and surrounding market area.

FIGURE 1: REFERENCE MAP OF GENERAL PLAN SUBAREA LOCATIONS AND NAMES (DRAFT GENERAL PLAN PREFERRED LAND USE MAP AS OF OCTOBER 2019)

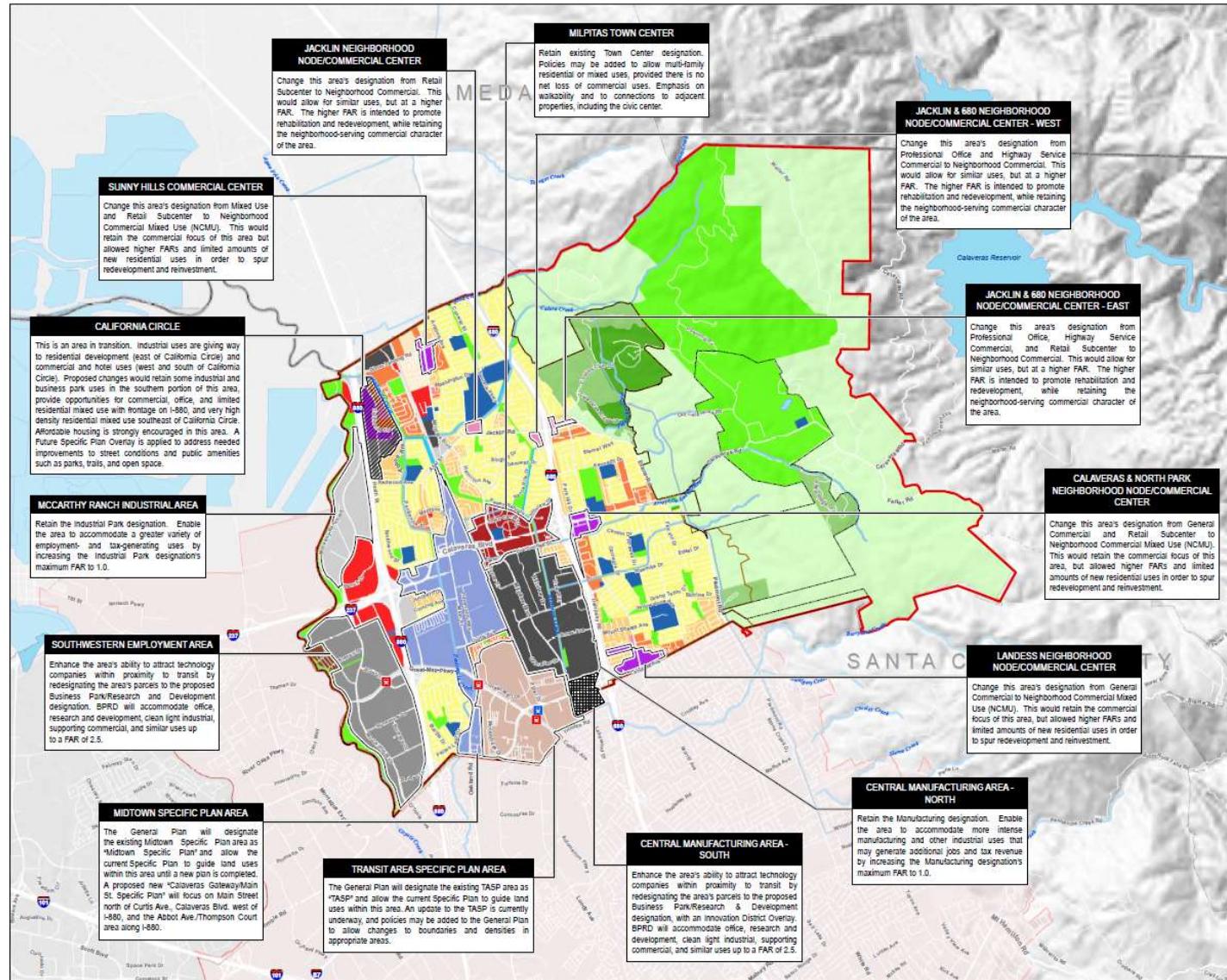


FIGURE 2-2:
PREFERRED LAND USE MAP



Small Business, Entrepreneurship, and Displacement Prevention Strategies

Small businesses, defined as having between 2 and 49 workers, account for one-third of all jobs in Milpitas and include a wide diversity of industries. Most small businesses are concentrated in the City's established employment areas, including Central Manufacturing Area-North, Southwestern Employment Area, and Midtown. These areas contain low-cost commercial space that can accommodate a wide range of industrial, office, and retail businesses.

Prior to potential still-unknown impacts from efforts to prevent COVID-19, the overall number of businesses in Milpitas grew in the last decade. This growth included office-based small businesses (e.g. startup companies, traditional office services such as financial or real estate services), retail and personal services stores, and restaurants and drinking places. However, there was a small decline in small industrial businesses (e.g. auto repair, small manufacturers, other production and distribution companies), mostly due to the ongoing transformation of the Transit Area Specific Plan (TASP)² area from an industrial area to a largely residential area. Of note, Serra Center and Manufacturing Area-South, which are well-positioned for redevelopment, have relatively few small businesses.

Small businesses are especially vulnerable to harm and potential permanent closure resulting from shelter in place orders and social distancing requirements issued to prevent COVID-19. These businesses are less likely to have the financial resources and access to capital available to larger companies. Small businesses are also experiencing difficulties in accessing newly available federal assistance through grant and loan programs—such as the Paycheck Protection Program—due to application challenges and inadequate funding of the programs.

The following strategies seek to support the sustainability, resiliency, and ultimately the continued growth of small businesses in Milpitas. In the immediate future, the City's efforts should focus on providing emergency responses to support continued small business operations. As the economy recovers, strategies include supporting existing small businesses by decreasing startup time and costs (e.g. streamlining the City's permitting processes) and increasing resources available to entrepreneurs (e.g. technical assistance, direct outreach). Resources and outreach should come from both the City, as well as key partner organizations. The strategies also focus on supporting small businesses that are in areas planned to undergo redevelopment.

Strategy 1. Assist with COVID-19 emergency assistance and recovery.

Action 1.1. Continue with the establishment of a City small business loan program in collaboration with the Silicon Valley Community Foundation and Opportunity Fund, prioritizing disadvantaged businesses that have not received relief from federal and state programs.

Action 1.2. Continue to conduct Business Resiliency and Recovery Webinars and provide technical assistance and services through the Virtual Business Assistance Center.

Action 1.3. Maintain up-to-date information on the Economic Development webpage, including available federal, state, and private loans and grants for small businesses and other non-financial resources.

² The specific plan may be renamed the Milpitas Metro Specific Plan as part of an update.

Action 1.4. Work with small businesses to pursue deferments on federal income taxes, state income taxes. Assist small businesses to seek suspension of services like garbage collection, and negotiate flexible payment plans on utilities like electricity and water.

Strategy 2. Maintain partnerships to provide technical assistance and funding to small businesses

Action 2.1. Maintain and enhance relationships with nonprofits, foundations, and lenders that provide technical assistance or financial assistance to small businesses, and refer local small businesses to available resources.

Strategy 3. Support businesses located in areas that are expected to undergo major reinvestment and redevelopment activity over the next several years.

Action 3.1. Reach out to businesses in areas likely to undergo significant reinvestment and redevelopment activity in coming years, or in buildings impacted by nearby construction activity. Assess opportunities to support these businesses, primarily through connections to available outside technical resources.

Strategy 4. Require that new development projects develop a plan for relocating or accommodating small businesses that are displaced.

Action 4.1. Establish new policies setting goals, criteria, and process for developers to create a plan to prevent displacement of small businesses.

Strategy 5. Leverage business organizations to conduct regular ongoing outreach to small businesses.

Action 5.1. Restart the small business outreach program in partnership with organizations such as the Chamber of Commerce and Silicon Valley Small Business Development Center.

Action 5.2. Conduct regular workshops, in partnership with the Silicon Valley Small Business Development Center, that direct small businesses to available resources.

Strategy 6. Expedite and streamline the process of permit issuance and inspections in order to reduce the time and expense for small businesses.

Action 6.1. Study existing permitting processes and implement changes that expedite and lower the cost of permitting and inspections processes for small businesses.

FIGURE 2: SMALL BUSINESS, ENTREPRENEURSHIP, AND DISPLACEMENT PREVENTION IMPLEMENTATION ACTIONS

Action Item	Time Frame	Subarea (if applicable)	Lead Organization/Department	Supporting Organization/Department	Additional Funding Required?
1.1. Move forward to establish a small business loan program	1 year	Citywide	Economic Development, Small Business Assistance Subcommittee	Silicon Valley Community Foundation, Opportunity Fund	No
1.2. Continue to conduct Business Resiliency and Recovery Webinars and technical assistance	1 year	Citywide	Economic Development	Small Business Development Center, Silicon Valley Community Foundation	No
1.3. Maintain up-to-date information on the Economic Development webpage	1 year	Citywide	Economic Development	Public Information Officer	No
1.4. Work with small businesses to pursue deferrals on taxes, suspension of services, and negotiate with utilities on payment	1 year	Citywide	Economic Development	PG&E, Water district, Waste collection services	No
2.1. Connect small businesses with technical assistance	Ongoing	Citywide	Economic Development	Silicon Valley Small Business Development Center	No
3.1. Identify and support businesses in areas undergoing investment and development activity	Ongoing	Citywide	Economic Development	Planning, Milpitas Chamber of Commerce, Silicon Valley Organization	No
4.1. Establish business retention, relocation, or other assistance plan requirements for new development	3-5 years	Citywide	Economic Development	Planning	No
5.1. Restart the small business outreach program	2-3 years	Citywide	Economic Development	Milpitas Chamber of Commerce, Silicon Valley Small Business Development Center	No

Action Item	Time Frame	Subarea (if applicable)	Lead Organization/Department	Supporting Organization/Department	Additional Funding Required?
5.2. Conduct regular workshops that direct small businesses to available resources	2-3 years and Ongoing	Citywide	Economic Development	Silicon Valley Small Business Development Center	No
6.1. Expedite and streamline permitting processes for small businesses	2-3 years	Citywide	Economic Development	Building and Safety, Planning, Fire Prevention	No

Retail and Restaurant Strategies

The number and diversity of restaurants and retailers in Milpitas is one of the City's major strengths, both economically and culturally. Prior to the impacts of the COVID-19 pandemic, restaurants were performing very well, with sales increasing significantly in the last several years. However, the share of sales generated by retail stores citywide was declining, matching national trends. Performance also varied greatly by retail center; several retail centers continued to perform well, and represent some of the largest contributors to the City's fiscal health (such as the Great Mall, McCarthy Center, and Milpitas Square). In contrast, some of Milpitas' older retail centers are disinvested and underperforming. Those centers may present opportunities for redevelopment, especially those located along major arterials such as the Serra Center. Finally, certain employment areas in Milpitas, such as the Southwestern Employment Area and McCarthy Ranch Industrial Area, lack amenities preferred by workers, including cafes, gyms, restaurants, and daycare facilities.

Retail and restaurant businesses are likely to suffer significant economic harm as a result of efforts to combat the COVID-19 pandemic. In the short term, shelter in place orders have eliminated onsite dining entirely, and most restaurants cannot compensate for this lost business through takeout and delivery orders—if they are able to complete these orders at all. “Nonessential” retail stores are also shut down, including nearly all businesses at the Great Mall. These businesses may continue to suffer even as restrictions are loosened, since social distancing requirements may limit the number of customers in a space, and customers themselves may be wary of crowded spaces for a long time to come. The declines in retail and restaurant activity will also result in a major decline in Milpitas' overall tax revenues since sales and use tax typically constitutes the second largest source of General Fund revenue.

The following strategies seek to support Milpitas' existing restaurants and retail centers first through immediate emergency assistance and recovery measures. Subsequent strategies focus on developing stronger collaborations with the Chamber of Commerce, and by increasing outreach and referrals to services by the City. These strategies also aim to monitor struggling retail areas, and allow more flexible uses in areas that could benefit from more diverse amenities.

Strategy 7. Assist with COVID-19 emergency assistance and recovery.

Action 7.1. Conduct additional research on ways that the City can assist retail and restaurant tenants that are unable to pay rents for their commercial spaces. These strategies would be in addition to the countywide moratorium, which expires on May 31, 2020 and protects small businesses and nonprofits.

Action 7.2. Extend the Restaurant Promotions Campaign after the shelter in place order is lifted to encourage patrons to continue visiting local restaurants and retail stores.

Strategy 8. Explore a Buy Local marketing initiative for Milpitas' shopping centers/districts and globally diverse mix of restaurants and retailers.

Action 8.1. Explore the creation of a “buy local” initiative to help promote local and independently owned retail and restaurants.

Strategy 9. Provide storefront façade improvement assistance to enhance the attractiveness and appearance of business exteriors.

Action 9.1. Commence implementation the Pilot Façade Improvement Grant Program.

Strategy 10. Upon recovery and stabilization of retail and restaurant businesses, monitor performance of retail centers and proactively reach out to property owners and businesses if sales tax revenues decline.

Action 10.1. Review retail sales tax data on a quarterly basis and immediately reach out to offer technical assistance to property owners and businesses in any areas showing unusual declines.

Strategy 11. Allow flexible uses in business park areas to encourage placement of retail, restaurants, services, and amenities near office space.

Action 11.1. Review and revise zoning and land use regulations to encourage incorporation of amenities like childcare centers, gyms, and other services in office/R&D districts.

FIGURE 3: RETAIL AND RESTAURANT IMPLEMENTATION ACTIONS

Action Item	Time Frame	Subarea (if applicable)	Lead Organization/Department	Supporting Organization/Department	Additional Funding Required?
7.1. Conduct additional research on ways that the City can assist retail and restaurant tenants that are unable to pay rents	1 year	Citywide	Economic Development	City Attorney	No
7.2. Extend the Restaurant Promotions Campaign	1 year	Citywide	Economic Development	Milpitas Chamber of Commerce, Lions Club	No
8.1. Collaborate with business organizations to launch Buy Local program	2-3 years	Citywide	Economic Development	Milpitas Chamber of Commerce, Lions Club, business organizations	No
9.1. Implement Pilot Façade Improvement Grant Program	3-5 years and then Ongoing	Retail districts or centers	Economic Development	EDTC	Yes
10.1. Review sales tax data and conduct outreach	2-3 years and then Ongoing	Retail districts or centers	Economic Development	Milpitas Chamber of Commerce	No
11.1. Update zoning and policies to encourage amenities in office/R&D districts	2-3 years	All major employment areas	Economic Development	Planning	No

Workforce Development and Education Resources

Employers in Milpitas offer a wide variety of job opportunities, with a mix of high skill, high-wage workers in computer, mathematical, and engineering occupations, as well as middle-wage, middle-skill workers in manufacturing occupations. Milpitas also has a sizeable share of low-wage service industry jobs.

However, with recent rapidly rising housing costs and limited transportation options, many employers were struggling to find highly skilled workers to fill job openings. Several partner organizations, like the school districts, community colleges, and NOVA, collaborate extensively with the City and private employers to implement various programs and resources to address these issues, especially in the advanced R&D and manufacturing sectors.

Now that unemployment rates are rising due to layoffs resulting from the COVID-19 pandemic, job seekers are likely to require workforce development and education opportunities more than ever to enhance their skills and compete for high quality job opportunities. Furthermore, the need for affordable housing—already a significant challenge identified by Milpitas stakeholders—will further increase as workers lose their incomes.

The following strategies focus on identifying opportunities and partnerships to provide affordable workforce housing, and on deepening existing partnerships between the City, the school districts and community colleges, workforce-focused organizations, and private employers in order to increase coordination and communication, grow existing programs, and establish potential new resources such as apprenticeship programs.

Strategy 12. Explore potential conversion of marginal hotel and motel properties into permanent affordable housing.

Action 12.1. Explore the viability of converting marginal hotel and motel properties to permanent affordable housing, making use of available state funding and resources.

Strategy 13. Explore partnerships with employers and developers to provide affordable workforce housing options.

Action 13.1. Identify sites owned by major employers, including private and nonprofit institutions (e.g. Milpitas Unified School District) to develop workforce housing so that employees can live and work in Milpitas.

Action 13.2. Facilitate development of publicly owned sites in Milpitas for workforce housing, where appropriate.

Strategy 14. Establish regular meetings with workforce development organizations, Milpitas Unified School District (MUSD), regional universities, and community colleges to coordinate their activities around training and educational programs to prepare youth and adults for employment in growing target industries, including tech and advanced manufacturing sectors.

Action 14.1. Create an Education and Workforce Development Working Group composed of the workforce board, nonprofits, MUSD, regional universities, community colleges, and employers that meets regularly to discuss programs for training and education.

Action 14.2. Proactively develop and implement new partnerships and programs that emerge from these discussions.

Strategy 15. Collaborate with MUSD Board and staff leadership to develop a shared work program that clarifies Milpitas City staff roles in connecting school district programs and students with training and exposure opportunities at businesses in the city.

Action 15.1. Develop a shared work program and agreement with the MUSD, San José State University (SJSU), Evergreen Valley College, and other organizations.

Action 15.2. Identify and implement new funding sources to add staffing capacity in the Office of Economic Development for workforce development activities.

Strategy 16. Explore collaborations with regional educational resources, such as apprenticeships via the Advanced Manufacturing Bay Area Community Colleges office.

Action 16.1. Conduct outreach to regional education and apprenticeship organizations to identify collaborative opportunities, integrate new partners into the Education and Workforce Development Working Group, and connect these organizations with area businesses.

Strategy 17. Continue to provide support for the FlexFactor program and Manufacturing Day to introduce youth to potential opportunities and to connect job seekers with employers.

Action 17.1. Continue annual participation in and funding assistance for the FlexFactor and Manufacturing Day programs.

FIGURE 4: WORKFORCE DEVELOPMENT AND EDUCATION RESOURCES IMPLEMENTATION ACTIONS

Action Item	Time Frame	Subarea (if applicable)	Lead Organization/Department	Supporting Organization/Department	Additional Funding Required?
12.1. Explore conversion of marginal hotel and motel properties to housing	2-3 years	Citywide	Planning	Economic Development, Housing, Nonprofits, Hotel and motel property owners	No
13.1. Explore housing partnerships with larger employers as part of ongoing outreach	Ongoing	Citywide	Economic Development	Housing, Planning	No
13.2. As appropriate, facilitate development of publicly owned sites in Milpitas for housing	Ongoing	Citywide	Economic Development	Housing, Planning	No
14.1. Create standing Education and Workforce Development Working Group	1 year and Ongoing	Citywide	Economic Development	MUSD, NOVA, San Jose Community College, Evergreen Valley College, San Jose State University, Milpitas businesses, Milpitas Chamber of Commerce Silicon Valley Organization	No
14.2. Develop new partnerships and programs	2-3 years and Ongoing	Citywide	Economic Development	Same as above	No
15.1. Develop program and agreement with MUSD	2-3 years	Citywide	Economic Development	MUSD	No

Action Item	Time Frame	Subarea (if applicable)	Lead Organization/Department	Supporting Organization/Department	Additional Funding Required?
15.2. Identify and implement funding sources to expand City staff capacity for workforce development activities	3-5 years	Citywide	Economic Development	City Council, Finance	Yes
16.1. Engage additional regional education and apprenticeship organizations	2-3 years	Citywide	Economic Development	Advanced Manufacturing Bay Area Community Colleges, Milpitas businesses, SEMI, Other education and apprenticeship organizations	No
17.1. Participate in FlexFactor and Manufacturing Day programs	Ongoing	Citywide	Economic Development	MUSD, Evergreen Valley College, NextFlex	Yes

Tech and Advanced Manufacturing Sector Strategies

Milpitas has a unique strength in attracting and retaining tech companies engaged in R&D and advanced manufacturing activities. These firms are at the forefront of new technological innovations, both regionally and globally. In particular, Milpitas is highly specialized in computer and electronics design and manufacturing. Milpitas offers many advantages for advanced manufacturing and R&D firms, including a supply of flexible, low-cost R&D and industrial buildings, and a strategic location at the border of Santa Clara and Alameda Counties. Milpitas is an excellent location for companies that need a diverse workforce that includes both skilled manufacturing occupations and highly educated researchers and engineers.

Manufacturing businesses are likely to suffer significant impacts as a result of efforts to combat the COVID-19 pandemic. Many of these businesses are shut down in the short term. As businesses reopen, some may be unable to achieve required social distancing space between workers. Manufacturers must also confront disruptions to the global supply chain and falling overall demand for many products.³

The following strategies seek to retain and build on Milpitas' existing strengths in computer and electronics design and manufacturing while also leveraging existing competitive assets to diversify the types of innovative tech businesses located in Milpitas. Examples include businesses in a broader array of industries such as nanotechnology, biotechnology, or clean tech. The strategies also focus on tenanting large business parks that have been vacant for several years, as these spaces represent opportunities to attract new companies and reinvestment in Milpitas.

Strategy 18. Assist with COVID-19 response and recovery for advanced manufacturing businesses.

Action 18.1. Continue to participate in weekly Bay Area Urban Manufacturing calls to ensure that the Office of Economic Development team better understands the specific needs and priorities of the technology and advanced manufacturing industries.

Action 18.2. Track and disseminate information on local, regional, state and federal resources (financial and technical assistance) specifically for manufacturers that are affected by COVID-19.

Strategy 19. Pursue growth and retention of businesses engaged in Milpitas' highly concentrated and specialized tech, advanced manufacturing and related research and development sector.

Action 19.1. Develop and regularly convene industry group(s) representing advanced manufacturing, medical devices, electronics, and software, with a goal of maintaining relationships with these companies and understanding emerging challenges, opportunities, and potential opportunities for City staff to provide suitable support for these businesses' needs.

Action 19.2. Continue to conduct one-on-one visits with businesses in the tech, advanced manufacturing, medical devices, electronics, and software industries to understand business needs, introduce available resources, and encourage participation in the stakeholder group.

³ Recent reporting by PwC provides additional summary of the impacts of the COVID-19 pandemic on manufacturers at <https://www.pwc.com/us/en/library/covid-19/coronavirus-impacts-industrial-manufacturing.html>

Action 19.3. Review proposed zoning changes and development applications to ensure that sites are preserved for advanced manufacturing and R&D uses rather than warehouse and distribution development. Target these preservation efforts to areas in which there are both development pressures for adding warehouse and distribution space and there are concentrations of existing advanced manufacturing and R&D uses, such as in the McCarthy Ranch Industrial Area and the Central Manufacturing Area-North.

Action 19.4. Develop and implement an international trade program incorporating marketing and promotions of the Foreign Trade Zone/Select USA, engagement with outside partners to organize training for businesses, and engagement with outside partners to explore additional opportunities to enhance connections between city stakeholders and foreign trade and investment opportunities.

Strategy 20. Pursue opportunities to leverage existing strengths in electronics and materials science, research and development, advanced manufacturing, and engineering to diversify the types of production and research and development activities and businesses in Milpitas.

Action 20.1. Engage with partners in the Silicon Valley Economic Development Alliance (SVEDA), Silicon Valley Leadership Group, Bay Area Council, other regional economic development organizations, and commercial/industrial real estate brokers to identify emerging trends in the location preferences and needs of businesses in these industries.

Strategy 21. Explore creating a “demonstration partnership policy” for developing, testing, and demonstrating innovative solutions to City needs that involve public-private partnerships with innovative businesses in Milpitas and use of City land, data, or facilities.

Action 21.1. Develop and implement the partnership policy, including goals, selection and assessment criteria, public participation criteria, and steps for adopting and implementing projects.

Strategy 22. Assist in the marketing, promotion, and tenanting of vacant office and flex/R&D spaces.

Action 22.1. Develop promotional marketing materials for brokers and site locators to assist with marketing and leasing of vacant buildings, especially in large campuses.

Action 22.2. Improve the City’s economic development webpage to include a continuously updated database of available R&D and office properties.

FIGURE 5. HIGH TECH AND ADVANCED MANUFACTURING IMPLEMENTATION ACTIONS

Action Item Summary	Time Frame	Subarea (if applicable)	Lead Organization/Department	Supporting Organization/Department	Additional Funding Required?
18.1. Bay Area Urban Manufacturing calls to understand the sector's needs and priorities	1 year	Citywide	Economic Development	EDTC, Bay Area Urban Manufacturing, SVEDA, East Bay Economic Development Alliance (EBEDA), Silicon Valley Organization	No
18.2. Track and disseminate information on local, regional, state and federal resources	1 year	Citywide	Economic Development	EDTC, Bay Area Urban Manufacturing, SVEDA, East Bay Economic Development Alliance (EBEDA), Silicon Valley Organization	No
19.1. Convene industry groups	2-3 years	Citywide	Economic Development	Business stakeholder groups	No
19.2. Engage in targeted business visits	Ongoing	Citywide	Economic Development	Advanced manufacturing, medical device, electronics, and software businesses	No
19.3. Review proposed zoning and development applications to preserve advanced manufacturing and R&D uses	Ongoing	Citywide	Economic Development	Planning	No
19.4. Implement, market, and promote international trade program	1-2 years	Citywide	Economic Development	EDTC	Yes

Action Item Summary	Time Frame	Subarea (if applicable)	Lead Organization/Department	Supporting Organization/Department	Additional Funding Required?
20.1. Leverage partner organizations to diversify R&D, advanced manufacturing, engineering	2-3 years	Citywide	Economic Development	SVEDA, East Bay Economic Development Alliance (EBEDA), Silicon Valley Organization	No
21.1. Develop and implement “demonstration partnership policy”	2-3 years and Ongoing	Citywide	Economic Development	Businesses, Milpitas Chamber of Commerce, EDTC, Planning	Yes
22.1. Develop marketing materials for brokers and site locators	2-3 years	Citywide	Economic Development	Public Information Officer, Milpitas Chamber of Commerce, Commercial brokers	Yes
22.2. Update City's economic development website with property availability	2-3 years	Citywide	Economic Development	Commercial brokers, Public Information Officer, Information Technology	Yes

Light Industrial/Manufacturing and Warehouse/Distribution Strategies

Milpitas has recently attracted new warehouse and distribution development projects in some of the City's major employment districts such as the McCarthy Ranch Industrial Area. Proposals are also in the pipeline to redevelop vacant R&D campuses into warehouse and distribution buildings (such as in Central Manufacturing Area-North). These projects are the only type of major commercial development activity in Milpitas since the early 2000s, except for some retail and hotel projects. Warehouse and distribution space is in very high demand across the region, and businesses generally seek this space in Milpitas because of the city's stock of large and low-cost space, proximity to households and businesses in Silicon Valley, and convenient freeway access. However, compared to other uses such as manufacturing, office, and R&D space, warehouse and distribution buildings generally consume large amounts of land, generate relatively low sales tax revenue—an increasingly important consideration as Milpitas confronts declining revenues due to the COVID-19 pandemic—and usually produce a limited number of jobs relative to the amount of building area occupied.

Given the lesser benefits associated with warehouse and distribution uses, the following strategies seek to position Milpitas to prioritize attraction and retention of light industrial, manufacturing, R&D and office land uses. Milpitas should also monitor subarea business-to-business sales tax revenues since these are often associated with manufacturing businesses and are a major source of public revenues, yet are currently not tracked beyond the citywide level.

Strategy 23. Ensure light industrial/manufacturing uses are prioritized relative to warehouse/distribution centers in land use regulations and infrastructure investments.

Action 23.1. Monitor and pursue future funding and resources made available by the Association of Bay Area Governments and Metropolitan Transportation Commission for areas of Milpitas that are designated as Priority Production Areas (Southwestern Employment Area, McCarthy Ranch Industrial Area and Central Manufacturing Area-North).

Action 23.2. Update zoning code and land use policies to ensure that light industrial/manufacturing uses are preserved in appropriate areas in order to limit redevelopment or conversion into warehouse/distribution centers. Identify targeted locations in which warehouse/distribution uses are allowed and disallowed.

Strategy 24. Support conversion or redevelopment of warehouse/distribution properties to tech office/R&D, production, and research and development uses.

Action 24.1. Identify high-potential opportunity areas for converting warehouse and distribution properties to higher value production and tech office/R&D uses. Review and adjust zoning for these areas, including within a potential “Innovation District” near the Milpitas Transit Center.

Action 24.2. Conduct outreach to the property owner(s) of the large vacant site along Hammond Way (west of the freight rail alignment) to explore potential for redevelopment of the site for tech office/R&D, production, and/or flex/R&D uses, as determined by updates to the Midtown Specific Plan (which is anticipated to become the “Calaveras Gateway/Milpitas Main Street Specific Plan”).

Strategy 25. Monitor business-to-business sales tax collection in commercial and industrial subareas.

Action 25.1. Track business-to-business sales tax data on a quarterly and annual basis for each commercial and industrial subarea of the city.

FIGURE 6: LIGHT INDUSTRIAL/MANUFACTURING AND WAREHOUSE/DISTRIBUTION IMPLEMENTATION ACTIONS

Action Item	Time Frame	Subarea (if applicable)	Lead Organization/Department	Supporting Organization/Department	Additional Funding Required?
23.1. Monitor ABAG/MTC funding for PPAs	Ongoing	Central Manufacturing Area North, McCarthy Ranch Industrial Area, Southwestern Employment Area	Planning	Economic Development	No
23.2. Update zoning and policies to prioritize retention and growth of industrial/manufacturing spaces	2-3 years	All areas with these uses	Planning	Economic Development	No
24.1. Identify sites and update zoning to encourage conversions of warehouse and distribution to tech office/R&D and production uses	2-3 years	Areas with warehouse and distribution uses, TASPI (Innovation District)	Economic Development	Planning	No
24.2. Reach out to owner(s) of vacant Hammond Way site	2-3 years	Central Manufacturing Area North	Economic Development	Hammond Way site owner(s)	No
25.1. Track business-to-business sales tax data for commercial and industrial subareas	Ongoing	Citywide	Economic Development	Finance Department	No

Innovation District/Real Estate Development Opportunities Strategies

Residents, workers, and business owners and representatives in Milpitas agreed that the City lacks a mixed use, walkable, downtown-like district or corridor with a clear sense of place, as well as certain types of sought-after amenities such as public gathering spaces, entertainment and nightlife establishments, and arts/cultural uses. These improvements would benefit retailers and eating and drinking establishments, and also make it easier for Milpitas to attract high tech companies and workers that favor locations with a mix of diverse amenities. Two major subareas in Milpitas present opportunities to address these needs:

- The first is the Transit Area Specific Plan (TASP) area, which may be renamed “Milpitas Metro Specific Plan.” The area is well-suited to incorporate a new “Innovation District” targeted for growth of innovation-focused technology businesses. The introduction of BART service at the Milpitas Transit Center station area presents a tremendous opportunity to create a transit-oriented, truly mixed-use district. As new residential projects are completed, ground floor retail opens, and infrastructure investments are made in the TASP area, the “Innovation District” could, in the longer term, attract office or R&D users. However, this will require preserving sites for commercial development and investing in public infrastructure, especially to improve first/last-mile connections to the Transit Center.
- The second is the Midtown Specific Plan area, which may be renamed “Calaveras Gateway/Milpitas Main Street Specific Plan.” The revitalization of Main Street into a more vibrant, walkable corridor is one of the major goals of a planned update to the Midtown Specific Plan.

The following strategies outline the steps required to achieve long-term change in these two areas of opportunity. The strategies focus on land use change, infrastructure and transportation investments, business growth, and placemaking. The strategies also leverage opportunities for the City to deploy its real estate assets and other revenue generation opportunities to achieve its economic development goals.

Strategy 26. Encourage the development of a walkable mixed-use environment with restaurant and office uses in the Transit Area Specific Plan (TASP) area, especially at Great Mall and surrounding areas.

Action 26.1. Regularly meet with Great Mall property owners and management to check on any immediate concerns/needs and to identify opportunities to develop a walkable mixed-use area with retail, office, and/or residential uses at the property. Complete this action in conjunction with the TASP update process.

Action 26.2. Work with developers, businesses, and brokers to integrate ground-floor retail into proposed residential and office projects in the TASP area and to attract tenants to these spaces.

Action 26.3. Explore reducing parking requirements and other zoning requirements/processes to help facilitate establishing restaurant and retail uses in the TASP area; leverage ABAG/MTC Priority Development Area grant funding for this effort, if available.

Action 26.4. Identify necessary public improvements in the TASP area via the specific plan update process, and complete planned updates to the Transit Area Development Impact Fee (TADIF); leverage ABAG/MTC Priority Development Area grant funding for this effort, if available.

Action 26.5. Explore the potential to implement a circulator shuttle or other mobility system that connects the transit center with area homes and businesses through a Transportation Management Association (TMA) and grant opportunities.

Strategy 27. Identify and preserve high-priority office/R&D development sites in and near the TASP area, including changes to land use policy.

Action 27.1. Continue discussions with the VTA Real Estate Department regarding potential development of office and R&D uses on VTA-owned sites in the TASP area.

Action 27.2. Identify potential office and R&D development opportunity sites in and near the current TASP boundaries (especially around the Milpitas Transit Center). As part of the TASP update, expand the area's boundaries to incorporate potential Innovation District sites. Enact land use policy and zoning that prioritize appropriate sites in the TASP for office and R&D development that have a high potential for these uses, while allowing for continued residential development. Sites could be purchased using a Strategic Property Acquisition Revenue (SPAR) fund (see Strategy 23, below).

Strategy 28. Pursue establishment of business incubators and co-working spaces in the TASP area.

Action 28.1. Reach out to existing business incubators, area property owners, and other partners to explore potential siting of incubators and co-working spaces in the TASP area, potentially as an interim temporary use.

Strategy 29. Facilitate deployment of 5G wireless service in the TASP area, especially in underserved areas and in locations targeted for growth of office/R&D uses as part of a new Innovation District.

Action 29.1. Review permitting requirements for 5G facilities installation to identify and remove any obstacles to deployment, especially in under-served areas.

Strategy 30. Assist in the placement of event programming and temporary “pop-up” uses in the TASP area to enliven public spaces and vacant retail spaces until sufficient demand exists to maintain this vibrancy without assistance.

Action 30.1. Review existing permitting requirements to ensure pop-up uses can easily locate temporarily in public spaces and vacant retail spaces.

Action 30.2. Conduct outreach to property owners, community organizations, arts organizations, and small local businesses to explore and assist placement of temporary dining, arts, and entertainment uses in the TASP area.

Strategy 31. Position Midtown as a community destination for local, independent retail and restaurants.

Action 31.1. Use the Midtown Specific Plan update process to identify appropriate locations for concentrating new commercial development and business activity.

Action 31.2. Lead area planning efforts to redevelop Serra Center, incorporating surrounding properties owned by the Milpitas Unified School District (MUSD) and the County of Santa Clara.

Action 31.3. Provide technical support for property owners and business owners on Main Street to explore and assist with forming a Property-based Business Improvement District (PBID), including potentially funding services for a district formation consultant.

Action 31.4. Identify necessary public improvements in the Midtown area via the specific plan update process and develop an impact fee or other financing mechanism for new development projects to contribute toward these improvements.

Action 31.5. Through the specific plan update process, explore reducing parking requirements and other zoning requirements/processes to help facilitate establishing restaurant and retail uses in Midtown.

Action 31.6. Work with businesses in Midtown to explore and implement rebranding of the area, including possible funding from a new area PBID.

Strategy 32. Expand staff capacity and funding for real estate functions to incentivize development of properties in Midtown, the TASP area, and other areas that will help to achieve the City's community and economic development goals.

Action 32.1. Identify potential funding options and sources for creating a Strategic Property Acquisition Revenue (SPAR) fund and for funding the real estate development activities of City staff generally. Pursue adoption of a SPAR fund, including its structure, funding sources, and uses in order to generate public revenue and position the City to participate in real estate development and investment initiatives.

Action 32.2. Develop a strategy for the existing portfolio of city-owned properties, including disposition and leasing agreements to generate more revenues for economic development activities and other community needs.

FIGURE 7: INNOVATION DISTRICT/REAL ESTATE DEVELOPMENT OPPORTUNITIES STRATEGIES IMPLEMENTATION ACTIONS

Action Item	Time Frame	Subarea (if applicable)	Lead Organization/Department	Supporting Organization/Department	Additional Funding Required?
26.1. Engage with Great Mall regarding challenges and growth	Ongoing	TASP	Economic Development	Great Mall management and property owner	No
26.2. Expand and tenant ground-floor retail in TASP projects	Ongoing	TASP	Economic Development	Planning, Property developers	No
26.3. Explore reducing parking and other requirements to facilitate establishing restaurant and retail uses in the TASP area	2-3 years	TASP	Planning	Economic Development	No
26.4. Identify infrastructure and mobility investments in TASP and update TADIF	2-3 years	TASP	Planning	Economic Development, Public Works, Engineering	No
26.5. Explore circulator shuttle or other mobility system at transit center	3-5 years	TASP and beyond	Economic Development	Engineering, Planning, AC Transit, Private shuttle operators	Yes
27.1. Pursue office and R&D development at VTA sites	Ongoing	TASP	Economic Development	Planning	Yes
27.2. Identify potential office and R&D sites in/near TASP and update TASP	2-3 years	TASP	Economic Development	Planning	Yes
28.1. Assist in recruiting and locating business incubators and co-working spaces in the TASP	2-3 years	TASP	Economic Development		No
29.1. Identify and remove permitting challenges for 5G service installation	2-3 years	TASP and beyond	Planning	Economic Development	No

Action Item	Time Frame	Subarea (if applicable)	Lead Organization/Department	Supporting Organization/Department	Additional Funding Required?
30.1. Remove permitting barriers to temporary pop-up uses	2-3 years	TASP	Economic Development	Planning, Building and Safety, Fire Prevention	No
30.2. Assist in recruiting and locating pop-up uses in the TASP	2-3 years	TASP	Economic Development	Property owners, Local businesses, Milpitas Chamber of Commerce, Community and arts organizations	No
31.1. Identify Midtown development and business growth opportunity sites	2-3 years	Midtown	Economic Development	Planning	No
31.2. Lead efforts to revitalize Serra Center, integrating public properties	2-3 years	Midtown	Economic Development	Serra Center property owner and businesses, Planning	No
31.3. Form a PBID at Main Street, Serra Center, and surrounding properties	3-5 years	Midtown	Economic Development	Midtown property owners and businesses	Yes
31.4. Identify Midtown improvements and establish impact fee or other funding mechanism	3-5 years	Midtown	Planning	Economic Development, Midtown stakeholders	Yes
31.5. Explore reducing parking and other requirements to facilitate establishing restaurant and retail uses in Midtown	3-5 years	Midtown	Planning	Economic Development	Yes
31.6. Work with businesses in Midtown to explore and implement rebranding of the area	3-5 years	Midtown	Economic Development	Midtown stakeholders	Yes
32.1. Identify funding options for SPAR fund, develop and adopt SPAR fund	3-5 years	Citywide	Economic Development	City Manager's Office (CMO), Finance, City Council	No

Action Item	Time Frame	Subarea (if applicable)	Lead Organization/Department	Supporting Organization/Department	Additional Funding Required?
32.2. Develop strategy for use of city-owned properties	3-5 years	Citywide	Economic Development	City Council	No

City Marketing and Processes

Within the highly competitive business environment of Silicon Valley, Milpitas is seen as lacking a specific brand and broader recognition as a business destination within the region. Brokers, developers, and businesses also emphasized the need to improve the City's permitting processes. The City has started to proactively address these issues, including implementation of recommendations resulting from a comprehensive assessment of the development review process led by the Matrix Consulting Group.

The following strategies seek to reinforce the efforts and findings already outlined in these studies, and emphasize the need for a more effective branding of Milpitas as a business destination. This includes re-examining the City's marketing efforts, including the City's online web presence.

Strategy 33. Develop consistent, modern branding based on City goals for business attraction/retention.

Action 33.1. Develop a brand identity for Milpitas economic development efforts, focusing on enhancing the City's identity as a unique part of the Silicon Valley and Bay Area economy with specialized workforce, real estate, and mobility assets for businesses.

Action 33.2. Develop and disseminate—online and in print media—updated marketing materials that present the City's brand and assets for potential employers and businesses. Partner with local businesses and business organizations as part of these efforts.

Strategy 34. Address delays and challenges in City permitting processes and permitting requirements, especially regarding certificate of occupancy requirements for changes of business ownership.

Action 34.1. Continue implementation of recommendations from the Matrix Consulting Group evaluation study to improve the development review process through interdepartmental coordination, enhanced technology tools, and other measures, including the express plan check process for tenant improvements.

Action 34.2. Pursue adjustments to requirements to obtain a new certificate of occupancy for changes of business ownership.

Strategy 35. Update the City's economic development web presence.

Action 35.1. Update the City's economic development webpage and integrate with City's main website. Provide useful resources on the website, including information regarding space availability and development opportunities in the city.

FIGURE 8: CITY MARKETING AND PROCESSES IMPLEMENTATION ACTIONS

Action Item	Time Frame	Subarea (if applicable)	Lead Organization/ Department	Supporting Organization/ Department	Additional Funding Required?
33.1. Update branding/identity for economic development	2-3 years	Citywide	Economic Development	CMO, Public Information Officer	Yes
33.2. Update marketing of City's brand and business assets	3-5 years	Citywide	Economic Development	CMO, Public Information Officer	Yes
34.1. Implement recommendations of development review process study	2-3 years	Citywide	Planning, Building and Safety	Economic Development	No
34.2. Change certificate of occupancy requirements for business ownership changes	2-3 years	Citywide	Planning, Building and Safety	Economic Development	No
35.1. Update and improve economic development website integration and content	2-3 years	Citywide	Economic Development	CMO, Public Information Officer	Yes

Performance Measures

The following performance measures are recommended for use by the City of Milpitas' Office of Economic Development to set annual objectives and measure progress in fulfilling ongoing activities recommended in the EDS strategies and actions. Each performance measure should include an annual numerical target that is established prior to each fiscal year. The performance measures focus on the direct activities of the Office of Economic Development, rather than broader economic indicators which are heavily influenced by regional, national, and international economic and market conditions.

The first five performance measures are already in use by the Office of Economic Development, while measures six through eight are new.

1. **Corporate Visitation Program** – Number of corporate visits that lead to a follow up
2. **Business Engagement** – Number of meetings with the corporate, brokerage and development communities leading to business attraction, retention and expansion
3. **Customer Service** – Percentage of business partners engaged with the Economic Development team who rank their experience as "very good" or "excellent" on a survey
4. **Branding** – Number of promotions and marketing of the local business community through social media and other digital media platforms
5. **Permit Assistance** – Number of firms who received permit and other assistance from Economic Development staff
6. **Tech/Advanced Manufacturing Stakeholder Group** – Number of meetings conducted with the Tech and Advanced Manufacturing Industry Stakeholder Group
7. **Small Business Assistance and Referrals** – Number of small businesses provided direct permitting or financial assistance, or referred to available third party financial and technical assistance resources
8. **Education and Workforce Development Working Group** – Number of meetings conducted with the Education and Workforce Development Working Group

Since these performance measures only assess success in fulfilling ongoing annual activities, the Office of Economic Development must also undertake an annual review of its progress in implementing all the actions recommended in the EDS. Many of the actions are one-time activities that serve as incremental steps in implementing a strategy. The comprehensive annual review is an opportunity to assess progress in completing actions and fulfilling the strategies.

IV. TECHNICAL ANALYSIS

The Technical Analysis summarizes the existing conditions and dynamics of Milpitas' local economy to identify the City's strengths, weaknesses, and opportunities for future growth. Strategic Economics, with support from Plan to Place, completed technical analysis and community outreach to develop the findings of this section. The conclusions were used to guide development of the strategies and implementation actions outlined in the first section of this document.

The technical analysis does not incorporate data reflecting the impacts of the COVID-19 pandemic, although it does note areas in which COVID-19 may significantly influence conditions. The research and analysis were completed in late-2019 through early 2020, prior to the occurrence of the global pandemic. Also, publication of the detailed data required for much of the analysis lags by several months to several quarters. The economic impacts of responses to the COVID-19 pandemic have occurred so rapidly that it will take some time before comprehensive data is available. The previous section of this report recommended several categories of data to monitor on page 12.

Summary of the Technical Analysis Findings

The following summary highlights the major findings of the technical analysis for the EDS. These findings were based on extensive technical analysis and feedback from City Council and stakeholders.

KEY INDUSTRY GROUPS

Milpitas is home to 51,500 jobs, and has experienced strong job growth since 2009. Many different types of businesses are thriving in Milpitas, ranging from industries that are exporting goods and services globally, as well as industries that serve residents and workers in the city and region. Based on an analysis of Milpitas' existing strengths, regional trends, and the city's competitive advantages, Strategic Economics identified four industry groups that represent opportunities for growth:

ADVANCED MANUFACTURING AND R&D

Milpitas has a unique strength in attracting and retaining R&D and advanced manufacturing. These firms are at the forefront of new technological innovations. Milpitas offers many advantages for advanced manufacturing and R&D, including its supply of flexible, low-cost R&D and industrial buildings, and its strategic location at the border of Santa Clara and Alameda Counties. Milpitas is an excellent location for companies that need both skilled manufacturing labor and highly educated researchers and engineers, with close proximity to other Silicon Valley cities.

There are opportunities to diversify the range of high-technology industries located in Milpitas. Currently, Milpitas is highly specialized in computer and electronics design and manufacturing; in the future, there is potential to attract other types of high-tech manufacturing and R&D, like nanotechnology, biotechnology, clean tech, etc. Existing vacancies in large business parks in Milpitas represent an opportunity to attract new users, although this would likely require reinvestment in these spaces by property owners or tenants.

SOFTWARE AND INFORMATION SERVICES

The software and information services sector is one of the largest and fastest-growing industries in Santa Clara County. This sector encompasses businesses specialized in software, programming,

internet, social media, and other app-based technologies. While this sector is not concentrated in Milpitas, it has grown exponentially in Santa Clara County in the last decade. Companies in this sector tend to locate in office buildings (less so in office/flex or R&D space) and have been one important contributor to high demand for office development across Santa Clara County. Milpitas may be able to attract more of this business activity in the future, especially as smaller startups are getting priced out of Mountain View, Sunnyvale, and Cupertino.

The introduction of BART service at the Milpitas Transit Center presents a tremendous opportunity for creating a transit-oriented, mixed-use district in what is currently designated as “Manufacturing Area South” in the Milpitas General Plan Update (see Figure 1).⁴ As new residential projects are completed, ground floor retail opens, and infrastructure investments are made, the area surrounding the Milpitas Transit Center could, in the longer term, attract office or R&D users. However, this will likely require preserving sites for commercial development and investing in public infrastructure, as mentioned above. Doing so may require partnerships with Santa Clara Valley Transportation Authority (VTA), since the agency owns much of the land at or near the Milpitas Transit Center.

LOGISTICS/ DISTRIBUTION

Warehouse and distribution space is in very high demand across the region. Milpitas has been attracting new warehouse development projects, including in some of the City’s prime employment areas. Businesses seek this space in Milpitas because of the city’s availability of relatively large and low-cost space (compared to the more centrally located Silicon Valley cities), proximity to households and businesses in the Silicon Valley region, and convenient freeway access.

Warehouse and distribution projects generate few jobs, consume large amounts of land, and offer relatively low-skill, low-wage job opportunities compared to other types of industries and commercial space. Milpitas’ newly built warehouse and distribution development projects are very large, one-story buildings with low job densities. Furthermore, while the tenants of these new warehouse and distribution projects are technology businesses, the space is mostly being used for storage and last-mile distribution.

RETAIL AND RESTAURANTS

The number and diversity of restaurants and retail centers in Milpitas is a strength, both economically and culturally. Prior to the impacts of the COVID-19 pandemic, restaurants were performing very well, with sales increasing significantly in the last several years. However, the share of sales generated by retail stores was declining, matching national trends. Several retail centers continue to perform well in Milpitas, and remain some of the largest contributors to the City’s fiscal health (such as the Great Mall, McCarthy Center, and Milpitas Square).

Some of the city’s older retail centers are underperforming. They may present an opportunity for redevelopment, especially those located along major arterials, such as the Serra Center.

Enhancing Midtown and the Transit Area Specific Plan (TASP) areas as pedestrian-oriented districts with public amenities can help to support more retail and restaurants in these areas. The continued addition of housing and, potentially, workers in the TASP will create an opportunity to attract retail uses

⁴ In October 2019, the Milpitas City Council provided final direction on the Preferred Land Use Map, as part of the General Plan Update process. Available at: <https://milpitas.generalplan.org/>

that complement the regional destination at the Great Mall. Midtown creates opportunities to focus on the area's unique mix of local businesses, the creation of a potential gateway at Serra Center, and the potential benefits from adding a mix of housing that will provide greater vibrancy.

SMALL BUSINESSES

Small businesses employ about 16,000 workers, accounting for one-third of all jobs in Milpitas. Industrial and office-based small businesses represent about one third of all small businesses in Milpitas. Small industrial businesses include auto repair, small manufacturers, and other production and distribution companies, and are declining slightly in Milpitas. However, there has been significant growth in small office-based businesses, which include startup companies as well as traditional services firms (e.g. consulting, engineering, real estate services). Retail, personal services, restaurants, and drinking places represent 29 percent of small businesses in Milpitas, and are also growing.

In Milpitas, small businesses are concentrated in established employment areas, such as Manufacturing Area North, Southwestern Employment Area, and Midtown (see Figure 1). All of these areas contain low-cost spaces that can accommodate a wide range of industrial, office, and retail businesses. Serra Center and Manufacturing Area South, which have been identified as potential redevelopment areas, have relatively few small businesses.

The City of Milpitas plays an important role in supporting the health and growth of small businesses, in partnership with other organizations like the Milpitas Chamber of Commerce. There is a need to streamline the permitting and change in tenancy processes at the City, which can help reduce costs for small businesses. In addition, small businesses require resources for technical assistance and direct outreach; better wayfinding from the Milpitas Transit Center; and more marketing and branding.

WORKFORCE DEVELOPMENT AND EDUCATION

Milpitas' employers offer a wide variety of job opportunities, with a combination of high skill, high-wage workers in computer, mathematical, and engineering occupations, as well as more middle-wage, middle-skill workers in some of the manufacturing occupations. On the whole, residents in Milpitas have slightly higher educational attainment levels than what is required for most jobs in Milpitas. The majority of Milpitas' residents commute outside of the city for work. Attracting more firms in advanced manufacturing, R&D, software, and information sciences would help to create more opportunities for Milpitas' residents to work closer to home.

At the same time, many of Milpitas' employers struggle to find highly skilled workers for job openings, given the low overall unemployment rate in the region (as of February 2020). Training and preparing young people entering the workforce, as well as under-employed adults, are top priorities for local firms. Several partner organizations, like the school districts, community colleges, NOVA, and others, collaborate extensively with the City and private employers to implement a variety of programs, courses, and resources, especially in the advanced R&D and manufacturing sectors. However, stakeholders and community members report that housing and transportation costs are among some of the major constraints to workforce and economic development, especially for employee recruitment and retention.

Analytical Methodology and Approach

The Strategic Economics Team (the consultant team) analyzed employment and businesses in Milpitas. The data analysis included:

- Workforce characteristics, including occupation, education, and commute patterns;
- Jobs by industry type over time, including a review of the health, growth, and needs of small businesses in Milpitas;
- Real estate market conditions for office, R&D, industrial, and retail uses; and
- Fiscal considerations.

In addition to the data analysis, the consultant team and the Office of Economic Development conducted outreach to residents, employers, and stakeholders in the community. The consultant team also attended meetings with the City Council and Economic Development and Trade Commission to discuss economic development priorities, present preliminary data analysis, and receive feedback.

The analysis of small businesses, the retail real estate market analysis, and the sales tax performance analysis include assessments of trends and conditions by subarea. The subareas referenced in these sections are mapped in Figure 9. They include:

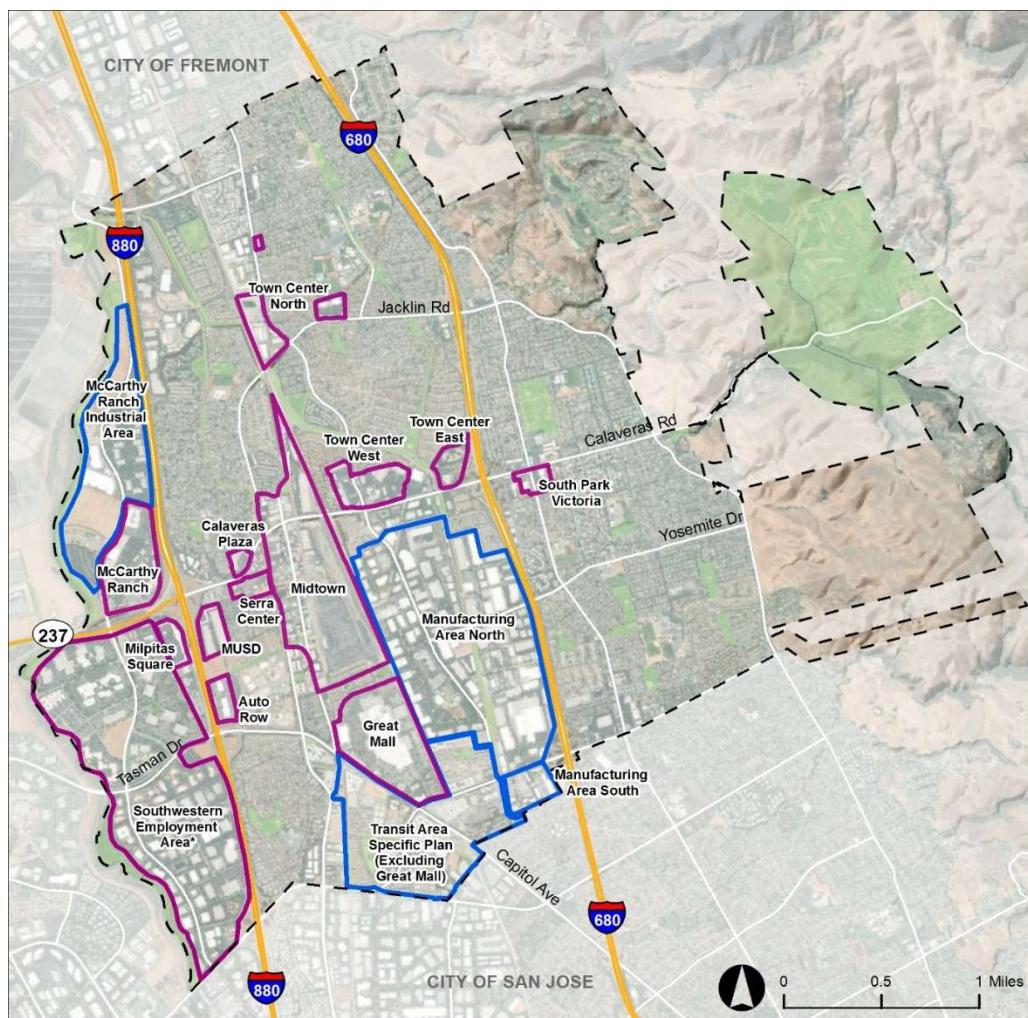
- **Subareas as defined by the City's tracking of sales tax revenues via consultant MuniServices:** The “Sales Tax Subareas” shown in the map in Figure 9 represent boundaries for which sales tax data were available from the City of Milpitas for this report’s retail and tax revenue analyses. The subareas defined by the sales tax tracking system do not always conform to the better-known “Opportunity Areas” specified in Milpitas’ General Plan Update.⁵
- **Four additional major employment areas in Milpitas:** These four subareas capture key employment nodes in Milpitas and were analyzed as part of this report’s small business analysis. Manufacturing Area North, Manufacturing Area South, and the McCarthy Ranch Industrial Area conform to the General Plan Update Opportunity Area boundaries.⁶ Boundaries for the “Transit Area Specific Plan” were adjusted to exclude the Great Mall, since the small business analysis was primarily focused on independent businesses rather than the small stores at the mall that are typically part of large national chains.

Although this report includes selective subarea analyses, the report does not include a comprehensive subarea analysis. The City of Milpitas is leading a separate study—entitled “Milpitas General Plan Opportunity Area Assessment and Development Strategy”—that will examine the General Plan Update Opportunity Areas in more detail.

⁵ Documents related to the General Plan Update are available at: <https://milpitas.generalplan.org/>

⁶ Ibid.

FIGURE 9. REFERENCE MAP OF THE SMALL BUSINESS AND SALES TAX SUBAREAS IN MILPITAS



Reference Map of Small Business and Sales Tax Analysis Subareas in Milpitas

- Sales Tax Subareas (as tracked by the City of Milpitas)
- Other Major Employment Subareas
- Milpitas City Limit
- Highways

*Southwestern Employment Area encompasses MuniServices' Oak Creek North and Oak Creek South subareas.
 Sources: MuniServices, 2019; CoStar, 2019; City of Milpitas, 2019; Strategic Economics, 2020.



Workforce and Jobs-Skills Match

This section describes existing characteristics of Milpitas' workforce in terms of occupation, educational attainment, and commute patterns. When possible, workers in Milpitas are compared to Milpitas residents to assess the City's overall job-skill match.

Findings on occupations are based on 2019 data provided by NOVA, the workforce development board for Silicon Valley, presented at the 2-digit and 6-digit Standard Occupational Classification (SOC) code. Findings on commutes and educational attainment are based on 2017 data from the U.S. Census Longitudinal Employer-Household Dynamics (LEHD).

OCCUPATIONS

Milpitas has a very diverse workforce, with occupations at a range of skill levels and wages. Figure 10, which displays the top 20 occupations in Milpitas by number of workers, demonstrates the City's wide range of occupations. The top three occupations, which each have more than 1,500 workers, include software developers and programmers, retail salespersons, and electrical/electronics assemblers. These are very different occupations with diverging income and skill levels.

Milpitas has a large number of high skill, high wage computer, mathematical, and engineering occupations. This includes software developers and programmers, electrical and electronics engineers, industrial engineers, computer hardware engineers, and computer and information analysts.

There is also a concentration of various skilled trade production occupations in Milpitas—this is relatively unique within Silicon Valley. The largest production occupations in Milpitas include electrical and electronics assemblers, miscellaneous assemblers, fabricators, and production workers, semiconductor processors, machinists, and other assorted inspectors, testers, and samplers. These occupations are relatively concentrated in Milpitas compared to Santa Clara County. These tend to be middle-wage jobs with opportunities for upward mobility that, while requiring specialized skills and training, do not necessarily require very advanced degrees (see text box, below, on typical wage levels in the San Francisco Bay Area).

Many workers in Milpitas hold occupations in logistics. These include laborers and material movers, truck drivers, and industrial truck/tractor operators. These are generally low to mid-wage jobs, that require mid or low skill levels.

Milpitas also has a large number of service industry workers, especially in retail and restaurants. Some of these occupations, such as retail salespersons, fast food and counter workers, waiters and waitresses, cashiers, and cooks, tend to be lower skill, lower paying jobs. Such low wages make it difficult for workers to afford housing in Silicon Valley, especially given rapidly rising

DEFINING WAGE LEVELS IN THE SAN FRANCISCO BAY AREA

Definitions of low, middle, and high wage jobs vary, especially in diverse and rapidly growing regions such as the Bay Area. One common source used as a benchmark for wage levels is the Bay Area Economic Prosperity Strategy published by the policy think tank SPUR. The study analyzed median wages across the region's different counties, and based on this analysis defined typical wage levels as follows:

- Lower-wage: Less than \$36,000 per year
- Middle-wage: Between \$36,000 and \$62,000 per year
- Higher-wage: More than \$62,000 per year

Source: SPUR "Economic Prosperity Strategy", 2014. Available at: <https://www.spur.org/publications/spur-report/2014-10-01/economic-prosperity-strategy>

housing costs across the region. Workers may need to take on more than one job in order to make ends meet.

Overall, Milpitas residents tend to have a slightly higher share of mathematical, computer, engineering occupations than Milpitas workers, while Milpitas workers have a higher share of production occupations. Figure 11 summarizes the share of Milpitas workers and Milpitas residents by 2-digit SOC codes. Residents of Milpitas have a larger share of people employed in computer and mathematical occupations compared to Milpitas workers, but a lower share of people employed in production, sales, and food preparation/serving occupations. This suggests that a share of workers in these occupations do not live in Milpitas.

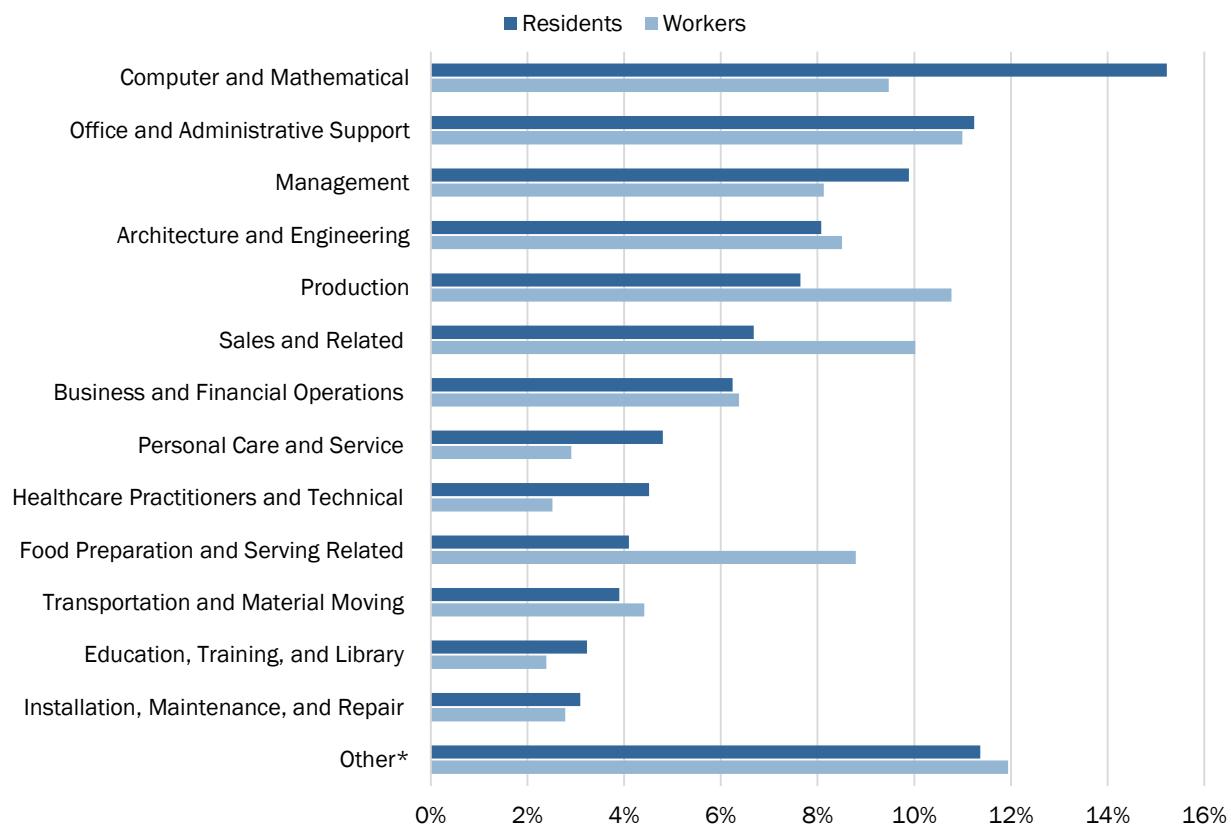
FIGURE 10. TOP 20 OCCUPATIONS OF MILPITAS WORKERS BY BROAD CATEGORY, 2019

SOC Code	Occupation	Milpitas Jobs, 2019	Average Annual Wages*
15-1130	Software Developers and Programmers	2,827	\$132,700
41-2030	Retail Salespersons	1,708	\$32,400
51-2020	Electrical, Electronics, & Electromechanical Assemblers	1,666	\$44,000
17-2070	Electrical and Electronics Engineers	1,280	\$133,900
35-3020	Fast Food and Counter Workers	1,261	\$28,300
53-7060	Laborers and Material Movers, Hand	1,092	\$35,800
17-3020	Engineering Technicians, Except Drafters	996	\$68,900
35-3030	Waiters and Waitresses	985	\$31,600
41-2010	Cashiers	963	\$29,700
35-2010	Cooks	951	\$32,000
43-6010	Secretaries and Administrative Assistants	931	\$55,600
41-4010	Sales Representatives, Wholesale and Manufacturing	912	\$89,200
11-1020	General and Operations Managers	884	\$161,700
43-9060	Office Clerks, General	789	\$47,000
51-2090	Miscellaneous Assemblers and Fabricators	781	\$37,300
37-2010	Building Cleaning Workers	696	\$35,200
53-3030	Driver/Sales Workers and Truck Drivers	659	\$46,400
15-1120	Computer and Information Analysts	631	\$120,500
43-5080	Stock Clerks and Order Fillers	610	\$33,000
41-1010	First-Line Supervisors of Sales Workers	588	\$57,200
Total All Occupations		53,016	

*Average annual wage based on data provided by NOVA.

Source: NOVA, 2019; Strategic Economics, 2020.

FIGURE 11. SHARE OF MILPITAS RESIDENTS AND MILPITAS WORKERS BY OCCUPATION, 2019



*Other includes occupations in: Healthcare Support, Building and Grounds Cleaning and Maintenance, Construction and Extraction, Arts, Design, Entertainment, Sports, and Media, Protective Service, Community and Social Service, Life, Physical, and Social Science, Legal, and Farming, Fishing, and Forestry.

Note: Occupation data includes all "Covered Employment," which includes all private and public sector jobs covered by the Unemployment Insurance Program.

Note: "Management" occupations include executives, managers, and administrators that plan, direct, or coordinate activities of their business or institution.

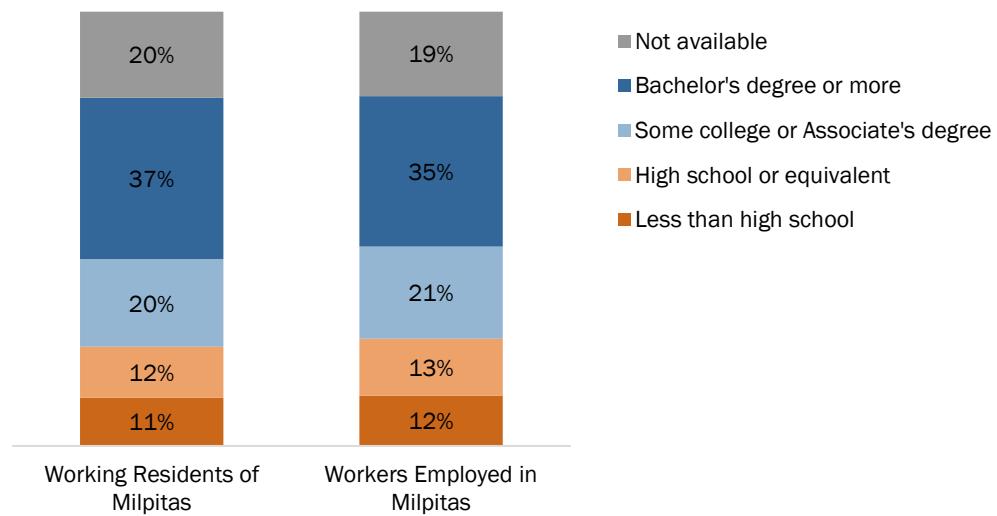
Source: NOVA, 2019; U.S. Census ACS 2013-2017 5-year estimates; Strategic Economics, 2020.

EDUCATIONAL ATTAINMENT

On average, employed residents of Milpitas have slightly higher educational attainment than Milpitas workers. As seen in Figure 12, the percent of employed residents in Milpitas that have a bachelor's degree or more is 37 percent, compared to 35 percent of workers in Milpitas. Note that the data does not track the share of workers with more advanced degrees, such as master's or doctorate degrees, as a separate category.

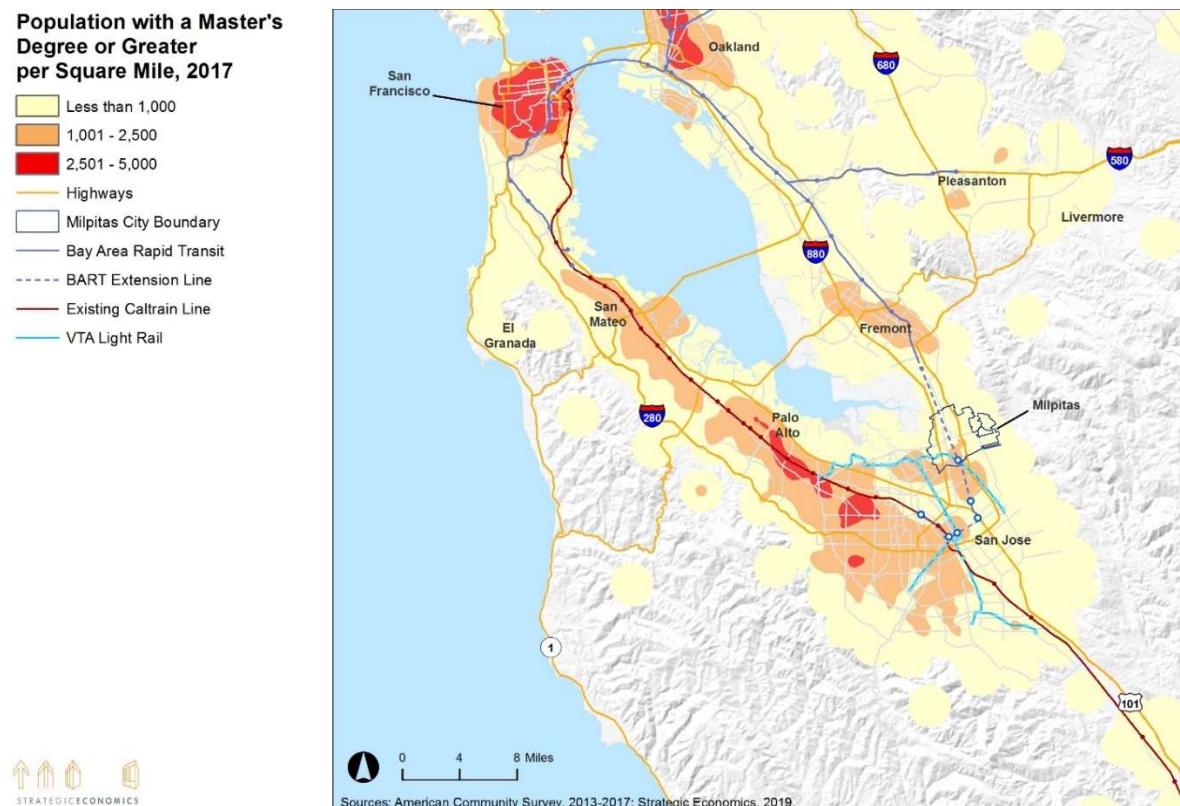
Milpitas is strategically located to attract workers of diverse levels of educational attainment. As illustrated in Figure 13, areas with the highest concentrations of residents with master's degrees in the Bay Area are western Santa Clara County (Menlo Park, Palo Alto, Mountain View, Sunnyvale), San Francisco, and Oakland/Berkeley. Although Milpitas is located outside these largest concentrations of residents with master's degrees, the city is well located geographically to attract both highly educated residents of western Santa Clara County and residents of San José, Fremont, and other parts of Alameda County with more diverse levels of educational attainment.

FIGURE 12. EDUCATIONAL ATTAINMENT OF MILPITAS WORKERS AND MILPITAS RESIDENTS, 2017



Source: U.S. Census Longitudinal Employer-Household Dynamics, 2017; Strategic Economics, 2020.

FIGURE 13. DENSITY OF RESIDENT POPULATION WITH A MASTER'S DEGREE OR GREATER IN THE BAY AREA, 2017



COMMUTE PATTERNS

With a net import of workers, Milpitas is a jobs-rich community. As seen in Figure 14, there are more outside workers commuting into Milpitas for work than there are Milpitas residents leaving Milpitas for work. Milpitas' jobs-to-employed-residents ratio is 1.47 (Figure 15), which is considerably higher than other neighboring cities such as San José or Fremont.

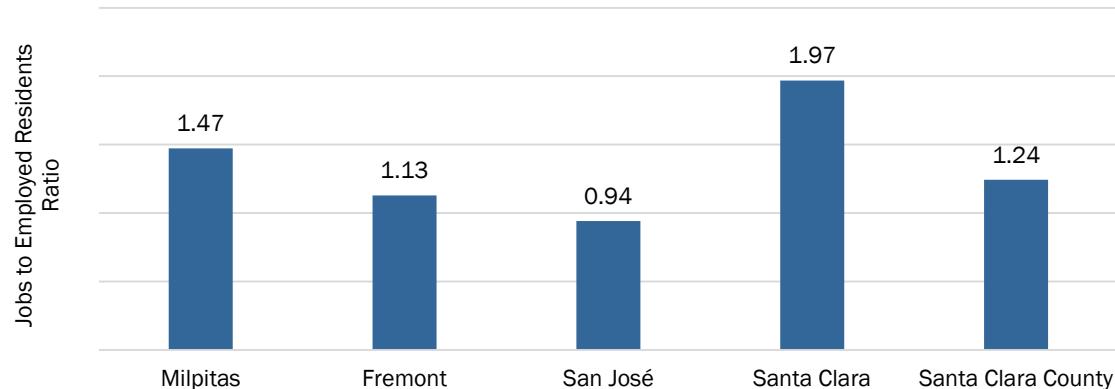
About 12 percent of Milpitas' working residents both work and live in Milpitas. This is typical for a small city in a large and dynamic area like Silicon Valley. For example, in the City of Santa Clara, about 15 percent of employed residents live and work in Santa Clara. This share is higher in Fremont (19 percent), but lower in Union City and Newark. Other than Milpitas, the top employment destination of employed residents of Milpitas is San José (27 percent), the City of Santa Clara (8 percent), Fremont (8 percent) and Sunnyvale (6 percent). The top 15 employment destinations of employed residents of Milpitas are listed by city in Figure 16.

FIGURE 14. EMPLOYED RESIDENTS AND WORKERS OF MILPITAS BY HOME AND WORK LOCATION

	Count	Share
Total Employed Residents Living in Milpitas	38,073	100%
Employed Residents Living and Employed in Milpitas	4,382	11.5%
Employed Residents Living in Milpitas but Employed Outside	33,691	88%
Total Workers Employed in Milpitas	51,549	100%
Workers Employed and Living in Milpitas	4,382	8.5%
Workers Employed in Milpitas but Living Outside	47,167	91%

Source: Longitudinal Household Employment Dynamics, 2017; Strategic Economics, 2019.

FIGURE 15. JOBS TO EMPLOYED RESIDENTS RATIO IN MILPITAS AND SELECTED JURISDICTIONS, 2017



Source: Longitudinal Household Employment Dynamics, 2017; Strategic Economics, 2019.

FIGURE 16. TOP 15 EMPLOYMENT DESTINATIONS OF EMPLOYED RESIDENTS OF MILPITAS, 2017

Employment Destination (City)	Employed Residents of Milpitas	Share of Total
San José	10,274	27%
Milpitas	4,382	12%
Santa Clara	3,119	8%
Fremont	2,912	8%
Sunnyvale	2,377	6%
Mountain View	1,502	4%
Palo Alto	1,275	3%
San Francisco	1,130	3%
Cupertino	738	2%
Pleasanton	458	1%
Newark	408	1%
Campbell	399	1%
Redwood City	393	1%
Menlo Park	337	1%
Oakland	316	1%
All Other Cities	8,053	21%
Total Employed Residents of Milpitas	38,073	100%

Source: Longitudinal Household Employment Dynamics, 2017; Strategic Economics, 2019.

Businesses and Jobs

This section examines employment growth trends by industry type from 2009 to 2018, comparing Milpitas to Santa Clara County. Strategic Economics identified the types of industry sectors that have been performing well in Milpitas, those that provide future opportunities for growth, and those that may require additional support and investment to be more successful. This section concludes with an overview of small businesses in Milpitas, their role in the local economy, and an overview of their health, growth, and needs.

DATA SOURCES

The findings presented in this section are based on data from the California Employment Development Department (EDD) for the City of Milpitas and Santa Clara County in 2009, 2013, and 2018. Note that 2018 is the most recent year available; 2009 and 2013 were selected in order to summarize the local economy's performance since recovering from the Great Recession over the last decade (2009 to 2018) and the last five years (2013 to 2018).

The industry and sub-industry sectors described throughout this section conform to the North American Industry Classification System, commonly referred to as "NAICS." NAICS is a standardized set of industry and sub-industry classifications, each of which is assigned a NAICS code ranging from high-level 2-digit industry codes to more detailed 6-digit industry codes.

To define industry groups that have a particular strength in Milpitas, Strategic Economics employed a metric known as the "location quotient." This metric, explained in detail on page 57, calculates the relative concentration of a particular industry group in Milpitas compared to Santa Clara County.

EMPLOYMENT BY INDUSTRY AND GROWTH TRENDS

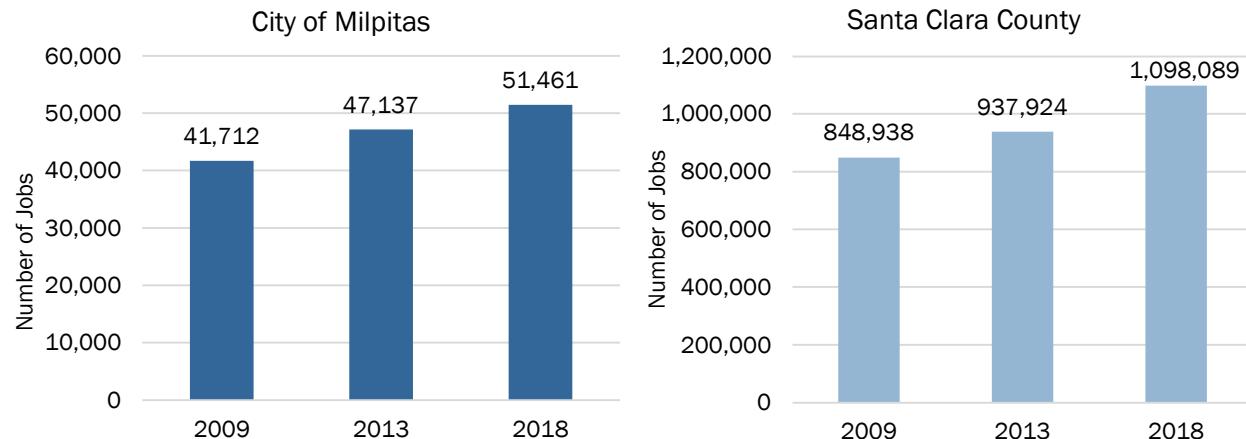
As of 2018, Milpitas had an estimated 51,500 jobs, with continued job growth since 2009. The City of Milpitas experienced a 23 percent increase in jobs since 2009, from 41,700 jobs in 2009 to 51,500 jobs in 2018 (Figure 17). Santa Clara County, which encompasses most of Silicon Valley, experienced even faster job growth during this time period, with a 29 percent increase since 2009. These high growth rates reflect Silicon Valley's major economic expansion since recovering from the Great Recession, driven by strong employment growth in the technology sector and other related industries.

Many different types of industries are thriving in Milpitas, providing a wide range of jobs and indicating that Milpitas has a healthy industry mix. This diverse mix includes industries that are connected regionally, nationally, and globally, as well as industries that tend to serve local residents and workers. The largest industries in Milpitas, as measured by total employment, are shown in Figure 18. Growth trends from 2009 to 2018 are summarized in Figure 19 and Figure 20.

- **Manufacturing.** This is Milpitas' largest industry sector, accounting for 26 percent of all jobs. By comparison, manufacturing jobs make up 15 percent of jobs in Santa Clara County. Employment in the manufacturing sector was stable between 2009 and 2013, but increased by 8 percent between 2013 and 2018. Manufacturing jobs grew at a comparable rate of 10 percent in Santa Clara County during this same period. Businesses in the manufacturing sector tend to be nationally and globally connected, trading and exporting goods to outside communities. Most manufacturing jobs in Milpitas are in advanced and high tech manufacturing, with only a small share of "traditional" manufacturing (e.g. food, beverage, wood products).

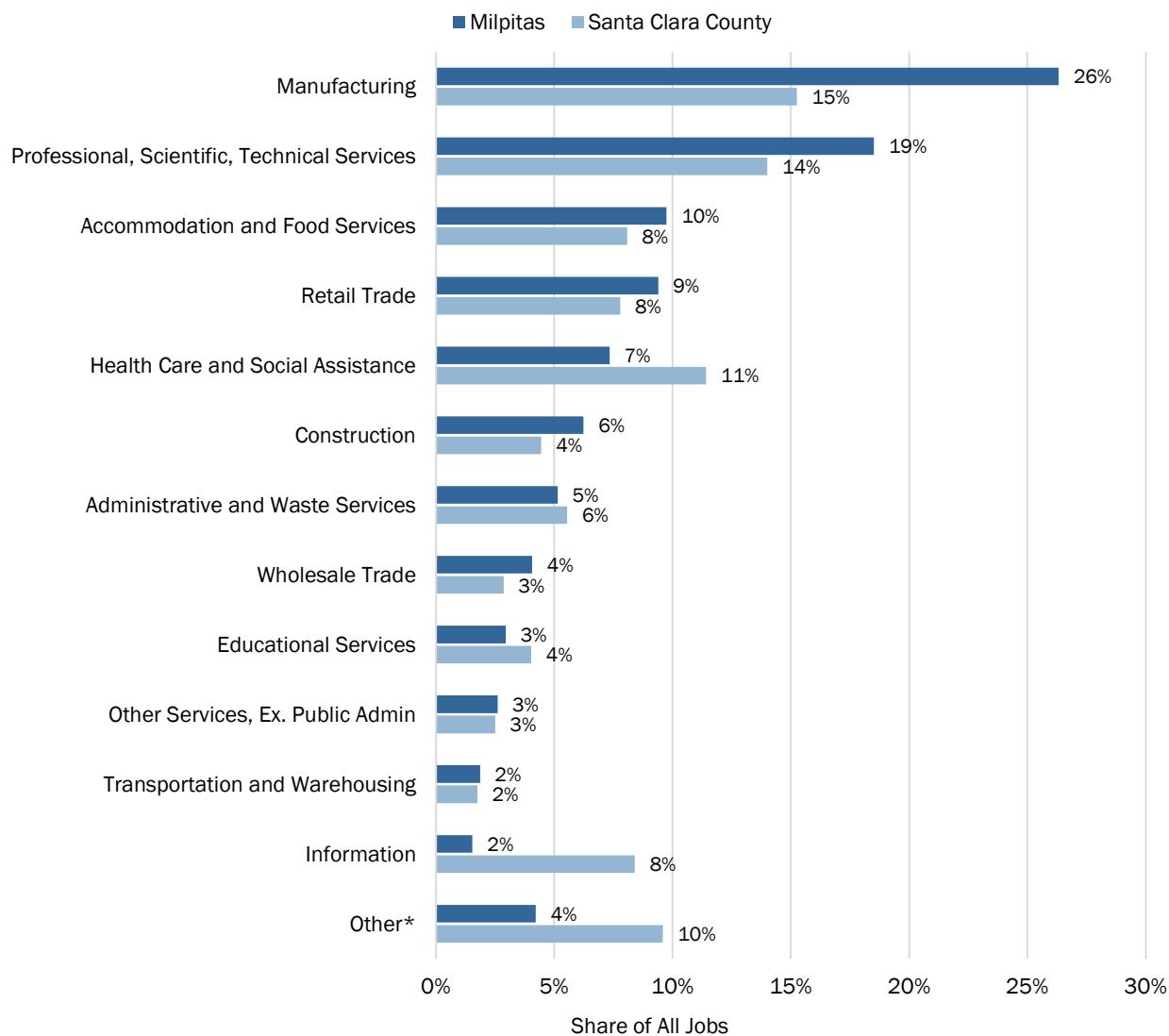
- **Professional, Scientific, and Technical Services (PSTS).** This is the second largest industry by employment in Milpitas, with 19 percent of all jobs in the City. From 2009 to 2018, PSTS jobs in Milpitas grew at a healthy pace, but not as fast as Santa Clara County overall. It is important to note that Cisco, the City's largest employer, accounts for a large share of these PSTS jobs. Since 2017, Cisco has cut jobs in Milpitas and vacated two major campuses. Note that in February 2020, Cisco issued another notice stating that additional employees would be laid off at their one remaining Milpitas campus (560 McCarthy Blvd). However, even without counting Cisco, Milpitas experienced a net positive gain in PSTS jobs in the last decade.
- **Accommodation and Food Services.** This is the third largest sector in Milpitas, with 10 percent of all jobs in the City. Jobs in this sector have increased since 2009, matching a national shift away from traditional retail toward dining and drinking. “Accommodation” jobs (hospitality and hotel) also increased in Milpitas, in conjunction with strong hotel performance.
- **Retail trade.** Milpitas has a large number of jobs in retail trade (9 percent), and a mix of regional-serving and local-serving retail. For example, the Great Mall is a major regional retail destination drawing customers from a wide trade area, and auto dealerships also tend to draw from a regional trade area. Milpitas also has smaller, more local-serving retail centers as well. Since 2009, retail jobs declined slightly. At the County level, retail job growth has stagnated in the last five years.
- **Health Care and Social Assistance.** This sector is primarily household-serving. Jobs in this sector grew rapidly, increasing from approximately 1,800 jobs in 2009 to 3,800 jobs in 2018, as Milpitas’ local population ages.

FIGURE 17. TOTAL NUMBER OF JOBS IN MILPITAS AND SANTA CLARA COUNTY, 2009 TO 2018



Note: Employment for Cisco Systems Inc. was manually adjusted using business license data provided by the City of Milpitas.
Source: California Employment Development Department, 2009, 2013, and 2018; Strategic Economics, 2020.

FIGURE 18. SHARE OF TOTAL JOBS BY INDUSTRY IN MILPITAS AND SANTA CLARA COUNTY, 2018



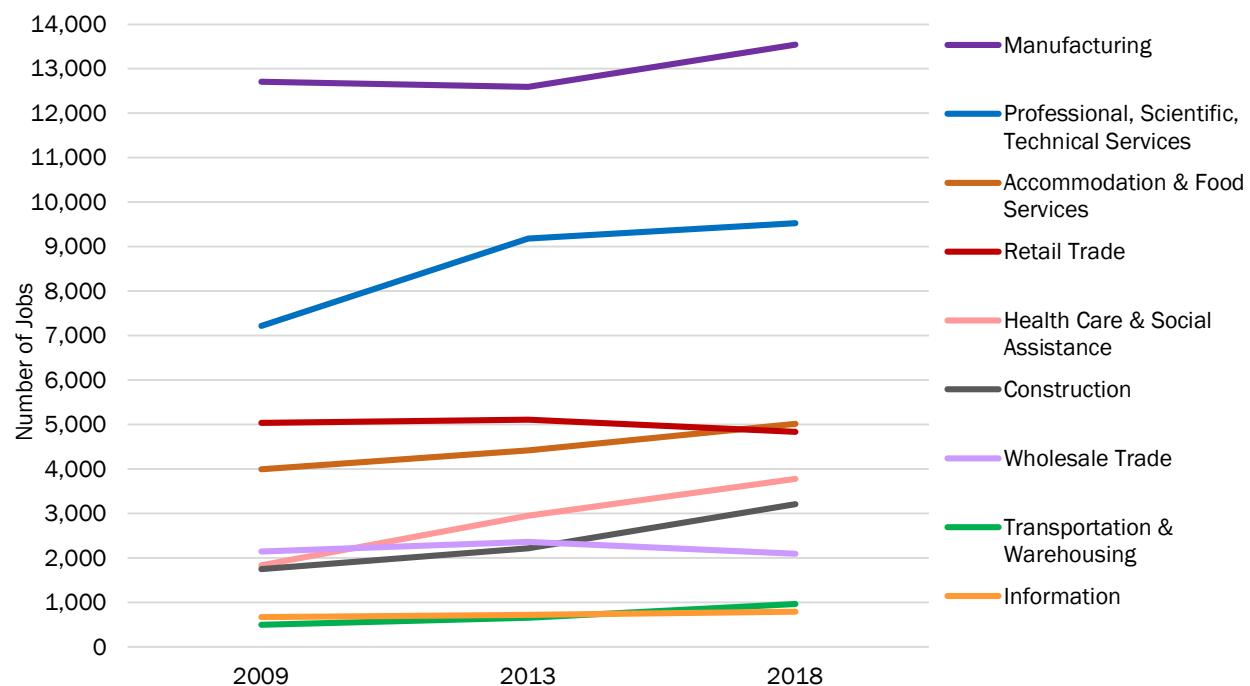
*Other includes: Real Estate and Rental and Leasing; Public Administration; Finance and Insurance; Arts, Entertainment, and Recreation; Management of Companies and Enterprises; Unclassified; Agriculture, Forestry, Fishing & Hunting; Utilities; Mining.

Note: Due to inaccuracies in the California EDD data, employment estimates for Cisco Systems Inc. were adjusted using business license data provided by the City of Milpitas.

Note: Although several general contractor and construction companies are located in Milpitas (e.g. Devcon Construction, XL Construction Corporation), the job count and share for Construction jobs likely does not represent the number of workers on-site, and may instead reflect an overcount that includes construction crews working across various sites in and outside Milpitas. Similarly, jobs in the Administrative and Waste Services category are typically overcounted since this category includes employment agencies and security services companies (e.g. Jointek Group, Aerotek, Admiral Security Services) that do not employ all of their workers in their recorded location.

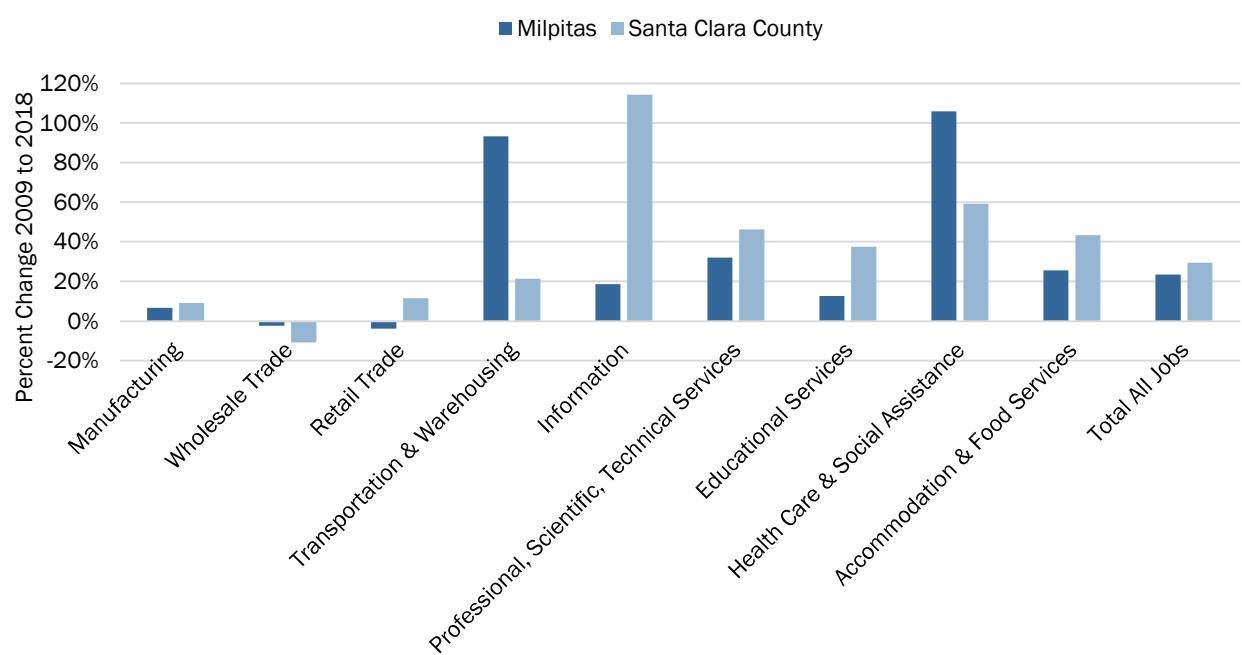
Source: California Employment Development Department, 2009, 2013, and 2018; City of Milpitas, 2020; Strategic Economics, 2020.

FIGURE 19. NUMBER OF JOBS FOR TOP INDUSTRY SECTORS IN MILPITAS, 2009 TO 2018



Note: Employment for Cisco Systems Inc. was manually adjusted using business license data provided by the City of Milpitas.
Source: California Employment Development Department, 2009, 2013, and 2018; City of Milpitas, 2020; Strategic Economics, 2020.

FIGURE 20. JOB GROWTH IN MILPITAS AND SANTA CLARA COUNTY, 2009 TO 2018



Note: Employment for Cisco Systems Inc. was manually adjusted using business license data provided by the City of Milpitas.
Source: California Employment Development Department, 2009, 2013, and 2018; City of Milpitas, 2020; Strategic Economics, 2020.

KEY INDUSTRY GROUPS: STRENGTHS AND OPPORTUNITIES

Strategic Economics identified five key industry groups that represent opportunities for growth in Milpitas. These industry groups, shown in Figure 21, were selected based on the following criteria:

- **Existing strength and competitiveness in Milpitas.** These are industry sectors that are already significantly concentrated in Milpitas, and have experienced either stable or positive job growth, such as the computer design and manufacturing industry group. To measure industry concentration, Strategic Economics used the location quotient (LQ) metric, which is defined in the text box below.
- **Innovative and growing industries in Santa Clara County and the Silicon Valley region.** The region has strengths in many industries. Some of these are already present and strong in Milpitas, such as the computer design and manufacturing industry. However, there are other industries that are present and growing in Silicon Valley but that have not been historically strong in Milpitas. Examples include the software, internet, social media, and apps industry, as well as high-tech manufacturing and R&D in biotechnology & pharmaceuticals, medical devices, clean technology, and aerospace.⁷

Analyzing these industry groups can help inform the City's economic development efforts, in order to catalyze and expand on existing strengths, and/or create new opportunities by capturing growth in sectors that are strong in the broader region and tied to global demand and trade.

WHAT IS A LOCATION QUOTIENT?

A location quotient (LQ) is a metric used to understand the relative concentration of an industry in a study area (in this case, Milpitas), compared to a reference geography (in this case, Santa Clara County). LQs are used to assess an area's specialization, weaknesses, and opportunities for growth within a broader region. The LQ of a given industry A in Milpitas, compared to Santa Clara County, is calculated using the following formula:

$$LQ \text{ for Industry } A = \frac{(Jobs \text{ in Industry } A \text{ in Milpitas}) / (Total \text{ Jobs in Milpitas})}{(Jobs \text{ in Industry } A \text{ in Santa Clara County}) / (Total \text{ Jobs in Santa Clara County})}$$

LQs are generally interpreted using the rules of thumb below. Note that these vary based on the aggregation level of the industry and the size of the study area and reference geography.

- LQ > 1.2 indicates a generally high concentration relative to the reference geography;
- LQ between 0.8 and 1.2 indicates a normal or average distribution of that industry compared to the reference geography;
- LQ < 0.8 indicates a relatively low concentration relative to the reference geography.

⁷ Silicon Valley Leadership Group, "Silicon Valley Competitiveness and Innovation Project - 2019 Update", available at: https://www.svcip.com/files/SVCIP_2019.pdf

FIGURE 21. TARGETED INDUSTRY GROUP DEFINITIONS AND PERFORMANCE

Industry Group	Definition (NAICS)	Description	Local Business Example*	Jobs in Milpitas, 2018	Percent of Milpitas Jobs, 2018	Percent of Santa Clara County Jobs, 2018	Location Quotient**
Computer/ Electronics Design and Manufacturing	- 334: Computer and Electronic Product Manufacturing - 335: Electrical Equipment and Appliances - 5415: Computer Systems Design and Related Services	Computer, electronics, and related components manufacturing and computer systems design and programming	KLA, Western Digital, Analog Devices, Headway Technologies, Renesas, Onanon (manufacturing), and Cisco, FireEye, Aerohive Networks (design)	17,029	33%	18%	1.79 (High)
Other Advanced Manufacturing and R&D Services	- 332: Fabricated Metal Product Manufacturing - 333: Machinery Manufacturing - 327: Nonmetallic Mineral Product Manufacturing - 5413: Architectural & Engineering Services - 5415: Management & Technical Consulting Services - 5417: Scientific Research & Development	Array of other high-tech manufacturing, primarily industrial machinery and materials science, and advanced scientific and engineering research	Nanometrics, Flex, View, Johnson & Johnson Vision, Nanolab Technologies, Cyient, Nanosys, BioVision	4,696	9%	6%	1.42 (High)
Software and Information Services	51: Information	Software development and programming, including apps, internet, digital content. Includes telecommunications.	ABBYY Software, ZL Technologies, Esgyn, Lucent Technologies	796	2%	8%	0.18 (Low)
Logistics	- 42: Wholesale Trade - 48-49: Transportation and Warehouse	Storage, distribution, and transportation (primarily trucking and freight services) of durable and nondurable goods	Future Electronics, Bottomley Distribution Company, TransPak	3,059	6%	5%	1.29 (High)
Retail and Restaurants	- 44-45: Retail Trade - 722: Food Services and Drinking Places	Wide variety of retail stores and eating & drinking places	Wal-Mart, Dave & Buster's, etc.	9,253	18%	15%	1.20 (Average)

*Since companies self-select their industry NAICS codes and often must select a single code that applies to the entire company's operations, the local Milpitas operations of some "Local Business Examples" may include a variety of activities that do not conform to the Industry Group category. **Location quotient is compared to Santa Clara County.

Source: California Employment Development Department, 2009, 2013, and 2018; Strategic Economics, 2020.

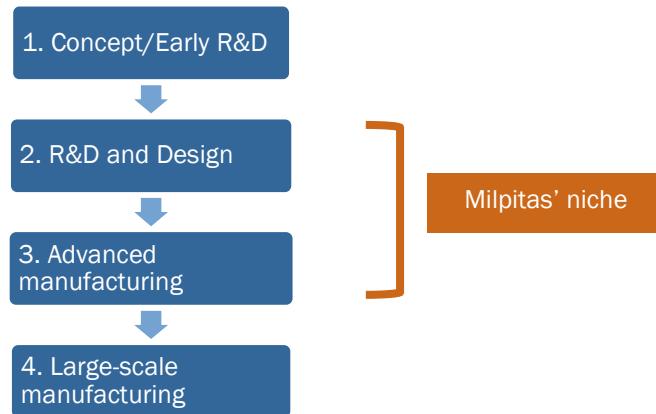
ADVANCED MANUFACTURING AND RESEARCH & DEVELOPMENT INDUSTRY GROUPS

Milpitas is highly specialized in advanced manufacturing and R&D. This encompasses two distinct industry groups: computer/electronics design and manufacturing, and other advanced manufacturing and R&D services, as described in Figure 21. There are important similarities across these industry groups, which are described below.

Advanced manufacturing businesses often locate in Milpitas as they shift into the R&D/design and prototyping/small scale production phase of their lifecycle. Figure 22 is a simplified summary of the typical innovation cycle of a new product. It illustrates how products usually begin with high-level, conceptual R&D (stage 1), then move into more detailed design and R&D work (stage 2), then into advanced and specialized prototyping and manufacturing (stage 3), and eventually shift to larger-scale manufacturing (stage 4). Milpitas generally has a niche in stages 2 and 3 of this process.

Advanced manufacturing companies are drawn to Milpitas by workforce access and the flexible building stock. Companies often locate in Milpitas as they require more and lower cost space than is available in central Silicon Valley locations such as Palo Alto, Mountain View, and Sunnyvale. This is especially relevant to stage 2 and 3 companies as they expand their operations. Milpitas offers an abundance of low-cost, flexible real estate inventory. Milpitas is also a strategic location in the region, offering access to a highly educated workforce and capital investment while also providing relative proximity to a diverse workforce in Alameda County that includes workers in production occupations.

FIGURE 22. TYPICAL INNOVATION CYCLE OF A NEW MANUFACTURED PRODUCT



Source: Strategic Economics, 2020.

COMPUTER AND ELECTRONICS DESIGN AND MANUFACTURING INDUSTRY GROUP

Milpitas is highly specialized in computer and electronics design and manufacturing. This industry group includes about one third of all jobs in Milpitas, with a location quotient (LQ) of 1.79. This represents a major industry cluster, in that it encompasses companies working across the production chain, from design, to programming, to R&D, to manufacturing activities. The main products designed and manufactured in Milpitas are semiconductors, electronic instruments, computers and peripheral equipment, and other electronic components.

Milpitas has the opportunity to leverage this existing specialization to capture additional future growth of this industry group in Silicon Valley. Milpitas experienced a net decline in computer manufacturing

jobs, but a significant gain in computer systems design jobs, balancing out to a 6 percent increase from 2009 to 2018. In Santa Clara County, both computer manufacturing jobs and computer systems design jobs increased since 2009, resulting in a net increase of 31 percent for the industry group as a whole. While the loss of manufacturing jobs in Milpitas should be monitored, and may be a cause for concern moving forward, continued growth in the broader region is promising for Milpitas, and creates opportunities for Milpitas to capture some of this future growth.

OTHER ADVANCED MANUFACTURING AND R&D INDUSTRY GROUP

Various other high-tech manufacturing and R&D businesses are concentrated in Milpitas. This industry group includes about nine percent of jobs in Milpitas, with a LQ of 1.42. This industry group includes companies deploying advanced and specialized manufacturing processes (i.e., involving the use of innovative technologies, machinery, and/or software). Companies in this sector produce a range of products, such as industrial machinery, high-tech materials, and optical instruments. This sector also includes businesses specialized in advanced R&D, such as engineering, nanotechnology, biotechnology, laboratory testing, and other scientific and technical services.

Milpitas can build on its strength in advanced manufacturing to diversify the types of companies and products represented by businesses in this industry group. This sector is growing relatively rapidly in Milpitas compared to Santa Clara County, indicating strong performance for companies that are already located or expanding in Milpitas. However, there is an opportunity for Milpitas to broaden the diversity of its advanced manufacturing companies; for example, the City of Milpitas could seek to expand in other clusters such as clean tech, biotech, and life sciences.

SOFTWARE AND INFORMATION SERVICES INDUSTRY GROUP

The software and information services industry group grew rapidly in Santa Clara County, but Milpitas has consistently had few jobs in this sector. The information sector (NAICS 51) was the fastest growing 2-digit NAICS sector in Santa Clara County in the last decade, with a 114 percent increase in employment since 2009 (net gain of nearly 50,000 jobs), reflecting Silicon Valley's post-recession tech boom. However, these jobs only represent two percent of Milpitas employment, with a LQ of 0.19.

Milpitas' weakness in this industry group is likely due to the City's distance from the core Silicon Valley locations and workforce. Milpitas sits at the border of Santa Clara and Alameda Counties. While this is a strength for attracting a diverse workforce, it also makes it difficult to attract companies that have typically been located in locations such as Palo Alto, Mountain View, Sunnyvale, and Cupertino.

Milpitas may have an opportunity to attract smaller software and information services startups that are being priced out of higher cost Silicon Valley locations such as Palo Alto, Mountain View, Sunnyvale, and Cupertino. With major tech corporations growing rapidly in the last decade in cities such as Mountain View, Cupertino, and Sunnyvale, smaller firms are experiencing increased displacement pressure (higher rents, older buildings being redeveloped). There may be an opportunity for these smaller businesses to relocate to a more affordable place like Milpitas.

LOGISTICS INDUSTRY GROUP

Relative to Santa Clara County, Milpitas has a slight concentration of trucking, warehouse, and distribution jobs due to Milpitas' strategic location and warehouse space. Companies that fall in this sector include storage, supplier, distributor, and trucking companies. The concentration of these businesses in Milpitas reflects the city's supply of relatively low-cost space, strategic location at the

intersection of major highways, and proximity to dense residential and employment districts elsewhere in the region. These attributes are exemplified by Amazon's recent decisions to locate in two industrial distribution centers in Milpitas (Bridge Point Silicon Valley and McCarthy Creekside Industrial Center) and Apple's recent lease of warehouse storage space (McCarthy Creekside Industrial Center).

Warehousing and distribution businesses tend to have low job densities and high levels of automation. With the rise of e-commerce and other delivery services, the transportation and warehousing (NAICS 48-49) industry has grown at the County level, although wholesale trade jobs (NAICS 42) have been in decline. A similar trend is occurring in Milpitas. However, companies engaged in transportation and warehousing tend to have a very low number of employees per square foot, so growth in real estate does not necessarily translate to significant job growth.

RETAIL AND RESTAURANTS INDUSTRY GROUP

Milpitas has a large number of retail and restaurant jobs. One major employment contributor is the Great Mall, a regional outlet mall that draws customers from a large trade area. Great Mall has continued to diversify its tenants in the face of large department store closures, including the recent attraction of Legoland Discovery Center in 2019 to a space previously occupied by a Sears Outlet. Great Mall also has many clothing and accessories stores. In addition, Milpitas has a wide variety of restaurants specialized in diverse cultures and cuisines, as well as shopping centers and grocery stores focused on Asian products. A more detailed analysis is described in the Commercial Real Estate Market section of this report.

Although retail jobs have declined since 2009, restaurant jobs have increased in Milpitas (barring impacts from the COVID-19 pandemic response). Reflecting national trends, changing consumer preferences, and the rise of online shopping, employment in Milpitas' retail trade sector has declined steadily in the last decade (four percent decrease since 2009), but employment in restaurants has continued to grow at a healthy pace (32 percent increase since 2009).

SMALL BUSINESSES IN MILPITAS

This section describes existing small businesses in Milpitas, by business size and industry mix, and examines their growth trends and contribution to Milpitas' overall economy. Trends by subarea are also analyzed, especially subareas of change, as small businesses in these areas may be vulnerable to displacement. This section concludes with an overview of the major challenges faced by small businesses in Milpitas even prior to the COVID-19 pandemic, based on interviews with the Chamber of Commerce, brokers, and other stakeholders. Findings from this section can help guide the City's small business retention efforts.

CHARACTERISTICS OF SMALL BUSINESSES

In this report, a small business is defined as having between 2 and 49 employees. As a subcategory within small businesses, a microbusiness is defined as having between 2 and 9 employees.⁸ A

⁸ Businesses with fewer than 1 employee per year on average were excluded from the sample. Businesses that reported between 1 and 2 employees per year on average are analyzed separately from small businesses, because the vast majority of these 1-employee businesses are located in residential areas, with many consisting of in-home care assistants. These businesses are less vulnerable to displacement. Findings for the City as whole are based on EDD annual averages, whereas findings by subarea are based on data from the second quarter of 2009 and 2018.

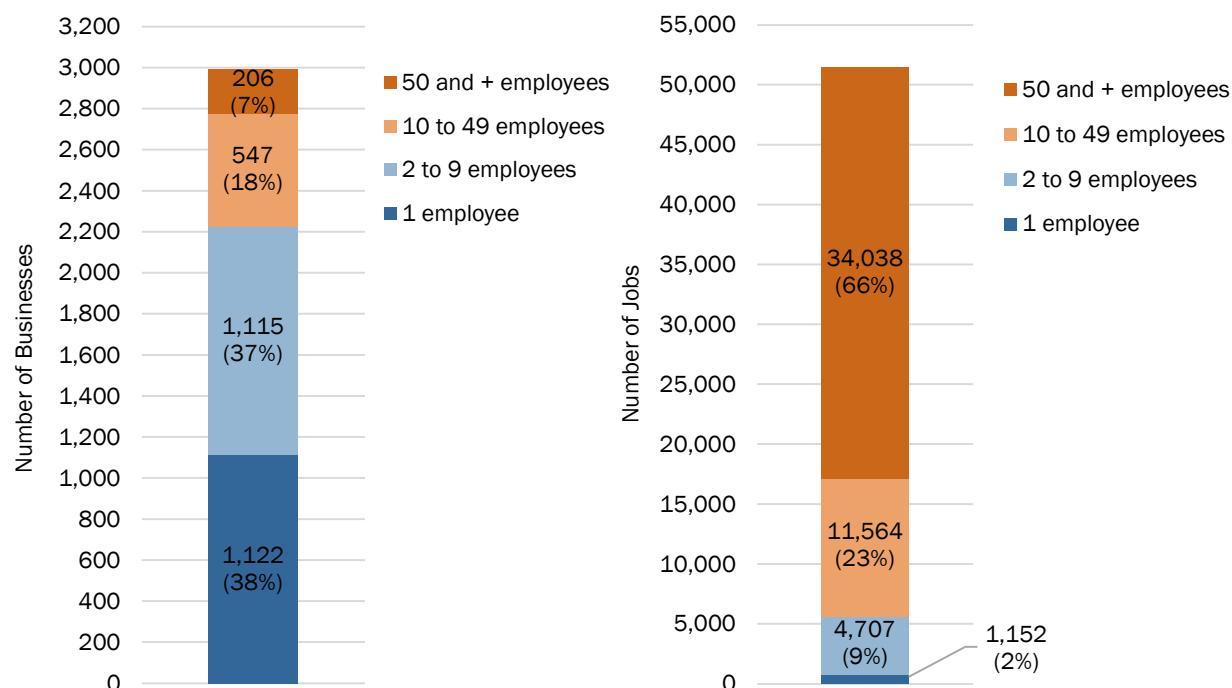
simplified industry categorization is used to analyze the industry mix of small businesses, instead of the 2-digit NAICS codes used in previous sections.

CITYWIDE SMALL BUSINESS TRENDS

In 2018, there were 1,660 small and microbusinesses in Milpitas, accounting for over half of all businesses citywide. Figure 23 illustrates businesses and jobs in Milpitas by business size. In 2018, Milpitas was home to about 3,000 businesses, of which 1,100 were microbusinesses and 550 were small businesses with 10 to 49 employees.⁹ Businesses with only 1 employee are not considered small businesses for the purposes of this analysis.¹⁰

In 2018, small businesses in Milpitas employed about 16,000 workers, accounting for one third of all jobs citywide. As seen in Figure 23, microbusinesses account for 9 percent of all jobs, and small businesses with 10 to 49 employees account for 23 percent of all jobs. The vast majority of jobs in the City are generated by a small number of large employers (50 or more employees).

FIGURE 23. BUSINESS COUNT AND EMPLOYMENT IN MILPITAS BY BUSINESS SIZE, 2018



Note: Employment for Cisco Systems Inc. was manually adjusted using business license data provided by the City of Milpitas.
Source: California Employment Development Department, 2009, 2013, and 2018; Strategic Economics, 2020.

⁹ Note that the EDD data may overestimate the number of businesses because of inconsistent tracking of businesses with multiple locations and/or buildings.

¹⁰ As noted above, the vast majority of these 1-employee businesses are located in residential areas, with many consisting of in-home care assistants. These businesses are less vulnerable to displacement.

Small businesses in Milpitas represent a wide diversity of industries. The most common types of small businesses are listed below and summarized in Figure 24:

- **Industrial and office-based small businesses** represent about one third of all small businesses in Milpitas. These include smaller startup companies as well as traditional office-based businesses (e.g. consulting, engineering, real estate services). Small industrial businesses include repair shops, small manufacturers, and other production and distribution companies.
- **Retail, personal services, restaurants, and drinking places** represent another large industry group in Milpitas. Together, these types account for 29 percent of small businesses in Milpitas.
- **Education, medical and social assistance** represents the largest category of small businesses in Milpitas; however, this category mostly includes in-home caregivers and is therefore not the primary focus of this study.¹¹

FIGURE 24. EXISTING CHARACTERISTICS OF SMALL BUSINESSES IN MILPITAS, 2018

Type of Business	Number of Small Businesses, 2018	Percent of Small Businesses, 2018	Small Business Jobs, 2018	Percent of Small Business Jobs, 2018
Education, Medical, Social Assistance	456	27%	2,997	18%
Industrial*	281	17%	3,349	21%
Office-Based*	254	15%	2,334	14%
Retail & Personal Services	243	15%	2,843	17%
Food Services, Drinking Places	227	14%	3,041	19%
Other*	65	4%	515	3%
Financial Services	56	3%	440	3%
Auto-Related*	50	3%	396	2%
Hotels & Entertainment	17	1%	279	2%
Religious, Nonprofit, Civic	14	1%	78	0%
Total	1,662	100%	16,271	100%

*Industrial includes: manufacturing, production, distribution, and construction businesses.

Office-based includes: businesses focused on professional, scientific, and technical services, information services, management of companies, and real estate services.

Other includes: other services; non-store retailers, and unclassified businesses.

Auto-related includes: motor vehicle parts and dealers, repair and maintenance businesses, and gasoline stations.

Small businesses are defined as having between 2 and 50 employees.

Source: California Employment Development Department, 2009, 2013, and 2018; Strategic Economics, 2020.

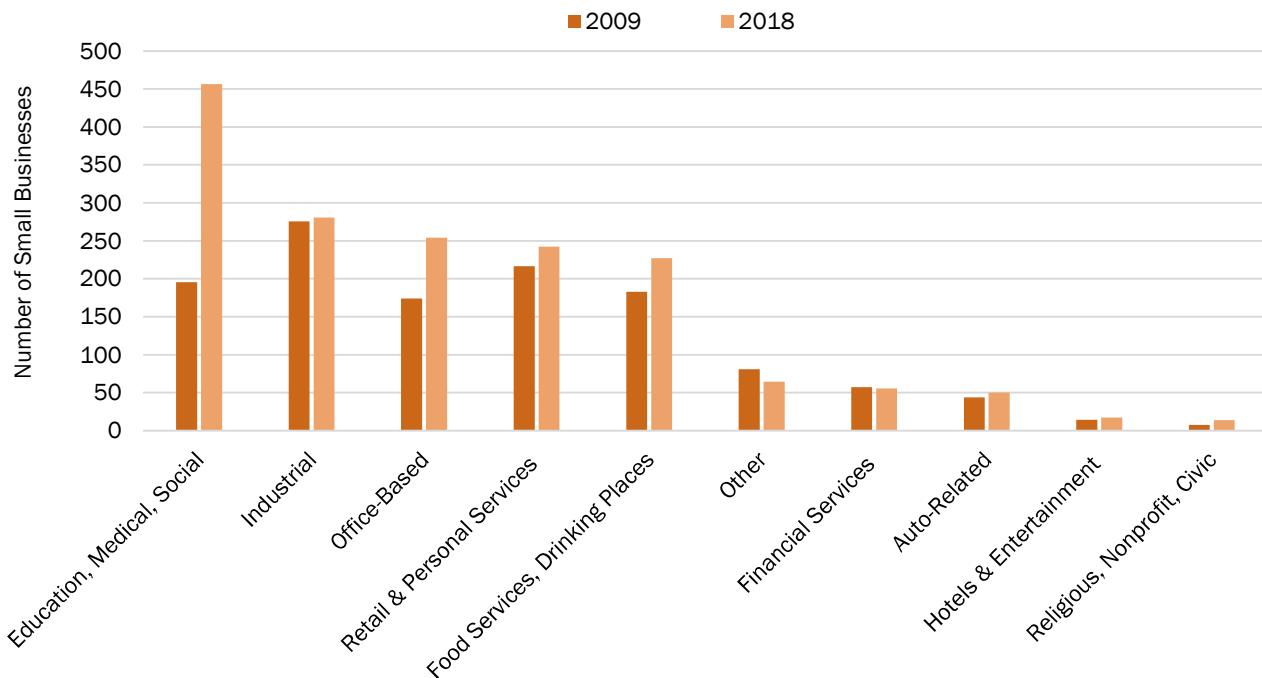
The total number of small businesses in Milpitas increased from 2009 to 2018, with the strongest growth in office-based and restaurant establishments. As seen in Figure 25, a significant portion of the increase in small businesses is attributable to the education, medical and social assistance category.¹² However, even without counting this category, small businesses in Milpitas experienced net positive growth. In particular, small office-based businesses and restaurants increased significantly. In contrast, industrial small businesses and retail small businesses stagnated, or even declined slightly between 2009 and 2018. The decline in industrial small businesses may be due to

¹¹ Businesses classified as NAICS code 624120 (Services for the Elderly and Disabled) includes almost entirely in-home caregivers enrolled in the State's In-Home Supportive Services Program(IHSS) managed by the California Department of Social Services. Data anomalies over time in this category render some of the trends over time inconclusive.

¹² Ibid.

certain industrial areas of the City undergoing redevelopment into residential areas, such as the Transit Area Specific Plan area, described in more detail in the following section.

FIGURE 25. NUMBER OF SMALL BUSINESSES BY TYPE, 2009 AND 2018



Small businesses are defined as having between 2 and 50 employees.

Other includes Other Services; Unclassified; Nonstore Retailers.

Source: California Employment Development Department, 2009, 2013, and 2018; Strategic Economics, 2020.

SUBAREA SMALL BUSINESS TRENDS

Small business trends by subarea are described below and in Figure 26 and Figure 27. The subareas referenced in this section are shown in Figure 9. The analysis focuses on a subset of subareas, including major retail and employment areas, and areas that are positioned for redevelopment, and trends are based on data for the second quarter of 2009 and 2018.

The Manufacturing Area North subarea includes the largest number of small businesses. Manufacturing Area North, an industrially-zoned area, is one the largest employment areas in Milpitas. It holds nine percent of all small businesses in the city, most of which are industrial and office-based small businesses. Manufacturing Area North is also home to many larger businesses (see Figure 27), indicating that it is an attractive location for a wide range of business sizes. However, the number of small businesses remained stagnant between 2009 and 2018, while the number of larger businesses increased.

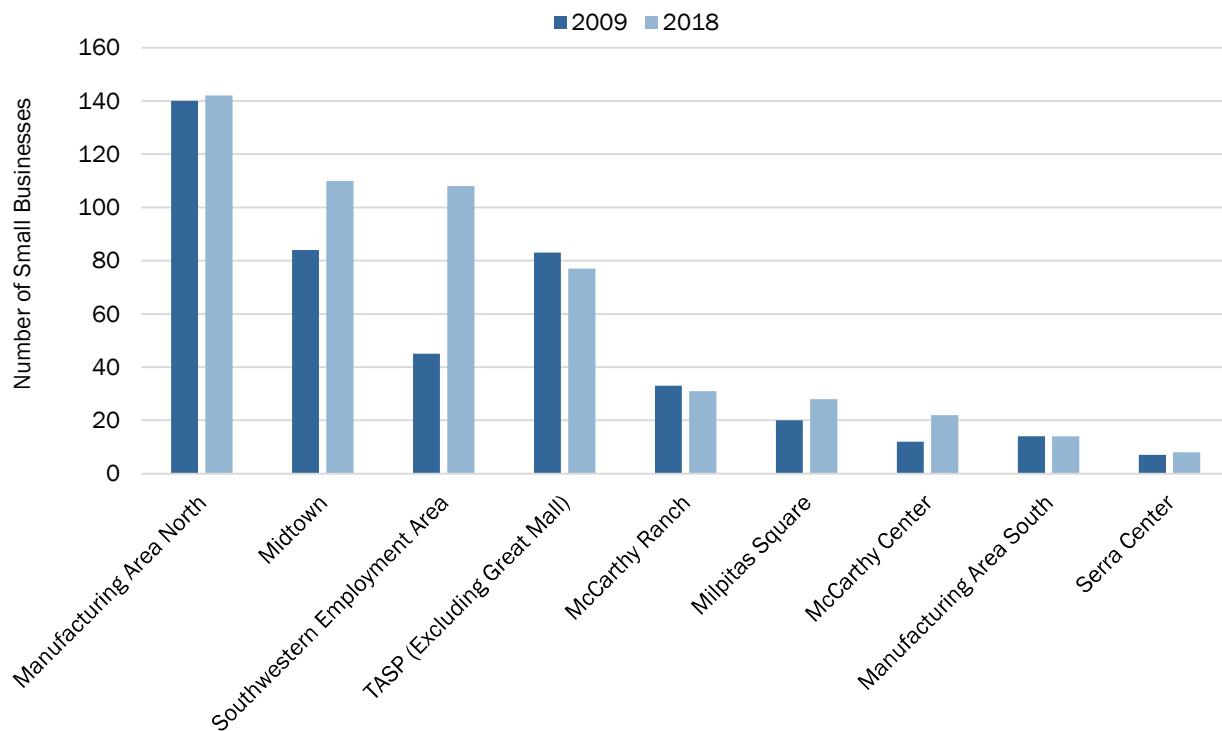
The Southwestern Employment Area and Midtown experienced significant increases in the number of small businesses between 2009 and 2018. In 2018, these subareas were the second and third largest in terms of number of small businesses. The Southwestern Employment Area is an important employment subarea within the city, and since 2009, it gained a significant number of small industrial and office-based businesses. The number of large businesses in this subarea grew as well. In Midtown, the increase in small businesses is mostly due to education, medical, and social assistance

businesses (in-home caregivers), but there was also a small increase in the number of eating and drinking establishments.

The Transit Area Specific Plan (TASP) area (excluding the Great Mall) experienced a net decrease in both small and large businesses from 2009 to 2018. This reflects this area's transition over the last decade from an industrial area to an increasingly residential area.

Serra Center and Manufacturing Area South, subareas that may be positioned for possible redevelopment, appear to have few small businesses. Manufacturing Area South, which is being considered for a future Innovation District, had very few (14) small businesses in 2018, and the overall number of small businesses remained constant between 2009 and 2018. The Serra Center is an older retail center that may represent future reinvestment or redevelopment opportunities for its owner given its location as a prominent gateway to the Midtown Specific Plan area. Serra Center only had eight to nine small businesses in both 2009 and 2018. This is in line with previous findings from this report noting low retail sales per square foot for the Serra Center.

FIGURE 26. NUMBER OF SMALL BUSINESSES BY SUBAREA, 2009 Q2 AND 2018 Q2



Note: Small businesses are defined as having between 2 and 50 employees. Data is shown for the second quarter of each year.
Source: California Employment Development Department, 2009, 2013, and 2018; Strategic Economics, 2020.

FIGURE 27. NUMBER OF SMALL AND LARGE BUSINESSES BY SUBAREA, 2009 Q2 AND 2018 Q2

	Number of Small Businesses (2 to 49 employees)			Number of Businesses with 50+ employees		
	2009	2018	Change	2009	2018	Change
Manufacturing Area North	140	142	2	26	40	14
Midtown	84	110	26	3	3	0
Southwestern Employment Area	45	108	63	24	42	18
TASP (Excluding Great Mall)	83	77	-6	13	10	-3
McCarthy Ranch	33	31	-2	10	5	-5
Milpitas Square	20	28	8	2	4	2
McCarthy Center	12	22	10	4	14	10
Manufacturing Area South	14	14	0	0	1	1
Serra Center	7	8	1	1	0	-1
All Other Subareas*	806	1,127	321	63	75	12
Total	1,251	1,667	423	146	194	48

*This includes the Great Mall and all other parts of the city not covered by the subareas shown in Figure 1.

Source: California Employment Development Department, 2009, 2013, and 2018; Strategic Economics, 2020.

KEY TRENDS AND ISSUES

The City of Milpitas plays an important role in supporting the health and growth of small businesses. This section summarizes key trends and issues relevant to small businesses in Milpitas prior to their emergency needs triggered by the COVID-19 pandemic, based on interviews with the Milpitas Chamber of Commerce and other small business owners who participated in the survey and community workshop event.

- **Requirements for permitting and change in tenancy.** Efforts to streamline the City's processes for permitting can help reduce costs incurred by small businesses. The Certificate of Occupancy (COO) requirement is especially burdensome, as it requires approval any time there is a change of tenant. The City is addressing issues related to permitting and the development review process through a separate study led by the Matrix Consulting Group.¹³
- **Technical assistance and direct outreach.** The City is developing an online Business Resource Center and offers some technical assistance to small businesses on a project-by-project basis, such as a program that matches new business owners with experienced entrepreneurs. Expanding resources of this kind, as well as increasing direct outreach to businesses to establish relationships with City staff, were cited as important needs within the small business community.
- **Wayfinding and accessibility to/from the new Milpitas Transit Center.** Small businesses wish to leverage the new BART service planned for the Milpitas Transit Center. Improving "last-mile" connections to the Milpitas Transit Center was cited as a key priority to attract more customers. Businesses also mentioned the importance of wayfinding in the City, especially around the Milpitas Transit Center.
- **Public realm, amenities, and walkable districts.** Stakeholders cited a lack of "sense of place" and of a walkable, mixed use district or corridor in Milpitas as a top concern. The lack of amenities—such as public gathering spaces, arts and cultural spaces, entertainment and nightlife options—was also a recurring concern raised by small businesses. Addressing these issues could be especially beneficial for small retailers and restaurants and drinking and

¹³ Matrix Consulting Group for the City of Milpitas, "Report on the Evaluation of the Development Review Process" April 2019.

entertainment establishments. The Midtown Specific Plan envisions revitalization of Main Street into a more walkable, mixed use district.

- **Marketing and City branding.** There is a general agreement among small businesses that Milpitas lacks a specific brand and broader recognition within the region, especially as a business destination.
- **Labor shortage.** Under current market conditions, unemployment rates are extremely low and housing costs are extremely high, which has led to some small businesses having trouble finding, recruiting and retaining qualified employees.
- **Space availability.** Business owners expressed a need to better connect prospective tenants with available space.

Commercial Real Estate Market Conditions

The performance of commercial real estate in Milpitas reflects the community's ability to attract and retain different kinds of businesses. The location decisions of these businesses illustrate the benefits and drawbacks of locating in the city. Rising rents, development activity, and reinvestment for different building types indicate whether businesses perceive value in locating in Milpitas.

This section provides an assessment of the built environment in Milpitas, with a focus on commercial real estate, to provide a fuller picture of the City's ability to attract and retain businesses and jobs. This section summarizes existing conditions and trends for each of the following real estate markets:

- Office/flex, R&D, and industrial manufacturing space¹⁴
- Warehouse and distribution space
- Retail and restaurants space
- Hotel space

Figure 28 summarizes Milpitas' previously described key industry groups presented and the most likely type of real estate these industry groups would occupy, based on current market patterns. Hospitality (hotels) is included as well.

The findings described below are based on real estate market data obtained from the CoStar Group (CoStar), interviews with brokers and developers, and focus group meetings with industry stakeholders.

FIGURE 28. RELATIONSHIP BETWEEN KEY INDUSTRY GROUPS AND REAL ESTATE NEEDS

Type of Real Estate	Milpitas Key Industry Group
Office, R&D, and industrial manufacturing space	- Computer & electronics design & manufacturing - Other advanced manufacturing and R&D services - Software & information services (Office & R&D space only)
Warehouse and distribution space	Logistics
Retail space	Retail & restaurants
Hotel	Hospitality

Source: Strategic Economics, 2020.

¹⁴ Note that the distinctions between office, office/flex, R&D, and industrial manufacturing real estate product types are not always clear. Real estate needs vary significantly by business and by industry, and individual businesses may engage in a wide variety of activities. For example, some advanced manufacturing companies may need space for prototyping and manufacturing, as well as office and R&D uses on-site. In contrast, other companies may prefer to locate office-based activities and manufacturing activities in separate buildings. High tech companies may also have other needs, for example for storage space.

OFFICE, R&D, AND MANUFACTURING

This section describes existing inventory and growth trends for office, R&D, and industrial manufacturing markets in Milpitas, including how the history of Milpitas' building stock reflects the community's evolving market position. Rents, vacancies, and recent development activity are also reviewed.

PAST GROWTH TRENDS AND EXISTING INVENTORY

Milpitas experienced a first commercial development boom in the 1980s in response to Silicon Valley's rapid economic expansion focused on semiconductor and computer hardware innovations. Milpitas grew primarily as greenfield residential subdivisions through the 1970s. It was not until the late 1970s and 1980s that Milpitas experienced significant commercial growth, as semiconductor and computer hardware technologies took off in Silicon Valley, and as Highway 237 opened up easier access. Buildings from this period are classified as manufacturing and warehouse/distribution (see Figure 29), and are concentrated between Highway I-680 and the railroad tracks, west of Highway I-880 south of Tasman Drive, and around what is today the Milpitas Transit Center (see Figure 32).

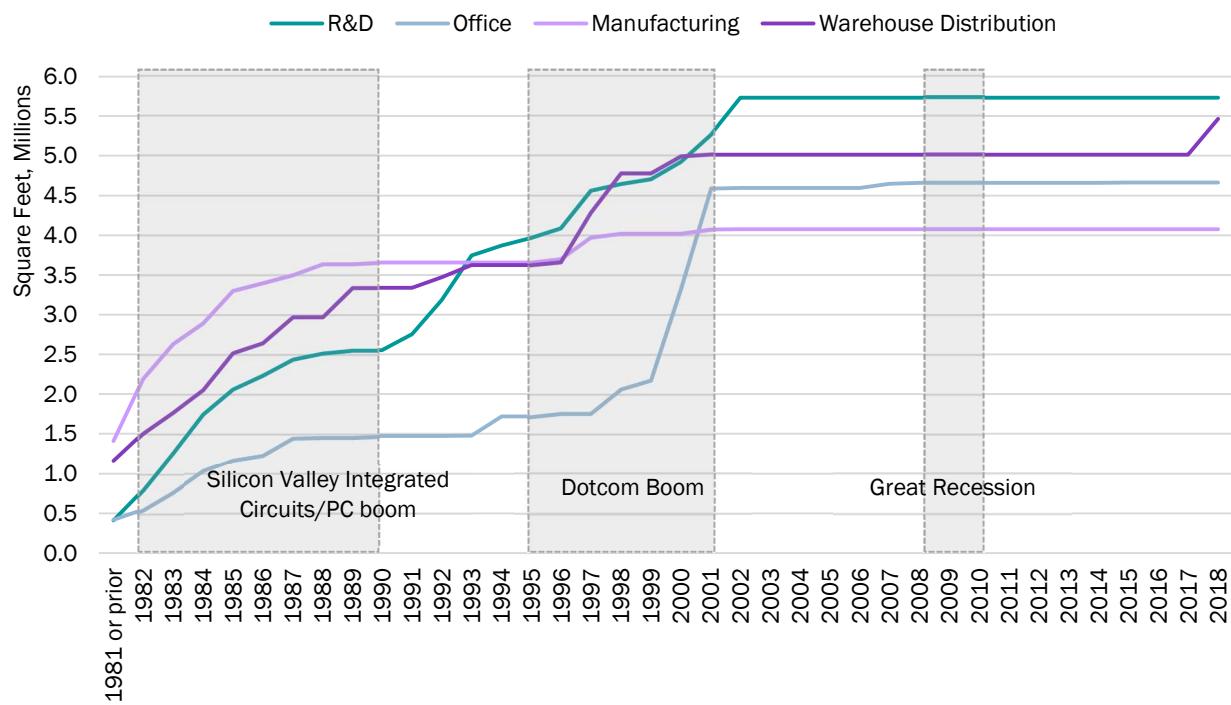
Milpitas experienced a second major phase of development in the mid-1990s and early 2000s during the Dot-Com Boom. With the adoption of the Internet, Silicon Valley's economy continued to grow rapidly. As seen in Figure 29 and Figure 32, new commercial development in Milpitas from the mid-1990s to the early 2000s was concentrated between Highway I-880 and Coyote Creek, directly north and south of Highway 237. Buildings from this period are classified as office and R&D by CoStar.

Milpitas' stock of commercial space can flexibly adapt to the needs of a variety of users. As shown in Figure 30, Milpitas includes about 14.5 million square feet of office, R&D, and manufacturing space. This inventory is flexible and includes a diversity of building types and sizes, summarized in Figure 31, which can accommodate businesses in need of different types of space. Office buildings tend to have smaller floorplates and a higher number of stories, whereas R&D and manufacturing buildings have larger floorplates and fewer stories. Also, a large portion of the building stock in Milpitas consists of large suburban-style business parks, built as several buildings surrounded by surface parking. Major business parks include:

- McCarthy Center (classified as office by CoStar, 1 million square feet)
- Tasman Technology Center (classified as R&D by Costar, 610,000 square feet)
- Cisco's active campus (classified as office by CoStar, 1.1 million square feet)
- The Tasman/Alder/McCarthy Park, also known as the Peery Arrillaga site, formerly occupied by Cisco (classified as R&D by CoStar, 250,000 square feet)
- Park Point (formerly Campus Center) site (R&D, 472,000 square feet)

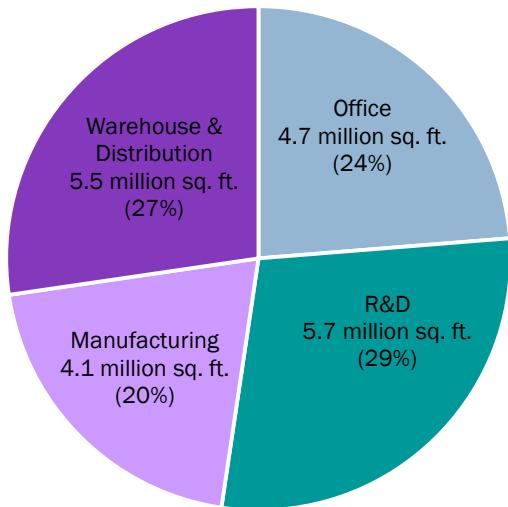
No new office, R&D, or manufacturing development has occurred in Milpitas since the early 2000s. Since the Dot-Com Bust, commercial development activity in Milpitas has been very limited, despite tremendous growth in the tech sector across Silicon Valley. For example, since 2011, nearly 22 million square feet of office space have been completed in Santa Clara County. This space is largely in communities like Mountain View, Cupertino, and Santa Clara, which are located closer to the largest concentration of residents holding advanced degrees (as shown in the map in Figure 13) and closer to venture capital firms concentrated in Palo Alto.

FIGURE 29. EXISTING COMMERCIAL INVENTORY IN MILPITAS BY YEAR BUILT



Source: CoStar, 2019; Strategic Economics, 2020.

FIGURE 30. EXISTING COMMERCIAL INVENTORY IN MILPITAS BY TYPE, 2019 Q2



Source: CoStar, 2019; Strategic Economics, 2020.

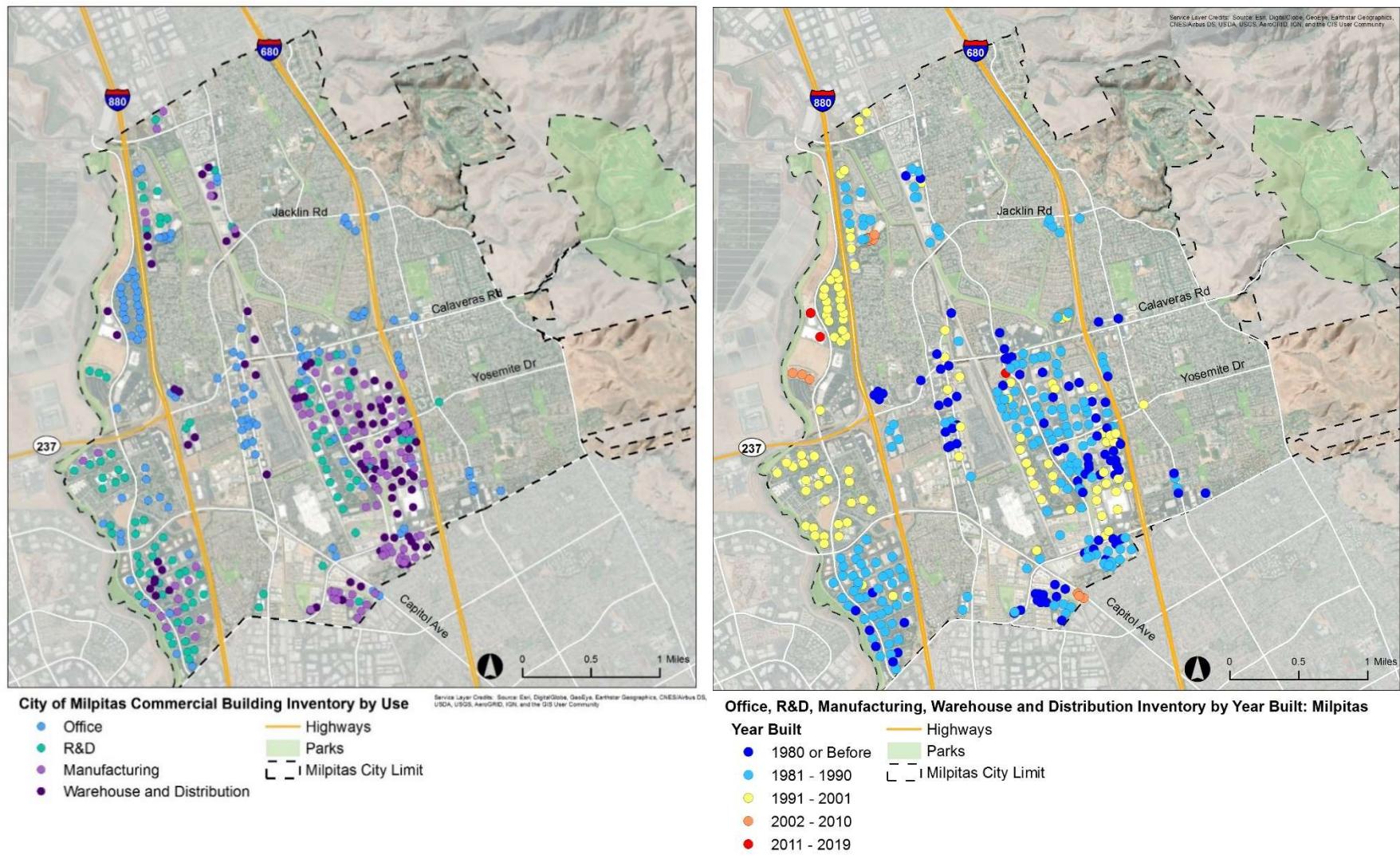
FIGURE 31. MILPITAS COMMERCIAL BUILDING CHARACTERISTICS, 2019 Q2

	Office	R&D	Manufacturing	Warehouse & Distribution
Supply				
Number of Buildings	110	85	91	82
Total Inventory (Sq. Ft.)*	4,749,000	5,733,000	4,070,000	5,467,000
Building Characteristics				
Average Floor Size (Sq. Ft.)	22,000	49,300	42,600	70,400
Average Building Size (Sq. Ft.)	45,400	67,500	43,700	72,000
Average Number of Stories	1.9	1.4	1.1	1.2

*Rounded to nearest thousand.

Source: CoStar, 2019; Strategic Economics, 2020.

FIGURE 32. EXISTING COMMERCIAL INVENTORY IN MILPITAS BY USE (LEFT) AND YEAR BUILT (RIGHT)



Sources: Strategic Economics, 2019; City of Milpitas, 2019; Costar, 2019.



Sources: Strategic Economics, 2019; City of Milpitas, 2019; Costar, 2019.



RENTS AND VACANCY RATES

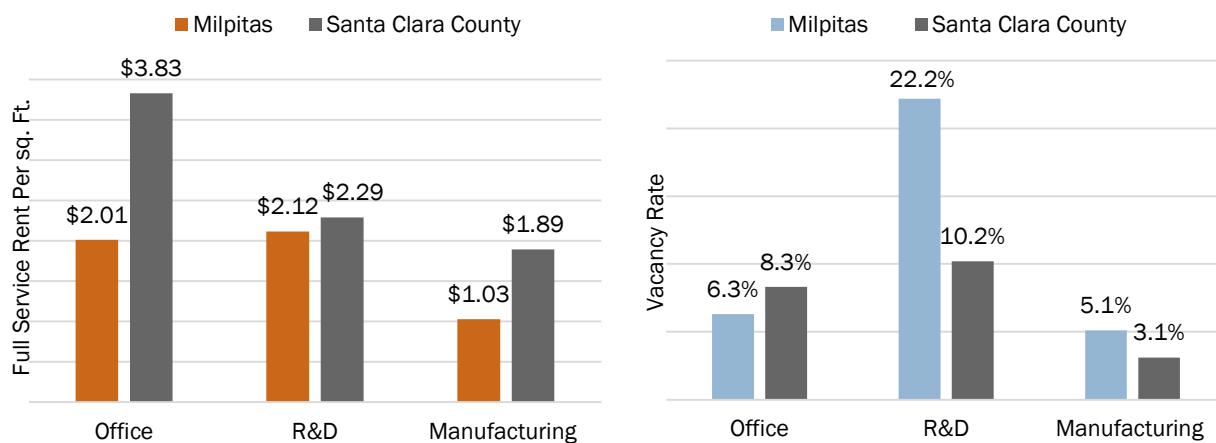
Milpitas' commercial inventory provides low cost space compared to other Silicon Valley markets, which is an advantage to some types of manufacturing and R&D firms. As shown in Figure 33, office, R&D, and manufacturing rents are significantly lower in Milpitas than Santa Clara County overall. Office space, in particular, is low-priced compared to the region (note that Milpitas has very little Class A office space). Businesses that are drawn to Milpitas often require cheaper space, for instance for R&D and prototyping. These types of firms would have difficulty finding comparable affordable spaces in other Silicon Valley cities.

Vacancy rates were low for office and manufacturing space in Milpitas as of the second quarter of 2019. As seen in Figure 33, Milpitas has a low vacancy rate for manufacturing space (5 percent). Vacancy is similarly low across Santa Clara County (3 percent), reflecting the high demand for this limited space in Silicon Valley. Milpitas also has a low vacancy rate for office space (6 percent), which is slightly lower than Santa Clara County's office market vacancy (8 percent).

However, the R&D vacancy rate is very high in Milpitas, as several major tenants have vacated large campuses. R&D vacancies in Milpitas have increased since 2016, reaching 22 percent in 2019 (Figure 34). This is due to a few large advanced manufacturing and R&D firms vacating their campuses in recent years, as summarized in Figure 35. For example, Cisco vacated two campuses, as the company has been consolidating operations in its San José headquarters, and Micron, which moved to a vacant campus in North San José. By comparison, the vacancy rate for R&D space in Santa Clara County has been in decline since 2010.

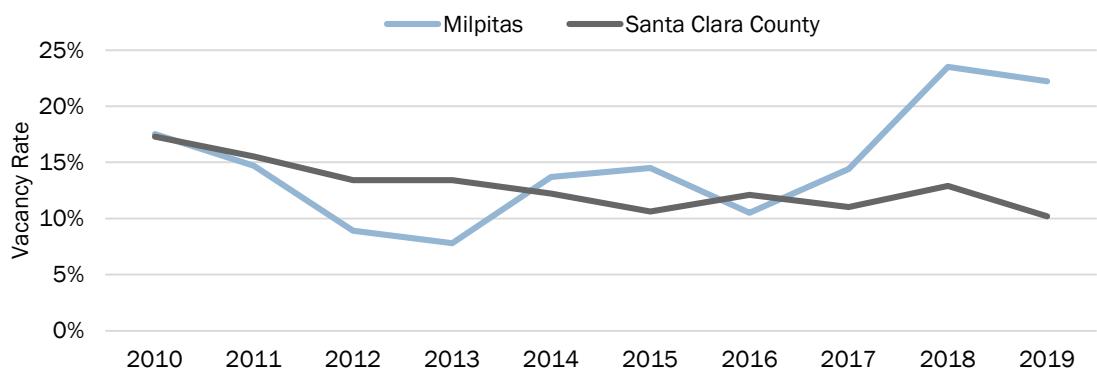
There may be opportunities for business attraction in vacated R&D spaces, but they will require reinvestment and additions of amenities increasingly expected by workers. These vacant buildings represent an opportunity for Silicon Valley tenants looking for a large space at a lower cost than other nearby markets. However, many of these buildings and campuses will require significant upgrades if property owners wish to attract a high-tech office user. Brokers interviewed for this analysis often cited that, due to very high competition for high-skilled talent, on-site amenities such as a gym, day-care center, café, restaurant, or other leisure space, have become increasingly important for recruiting office tenants. It is unlikely that Milpitas will attract development until vacant space is absorbed.

FIGURE 33. RENTS (LEFT) AND VACANCY RATES (RIGHT) IN MILPITAS AND SANTA CLARA COUNTY, 2019 Q2



Source: CoStar, 2019; Strategic Economics, 2020.

FIGURE 34. R&D VACANCY RATE IN MILPITAS AND SANTA CLARA COUNTY, 2010 TO 2019



Source: CoStar, 2019; Strategic Economics, 2020.

FIGURE 35. EXAMPLE R&D VACANCIES IN MILPITAS

Business Park	Address Vacated	Square Feet	Year Vacated	Current Status
Park Point	115-135 N McCarthy Blvd	472,000	2017 (vacated by Cisco)	What was previously called Campus Center included a three-building campus and a 35-acre vacant parcel. The buildings were purchased by Embarcadero Capital Partners in 2019 and are being re-marketed as Park Point, a modern, creative tech campus. The adjacent 35-acre vacant parcel is being developed as a warehouse distribution center (see Figure 30).
Peery Arrillaga Site	McCarthy/Alder/Tasman Dr	375,000	2017 (vacated by Cisco)	Peery Arrillaga (property owner) owns a large amount of property in Silicon Valley. To date, no proposals have been made public regarding this site
Overton Moore Properties (OMP) site	909-1001 S Milpitas Blvd	350,000	2016 (former LifeScan headquarters)	A proposal has been submitted to redevelop this site into a one-story, 500,000 square foot industrial building.
Micron, formerly leasing in the Tasman Tech Park	700 E Tasman Dr	180,000	2018-2019	Micron Technology left its location in Milpitas and moved to a three-building, 541,000 sq. ft. campus in North San José

Source: Personal communication with local office, R&D, and industrial brokers; CoStar, 2019; Strategic Economics, 2019.

DEVELOPMENT OPPORTUNITIES AND CHALLENGES

Recent development trends in Silicon Valley indicate that tech office/R&D tenants favor locations in mixed-use, transit-oriented locations. For example, mixed-use office projects near transit currently under construction near Caltrain stations include Coleman Highline/Gateway Crossings (Santa Clara), Cityline (Sunnyvale), and San Antonio Village (Mountain View). Several large mixed-use projects are proposed at planned BART stations, such as Market Park (Berryessa) and the Google Transit Village (Diridon). Transit access, walkable environments, and retail/entertainment options are increasingly seen as essential to attract talented workforce in an extremely competitive labor market.

With Silicon Valley's major economic expansion and rapidly increasing rents, office development has started to shift south and southeast toward Milpitas in recent years. Companies and office

development have started to shift away from the traditional core of Silicon Valley (Palo Alto, Mountain View, Menlo Park) down south/east along Highway 101 and the Caltrain corridor towards Sunnyvale, Santa Clara, and North San José—as seen in Figure 36. This shift is due to increasing rents in the historic center of Silicon Valley, and the need for additional space for expansion.

Despite these trends, Milpitas remains a challenging market location for attracting office/R&D tenants and development. Despite these trends, new office development hasn't reached Milpitas, and the City hasn't attracted high tech office/R&D users. Constraints that help explain this trend are listed below:

- Milpitas is not easily accessible to the highly educated workforce located further west in Santa Clara, San Mateo, and San Francisco, due to the lack of transit access (Caltrain, BART) and worsening congestion on major freeways across the region.
- In an environment of competitive tech growth, access to amenities has become essential to attract talented workforce. Milpitas lacks amenities such as upscale dining, bars, community gathering spaces, and outdoor mixed-use shopping and entertainment districts. Businesses have also noted the lack of conference space and event space in Milpitas.
- Office development activity is unlikely while R&D vacancies are still so high; existing vacant campuses will likely need to be absorbed before new development occurs.
- Under current conditions, rents do not support new Class A office or office/R&D development in Milpitas, based on interviews with area developers and the preliminary results of a study currently being completed for the Milpitas Office of Economic Development.¹⁵
- Stakeholders cited Milpitas' lack of name recognition or brand as a business destination, especially compared to competing cities in Santa Clara County or Alameda County. This may be an impediment to attracting higher end office users and development.

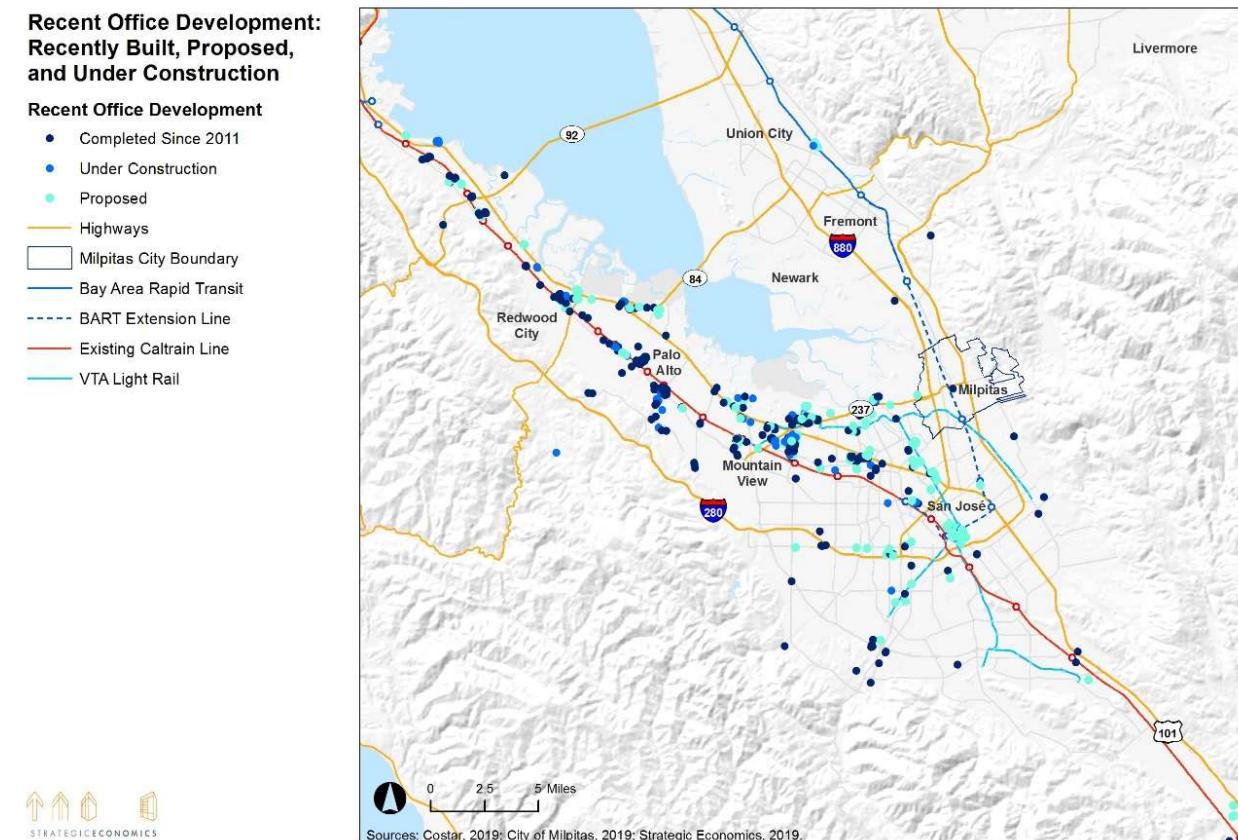
There is long-term potential for office and/or R&D development in a newly designated “Innovation District” near the Milpitas Transit Center, but this may require preserving sites that might otherwise be developed with residential or low density uses. The new BART service offered at the Milpitas Transit Center will, in the short-term, connect Milpitas to the East Bay and San Francisco. In the longer-term, once the BART Phase 2 extension is completed and improvements are made to VTA’s light rail service, Milpitas will also be better connected to the rest of Santa Clara County. Furthermore, new residential development activity in the Transit Area Specific Plan and the Midtown Specific Plan areas will continue to transform the area into a more lively, mixed use environment, which is the type of environment that office users have been favoring in the last several years. However, because it will take time for infrastructure investments and residential development activity to take place, there may be a need to preserve well-located sites for future office or R&D development.

Leveraging the opportunities created by the new Milpitas Transit Center will require significant infrastructure and mobility investments. A recurring issue raised by a wide range of stakeholders is the pressing need to improve first and last mile connections from the new Milpitas Transit Center to the city’s employment areas. With wide thoroughfares and heavy traffic along Great Mall Parkway and Montague Expressway, the area surrounding the Milpitas Transit Center remains very auto-oriented. The Southwestern Employment Area, one of Milpitas’ largest employment areas, is about two miles from the Milpitas Transit Center with poor pedestrian or bicycle route options. Although a VTA light-rail line serves these areas, service is infrequent and the station is removed from most buildings.

¹⁵ Economic Planning Systems (EPS), for the City of Milpitas, “Milpitas General Plan Opportunity Area Assessment and Development Strategy,” August 2019.

Manufacturing Area North, another large employment node, is closer to the Milpitas Transit Center; however, the environment is not pedestrian or bicycle-friendly. Infrastructure and mobility investments needed to improve first and last-mile connections from the Milpitas Transit Center include street network improvements, pedestrian/bicycle facilities, VTA light-rail service improvements, and other micro-mobility options.

FIGURE 36. RECENT OFFICE DEVELOPMENT ACTIVITY IN SANTA CLARA COUNTY



WAREHOUSE & DISTRIBUTION

This section describes existing inventory and growth trends for warehouse and distribution space in Milpitas, including the city's advantages and disadvantages for businesses seeking this space. Rents, vacancies, and recent development activity are also summarized.

Milpitas has a relatively large supply of low-cost warehouse and distribution space. Milpitas has historically been a strong location for warehouse and distribution uses within the region (Figure 29). The city is in a strategic location for intra-regional distribution to residential areas, as well as business-to-business storage needs, with access to major highways connecting to the South Bay and East Bay (Highway 237, Highway 880, and Highway 680). Milpitas currently has 5.5 million square feet of warehouse and distribution space (Figure 30). Despite rapid rent growth in Santa Clara County overall, Milpitas rents remain significantly lower than the County (Figure 37).

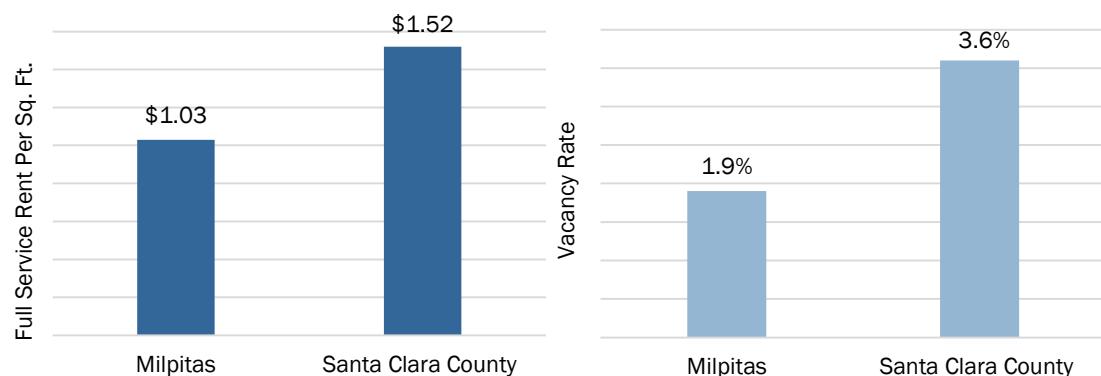
Milpitas is a strong market for warehouse and distribution, as reflected by very low vacancy rates. Warehouse and distribution space is in extremely high demand across Silicon Valley and the Bay Area more generally. Not only is the supply of available space generally limited in Silicon Valley, but demand

has been increasing as e-commerce businesses seek last-mile distribution centers, other major tech employers need storage space, and a variety of other businesses need space for autonomous vehicle operations or large 3-D printers.¹⁶ Santa Clara County's warehouse & distribution vacancy rate has been very low for several years, and Milpitas has had similarly low vacancies, falling below two percent in 2019 (Figure 37).

Developers are eager to pursue new warehouse and distribution development projects in Milpitas. As described in the previous section, Milpitas has not attracted any office, R&D, or manufacturing development since the early 2000s. However, a new warehouse and distribution project was completed in 2018, and additional projects are under construction and in early proposal stages, as summarized in Figure 38. Some of the tenants leasing these new spaces are major tech companies such as Apple and Amazon. However, rather than leasing office spaces in Milpitas, they are building and leasing warehousing and distribution spaces to store equipment or reach customers. Milpitas is attractive for warehousing because of its low rents, highway access, and proximity to other higher cost Silicon Valley cities. However, warehouse and distribution centers tend to have low job densities and limited sales tax revenue potential.

New warehouse and distribution projects in Milpitas are larger floor-plate buildings that meet modern standards required by the majority of tenants. As reported by brokers, tenants looking for new warehousing/distribution space prefer one-story buildings with large floorplates (usually at least 100,000 square feet, but can be up to 300,000 square feet), high ceilings (32-36 feet clear ceiling heights), high power capacity, truck docking areas, as well as a small amount of office space (e.g. 30,000 to 40,000 square feet). Projects recently completed and in the pipeline in Milpitas generally meet these criteria (Figure 38).

FIGURE 37. WAREHOUSE AND DISTRIBUTION RENTS (LEFT) AND VACANCY RATES (RIGHT), 2019 Q2



Source: CoStar, 2019; Strategic Economics, 2019.

¹⁶ San José Spotlight, Janice Bitters. "Big tech drives changes in Silicon Valley's industrial, manufacturing landscape", December 6, 2019. Available at: <https://sanjosespotlight.com/big-tech-drives-changes-in-silicon-valleys-industrial-manufacturing-landscape/>

FIGURE 38: CITY OF MILPITAS WAREHOUSE AND DISTRIBUTION DEVELOPMENT PIPELINE

Project / Address	Status	Square Feet	Existing Tenants
McCarthy Creekside Industrial Center, 407-907 N McCarthy Blvd	Phase I: Completed in 2018 Phase II: Under Construction	Phase I: 400,000 sq. ft. (two buildings) Phase II: 350,000 sq. ft. (three buildings)	Phase I: Apple, mostly for storage Phase II: Amazon, to use as a delivery center
Bridge Point Silicon Valley, 205 N McCarthy Blvd	Under Construction. Bridge Properties, an industrial developer, acquired the 35-acre vacant parcel in 2019.	722,000 sq. ft. (two buildings)	Amazon to occupy one 330,000 sq. ft. building
Overton Moore Properties (OMP) site, 1000 Gibraltar St.	Proposed plans to demolish and redevelop an existing R&D campus into one-story warehouse & distribution building(s).	500,000 sq. ft.	Unknown

Source: Economic Planning Systems and City of Milpitas, 2019; Silicon Valley Business Journal, 2020; Strategic Economics, 2020.

RETAIL & RESTAURANTS

This section describes the performance of retail and restaurants in Milpitas by type and location. The findings include summaries of the existing retail inventory in Milpitas, rents, vacancies, and recent development activity. Using sales tax revenue data provided by the City of Milpitas via MuniServices, the overall health of certain types of retail stores is also summarized.¹⁷ Note that the data predate the economic impacts of the COVID-19 pandemic, which has resulted in the shutdown or limiting of operations for most restaurants and retail stores.

Milpitas has a large and diverse offering of retail stores and restaurants, mostly concentrated in suburban-style shopping centers. As seen in Figure 39, Milpitas has nearly 5 million square feet of retail, of which three quarters is located in retail centers of different sizes and trade areas. Milpitas has an ethnically diverse array of retail and restaurants, and a significant portion of retail in Milpitas is specialized in Asian products, such as in the Milpitas Square retail center.

Milpitas has major regional retail destinations that attract shoppers (and sales tax revenues) from beyond the city. The largest centers are the Great Mall, a 1.4 million square feet super-regional mall, and McCarthy Ranch, a 415,000 square feet power center.

Retail rents and vacancies in Milpitas are similar or lower than the County average. As seen in Figure 40, retail vacancies are around two percent in Milpitas, similar to Santa Clara County's vacancy rate (3.5 percent). This indicates that the market is generally performing well. Rents in Milpitas are around \$2.60 per square foot, which is relatively low compared to Santa Clara County (\$2.85 per square foot).

Small amounts of retail development activity in Milpitas have occurred, mostly as ground floor retail in new residential projects. With residential projects being built around the new Milpitas Transit Center, retail demand is also expected to grow. However, to ensure that these new ground floor retail spaces are successful, infrastructure improvements will be needed to increase the area's walkability and

¹⁷ Sales tax revenue is generated by many different types of users, including general retail, restaurants and food stores, business to business sales, construction, and other users. However, this section focuses solely on general retail and restaurant and food stores. Overall sales tax trends are analyzed later in this report. Also note that citywide retail performance is measured using sales tax revenue (not actual sales, which would include non-taxable items such as groceries) in Figures 32 and 33, and retail center performance is measured using taxable sales per retail square foot, in Figure 34.

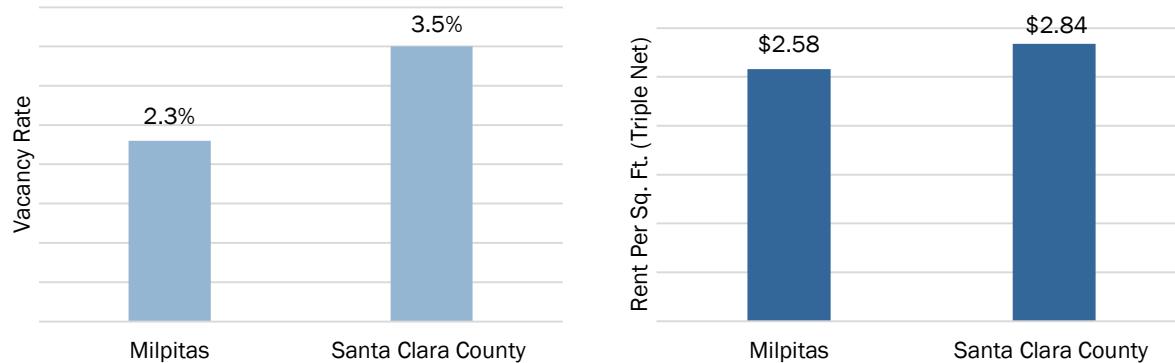
accessibility. In addition, one new retail project, the Sprig Center located on N McCarthy Boulevard south of Dixon Landing Road, recently added 75,000 square feet to the City's inventory leased by Floor & Décor.

FIGURE 39. MILPITAS RETAIL INVENTORY BY CENTER TYPE

	Retail Square Feet	Percent of Total
Shopping Center		
Super-Regional Mall	1,368,000	28%
Power Center	416,000	8%
Community Center	426,000	9%
Neighborhood Center	1,161,000	24%
Strip Center	331,000	7%
Subtotal	3,702,000	75%
Not in Shopping Center	1,233,000	25%
Total	4,935,000	100%

Source: CoStar, 2019; Strategic Economics, 2019.

FIGURE 40. RETAIL VACANCY RATE (LEFT) AND RENTS IN MILPITAS AND SANTA CLARA COUNTY, 2019 Q2



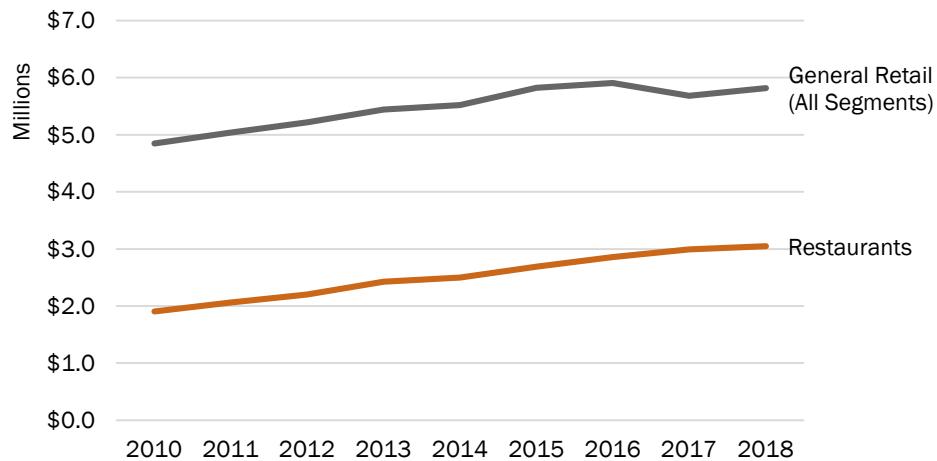
Source: CoStar, 2019; Strategic Economics, 2019.

Dining and drinking establishments performed very well in Milpitas in recent years (although these businesses will suffer severe negative impacts from COVID-19 restrictions today and in the coming months). Based on sales tax revenue trends shown in Figure 41 and Figure 42, restaurants in Milpitas perform very well and have experienced rapid growth in sales in the last few years. This is in line with broader regional and national trends, whereby consumer preferences increasingly favor eating and drinking places. In addition, the ethnic diversity of restaurants in Milpitas is often cited as a major strength and reason for this success. Milpitas' restaurant mix lacks fine dining restaurants, however.

However, traditional retail has stagnated in recent years, matching regional and national trends. General retail as a category has flattened in recent years, even though not all sub-categories have performed similarly. For example, department stores have experienced declining taxable sales for several years, while miscellaneous retail and apparel stores only flattened more recently. These trends are in line with broader national patterns. As online shopping has become more common, consumer preferences have shifted away from traditional retail and towards more experiential retail.

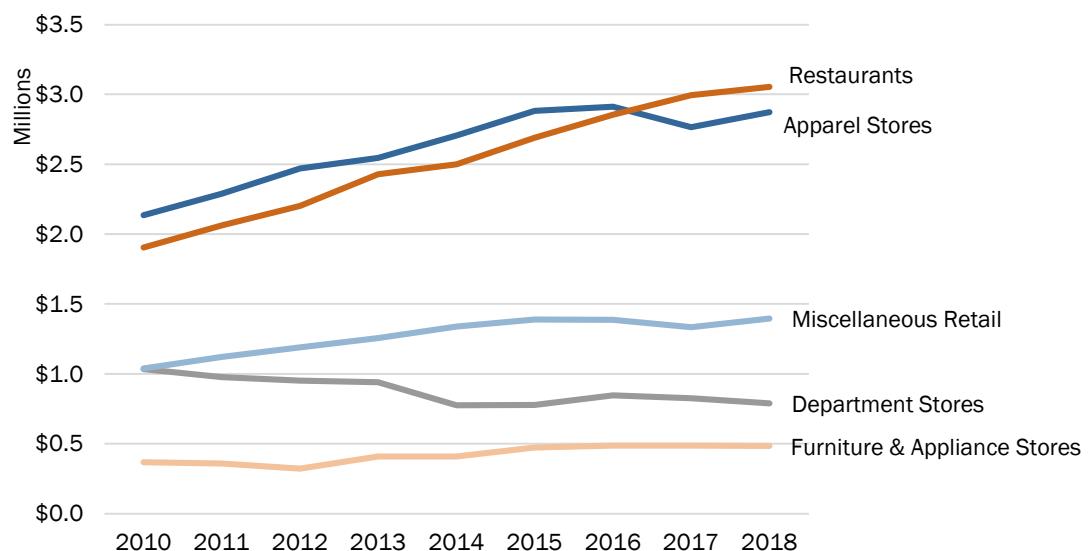
Milpitas currently lacks a mixed use, walkable district as well as certain types of amenities and public spaces. As described previously, Milpitas lacks a walkable, mixed use, downtown-like district or corridor. In addition, Milpitas lacks certain amenities such as public gathering spaces, entertainment and nightlife establishments, and arts/cultural uses. These types of amenities and environment could be especially beneficial for retailers and eating and drinking establishments.

FIGURE 41. MILPITAS GENERAL RETAIL AND RESTAURANTS ANNUAL SALES TAX REVENUE, 2010 TO 2018



Source: MuniServices, 2019; Strategic Economics, 2019.

FIGURE 42. MILPITAS ANNUAL SALES TAX REVENUE FOR SELECT SEGMENTS, 2010 TO 2018



Miscellaneous retail includes specialty stores, jewelry stores, personal services, and others (art, gift, novelty stores, cigar stores, newsstands, stationery/book stores).

Source: MuniServices, 2019; Strategic Economics, 2019.

Retail performance varies significantly by retail center or subarea, with the Serra Center area exhibiting especially low sales per square foot. Figure 43 summarize major retail subareas tracked by the City of Milpitas, including each subarea's location, retail inventory, major sales tax generators, and average taxable sales per retail square foot. Figure 44 illustrates the location of these subareas within the City

of Milpitas. Certain retail centers, like the Great Mall, Milpitas Square, and Town Center North, perform well, with taxable sales per square foot at or above \$250. McCarthy Ranch also has a high taxable sales amount per square foot, but sales growth has slowed significantly since 2010 due to the loss of major tenants; this decline may reverse as these spaces are re-tenanted. Other centers have very low taxable sales per square foot. The Serra Center subarea, in particular, has had sales of less than \$100 per square foot.

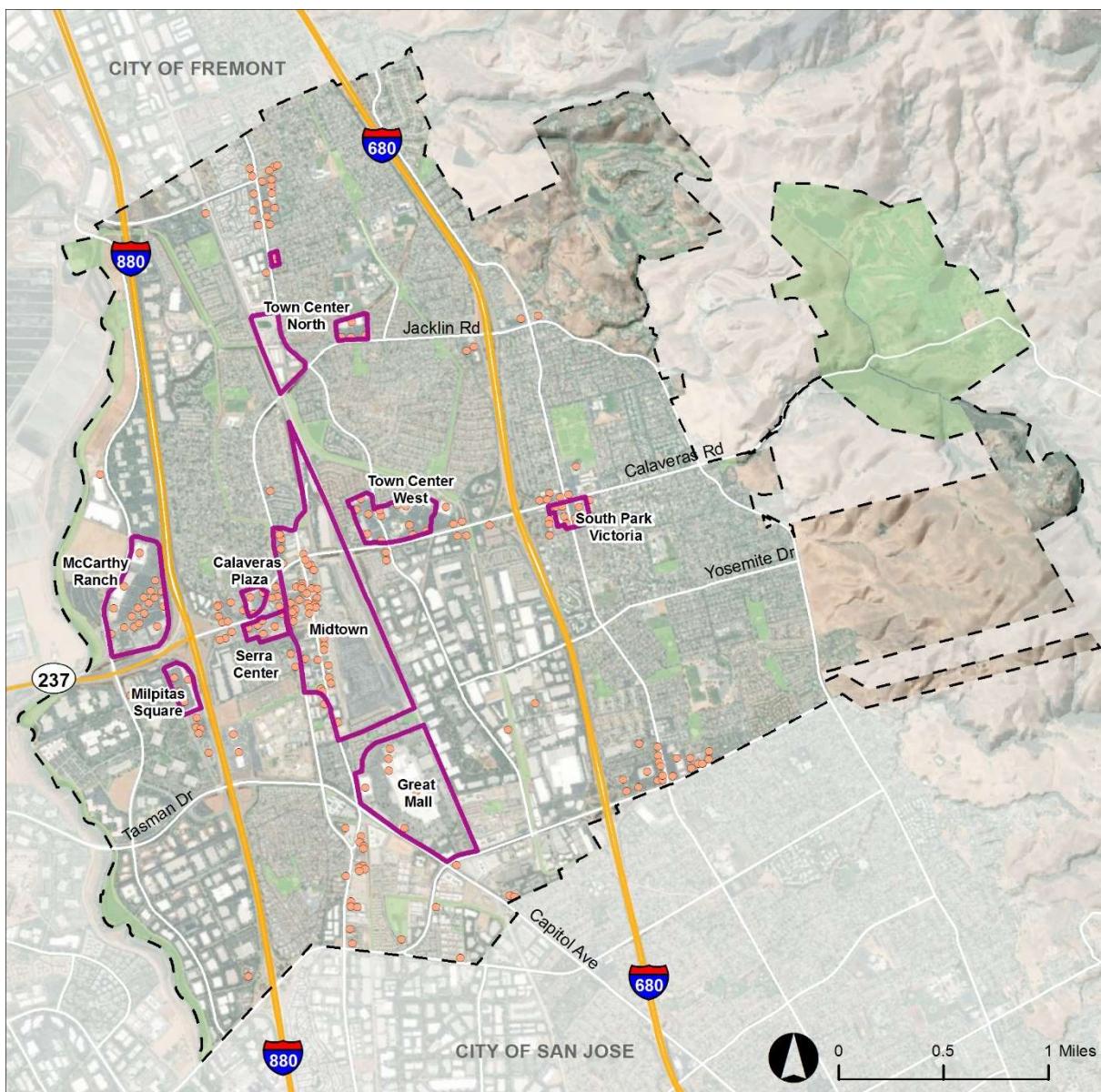
Note that grocery stores have low taxable sales per square foot, as most their sales are non-taxable. Therefore, estimates in Figure 43 likely underestimate the performance of grocery-anchored centers (Milpitas Square, Town Center North, Calaveras Plaza, South Park Victoria at Calaveras).

FIGURE 43. MILPITAS RETAIL SUBAREA PERFORMANCE

Retail Subarea	Sales Tax Generators	Retail Sq. Ft.	Taxable Sales per Sq. Ft., 2018
The Great Mall	Century Theatres, Kohl's, Marshalls, Bed Bath & Beyond, Dick's Sporting Goods....	1.4 million	\$354
McCarthy Ranch	Best Buy, PetSmart, Ross Dress For Less	540,000	\$306
Milpitas Square	99 Ranch Market, Gen Korean BBQ House, Mayflower Seafood Restaurant	180,000	\$249
Town Center North	Smart & Final, 24 Hr Fitness, Lion Supermarket	150,000	\$244
Calaveras Plaza	Grocery Outlet, Paris Baguette, Burger King	87,000	\$203
South Park Victoria at Calaveras	Ocean Supermarket, T-Mobile, Dollar Plus	91,000	\$190
Town Center West	Big 5 Sporting Goods, Safeway, Staples, CVS, Marina Grocery	320,000	\$148
Midtown	An-Jan Feed & Pet Supply, Sea Link Café, Baja Cactus	290,000	\$102
Serra Center	Big Lots, Serra Theatres, Walgreens	117,000	\$86

Source: CoStar, 2019; MuniServices, 2019; Strategic Economics, 2019.

FIGURE 44. REFERENCE MAP OF RETAIL-FOCUSED SALES TAX SUBAREAS IN MILPITAS



Reference Map of Retail-Focused Sales Tax Analysis Subareas in Milpitas

Service Layer Credits: Source: Esri, DigitalGlobe, GeoEye, Earthstar Geographics, CNES/Airbus DS, USDA, USGS, AeroGRID, IGN, and the GIS User Community

- Retail-Focused Sales Tax Subareas (as defined by MuniServices)
- Existing Retail Buildings
- - - Milpitas City Limit
- Highways

Sources: MuniServices, 2019; CoStar, 2019; City of Milpitas, 2019; Strategic Economics, 2020.



HOTEL

This section describes hotel performance, opportunities, and potential future challenges. The findings include analysis of existing hotel inventory in Milpitas, the main drivers of hotel demand, recent development activity, and hotel performance metrics based on data provided by HVS.¹⁸

Note that the hotel analysis was performed prior to the impacts of efforts to combat the COVID-19 pandemic. Due to travel restrictions, the hotel and travel market has now rapidly declined to its worst ever performance, and will take time to recover as restrictions are gradually eased. However, the general competitive advantages and disadvantages of hotels in Milpitas will remain the same as market conditions change.

Milpitas has a large inventory of hotels, with over 2,600 hotel rooms (see Figure 45). As of September 2018, STR reported 19 hotels in Milpitas, including a mix of economy, midscale, and upscale hotels.¹⁹ All of these properties were built between the early 1980s and the early 2000s. Note that hotels generate significant Transient Occupancy Tax revenue in Milpitas.

Hotel demand in Milpitas is driven primarily by weekday business travel. Between 60 and 80 percent of hotel demand in Milpitas is driven by business travel (Figure 46).²⁰ This includes corporate accounts from major firms in Milpitas, such as Cisco, KLA, Western Digital, and Flex, as well as other individual business travel. This is consistent with Santa Clara County's regional hotel market, which is also driven by business and employment growth. In addition, local industry stakeholders in Milpitas emphasized that certain industry sectors generate more travel than others (e.g. high-tech companies, versus distribution companies).

Prior to the impact of COVID-19 related travel restrictions, hotels in Milpitas had healthy occupancy rates and the city attracted new development in recent years. Since 2011, hotel occupancy in Milpitas fluctuated between 76 and 79 percent (Figure 47). Occupancy peaked in 2015 at 79 percent, and decreased to 77 percent in subsequent years, likely in response to the addition of new rooms elsewhere in the region from 2015 onwards. In comparison, Santa Clara County occupancy rates hovered around 79-80 percent in 2018. 2019 revenue per available room (RevPar) was slightly lower in Milpitas (around \$133) compared to Santa Clara County (\$160).²¹

Weekend occupancy remains challenging, given limited demand for leisure travel to Milpitas. Milpitas hotel owners and managers interviewed for this study reported low occupancies on weekends. There are few leisure travelers in Silicon Valley generally, and major destinations are especially limited in Milpitas. In comparison, cities such as San José or Santa Clara benefit from their local convention center, or other recreational destinations like the Levi Stadium or California's Great America Amusement Park. Hotel industry stakeholders in Milpitas report that they only benefit from demand for these destinations if there is very high "compression" (unmet demand) in nearby markets. BART service at the new Milpitas Transit Center may create new opportunities to capture demand from

¹⁸ HVS for the City of Milpitas, "Transient Occupancy Tax Analysis", November 2018. Available at: http://www.ci.milpitas.ca.gov/_pdfs/council/2018/112018/item_21b.pdf

¹⁹ This includes 2,437 rooms (15 hotels) reported by HSV and an additional 247 rooms (four hotels) not reported by HVS. See above for the link to the HVS report.

²⁰ HVS reported that 60 percent of accommodated-room-nights were driven by business demand. Local hospitality experts in Milpitas reported a slightly higher share, around 80 percent. See above for link to the HVS report.

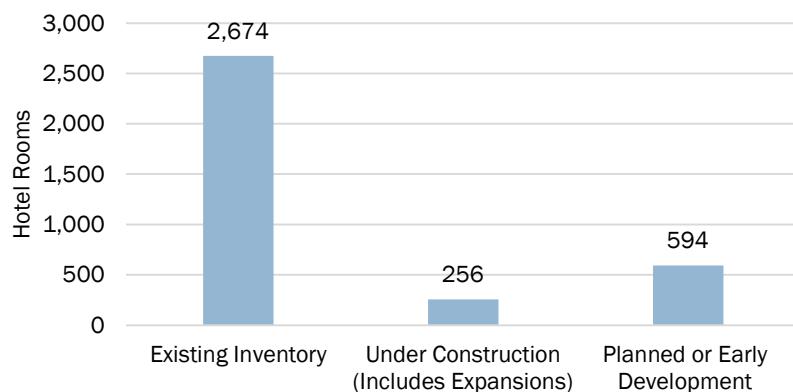
²¹ Hotel Online, "Silicon Valley Supply Growth Rates Increasing in Step with Demand Growth", March 7, 2019. Available at: https://www.hotel-online.com/press_releases/release/silicon-valley-supply-growth-rates-increasing-in-step-with-demand-growth/

tourism in San Francisco, especially for travelers who are willing to travel longer distances in exchange for cheaper rates—although the pool of travelers willing to travel this far is likely very limited.

In recent years, increased traffic congestion negatively impacted the trade of area of hotels in Milpitas as visitors prioritized proximity to their destinations over lower prices. Hotel industry stakeholders report that the typical trade area for business travel has usually been around three miles. In other words, they attract business travel from companies within Milpitas, but also in nearby employment areas such as North San José, Santa Clara, and Fremont. However, this has become more challenging in the last few years due to increased congestion along Highway 237. Local hotel owners and managers interviewed for this study are concerned this trend will worsen.

Milpitas is experiencing a new wave of hotel development activity—the first since the early 2000s—but there are concerns that regional oversupply will limit performance and development activity in coming years—an issue now worsened by the economic downturn associated with combatting the COVID-19 pandemic. Increased demand for hotels in Milpitas, and across Santa Clara County, has been driven by regional employment growth. No new hotel development had occurred in Milpitas since 2002, but as seen in Figure 45, hotels currently under construction in Milpitas are expected to add 250 rooms to the city's existing supply. Hotels that are in early proposal stages would add an additional 600 rooms, but there is significant uncertainty that these projects will break ground in the current market cycle.²²

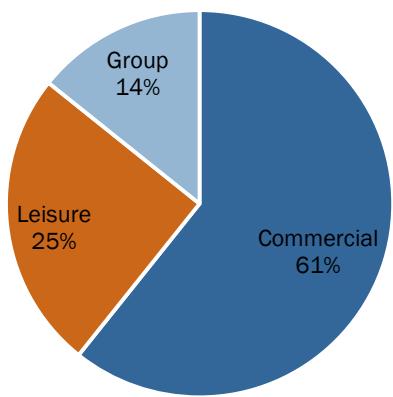
FIGURE 45. EXISTING, UNDER CONSTRUCTION, AND PLANNED HOTEL ROOMS IN MILPITAS, 2018



Note: Existing inventory includes 2,437 rooms (15 hotels) reported by HSV and 247 rooms (four hotels) not reported by HSV.
Source: STR, as reported in the HVS Report, November 2018; Strategic Economics, 2020.

²² Mercury News, “More than 1,000 hotel rooms headed for North San José,” August 2019, available at: <https://www.mercurynews.com/2019/08/12/900-plus-hotel-rooms-head-north-san-jose-google-apple/>

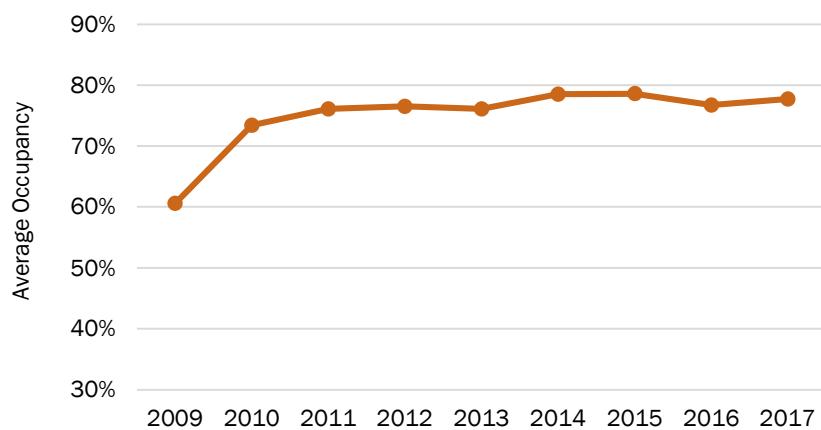
FIGURE 46. SHARE OF HOTEL DEMAND IN MILPITAS BY SEGMENT, 2018



Commercial includes corporate and business travel. Leisure includes sightseeing, recreation, visiting friends or relatives. Group includes bookings of 10 or more rooms per night.

Source: STR, as reported in the HVS Report, November 2018; Strategic Economics, 2020.

FIGURE 47. AVERAGE OCCUPANCY IN MILPITAS, 2011 TO 2017



Source: STR, as reported in the HVS Report, November 2018; Strategic Economics, 2020.

Fiscal Performance

Cities engage in economic development activities partly out of recognition that a healthy economy and business environment should in turn support tax and fee revenues for the City. Those revenues then allow the City to provide a greater level of services for the community. The City of Milpitas relies on a variety of revenue sources to support its General Fund. The General Fund is used to provide essential public services such as police, fire, parks, and community services. This section illustrates the relationship between real estate types and public revenue sources in Milpitas.

The following analysis of Milpitas' fiscal conditions was completed prior to restrictions put in place to combat the COVID-19 pandemic. The enormous impacts of these restrictions on business activity will likely result in dramatic and immediate declines in sales tax, transient occupancy tax, and fee revenues, as well as possible longer-term stagnation or declines in property tax revenues if a deeper recession results in lower property values and a slowdown in development activity.

FISCAL CONDITIONS

This section summarizes the composition of Milpitas' General Fund by revenue source. Findings are based on anticipated revenues for fiscal year 2019-2020, as outlined in the City's FY 2019-2020 budget. Results are summarized in Figure 48.²³

The largest source of revenue in Milpitas is property taxes, which are enhanced through higher-intensity development and property sales. In fiscal year 2019-2020, total General Fund revenues in Milpitas are expected to reach \$121.6 million. As seen in Figure 48, property taxes contributed 29 percent of this total. Property tax revenue is tied to land use type and density. Both residential and commercial uses contribute to property taxes, and new development or redevelopment often provide a boost in property tax revenue because these changes trigger a reassessment of property value. Denser development concentrates more value on a given site, and therefore also provides a higher assessed value compared to comparable lower density development.

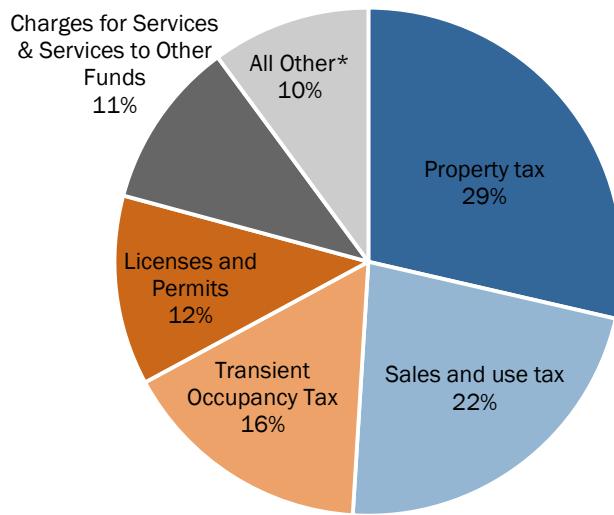
Sales and use tax is the second largest revenue source, derived both from retail sales and business to business sales. A large share of Milpitas' General Fund revenue is generated by sales and use tax (22 percent). Milpitas receives approximately one percent of the value of taxable transactions. A wide variety of businesses contribute to the sales tax. The sales tax includes retail sales as well as sales occurring between businesses (business to business sales), such as office equipment, electronic equipment, and other industrial needs. More information on trends in sales tax revenue is included in the next section.

The Transient Occupancy Tax (TOT), or hotel tax, is another major source, and depends on the supply and performance of hotels in Milpitas. The City's TOT revenue is anticipated to represent 16 percent of General Fund revenue in FY 2019-2020, or \$19 million annually. The TOT rate is currently set at 14 percent, a change that became effective in January 2019 after voter approval of Measure R in the prior year.²⁴

²³ City of Milpitas, "Budget in Brief Fiscal Year 2019-2020", available at: http://www.ci.milpitas.ca.gov/_pdfs/2019_2020BudgetInBrief.pdf

²⁴ The tax rate set by Measure R can be increased or decreased by City Council, provided it does not exceed the voter-approved maximum rate of 14 percent.

FIGURE 48. ANTICIPATED GENERAL FUND REVENUE BY SOURCE, FISCAL YEAR 2019-2020 BUDGET



*All Other includes: the real estate transfer tax, the business license tax, franchise fees, and the use of reserves.
Source: City of Milpitas Budget in Brief, Fiscal Year 2019-2020, 2019; Strategic Economics, 2020.

CONNECTION BETWEEN CITY REVENUES AND REAL ESTATE

This section highlights the relationship between selected real estate product types and the categories of tax revenue they usually generate.

As seen in Figure 49, uses such as office, R&D, manufacturing, and retail contribute mostly sales tax and property tax. Hotels additionally generate Transient Occupancy Tax. Warehouse and distribution spaces mostly generate property tax. Generally speaking, all commercial real estate types are important for a healthy economy, and each contribute to the City's overall economic and fiscal picture in different ways.

FIGURE 49. RELATIONSHIP BETWEEN REAL ESTATE AND GENERAL FUND REVENUES

Real Estate	Major Revenues Generated
Office, R&D, and industrial manufacturing space	Property tax; Sales tax (B2B)*
Warehouse & distribution space	Property tax
Retail space	Property tax; Sales tax (retail)*
Hotel	Property tax; Sales tax; Transient Occupancy Tax

*"B2B" refers to business-to-business taxable transactions, as opposed to retail transactions.
Source: Strategic Economics, 2020.

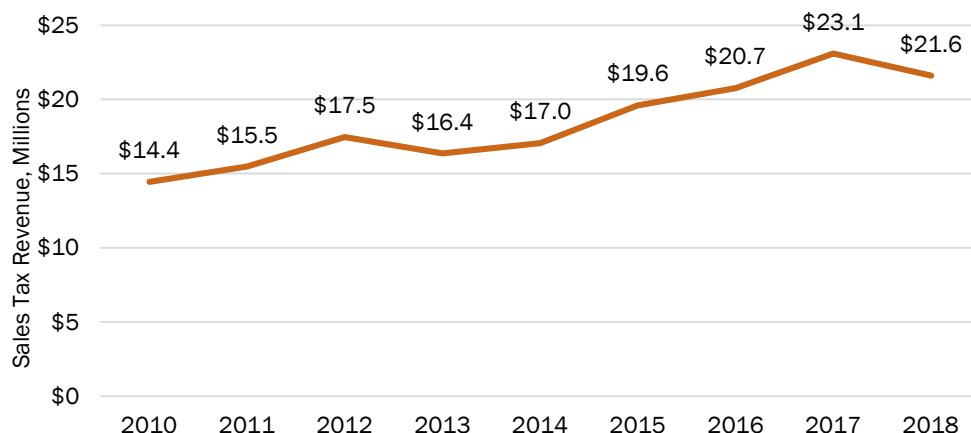
TRENDS IN SALES AND USE TAX

Milpitas receives sales tax revenue from a variety of businesses. Sales tax data provided by the City (via their contractor Muni Services) is broken out into seven broad categories:

- Business to business (B2B), which includes all sales occurring between businesses, such as office equipment, electronic equipment, and other industrial needs;
- General retail, which includes retail sales of consumer goods, both soft goods such as apparel and hard goods such as appliances and furniture;
- Restaurants and food stores, which includes all eating and drinking places, grocery stores, and liquor stores;
- Automobile sales and service, which includes gas stations, automobile dealerships, and other auto-related stores;
- Construction, which includes retail stores and wholesalers specialized in selling building materials;
- Miscellaneous and Unclassified – note that these categories represents a minor share of total sales tax revenue and are therefore not included in the analysis below.

Citywide sales tax revenue in Milpitas increased steadily between 2010 and 2018, despite a small peak and dip between 2016 and 2018, and likely significant declines in 2020 and beyond due to the COVID-19 pandemic. As seen in Figure 50, sales and use tax revenue increased by 50 percent since 2010, from \$14.4 million annually in 2010 to \$21.6 million annually in 2018. There has been a year-over-year increase in sales tax revenue every year except for 2017 to 2018. This is due to an unusual trend in business to business revenue, explained in the following paragraph.

FIGURE 50. CITYWIDE SALES TAX REVENUE (NOT ADJUSTED FOR INFLATION)



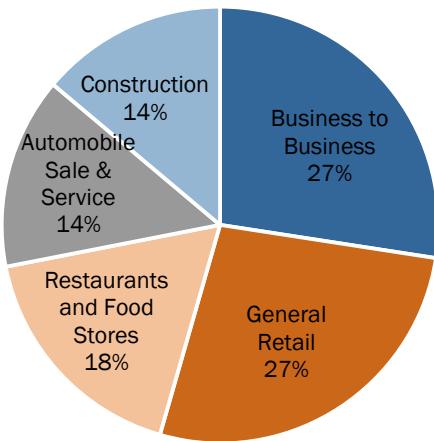
Source: MuniServices, 2019; Strategic Economics, 2020.

A large share of sales tax in Milpitas comes from business to business transactions, which are linked to businesses found in office and industrial areas of the City; however, this category has fluctuated significantly year over year. About 27 percent of total sales tax revenue comes from B2B sales (Figure 51). As seen in Figure 52, this category has increased by 37 percent since 2010, but has been very volatile as individual businesses vacate or locate in the City's various office and industrial areas.

Sales tax revenue from general retail has flattened in the last few years while revenue from restaurants and food stores has increased significantly, reflecting broader trends favoring dining, drinking, and “experience” focused businesses. Today, general retail represents 27 percent of total sales tax revenue, and revenues from restaurants and food stores represents 17 percent (Figure 51). However, from 2010 to 2018, revenue from general retail grew by only 20 percent, while revenue from restaurants and food stores grew by 56 percent, which exceeds the City’s overall growth rate.

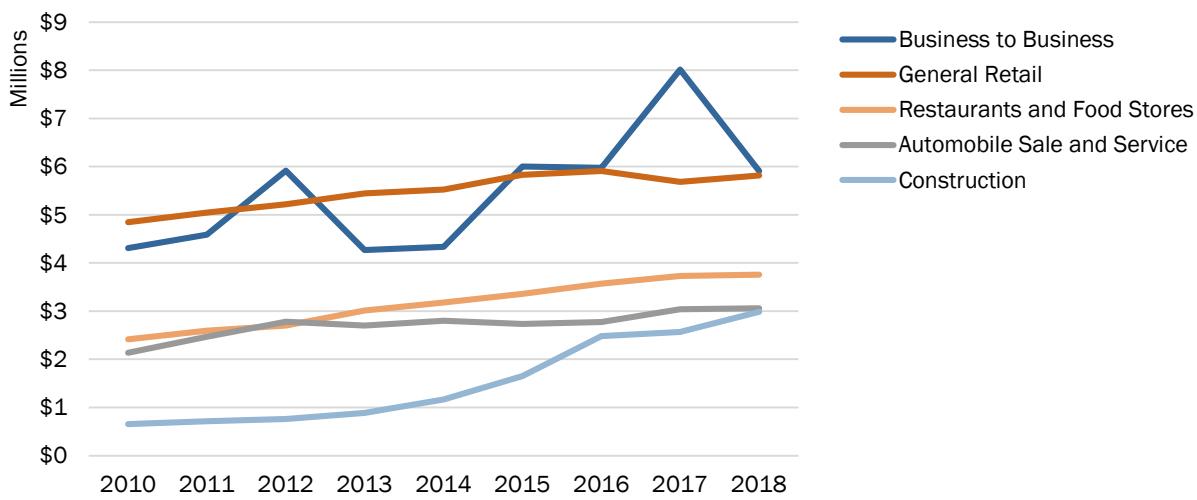
Sales tax revenue from construction also increased dramatically since 2010. This is in part related to the large amount of development activity (especially residential) in Milpitas in the last decade.

FIGURE 51. CITYWIDE SALES TAX REVENUE BY CATEGORY, 2018



Source: MuniServices, 2019; Strategic Economics, 2020.

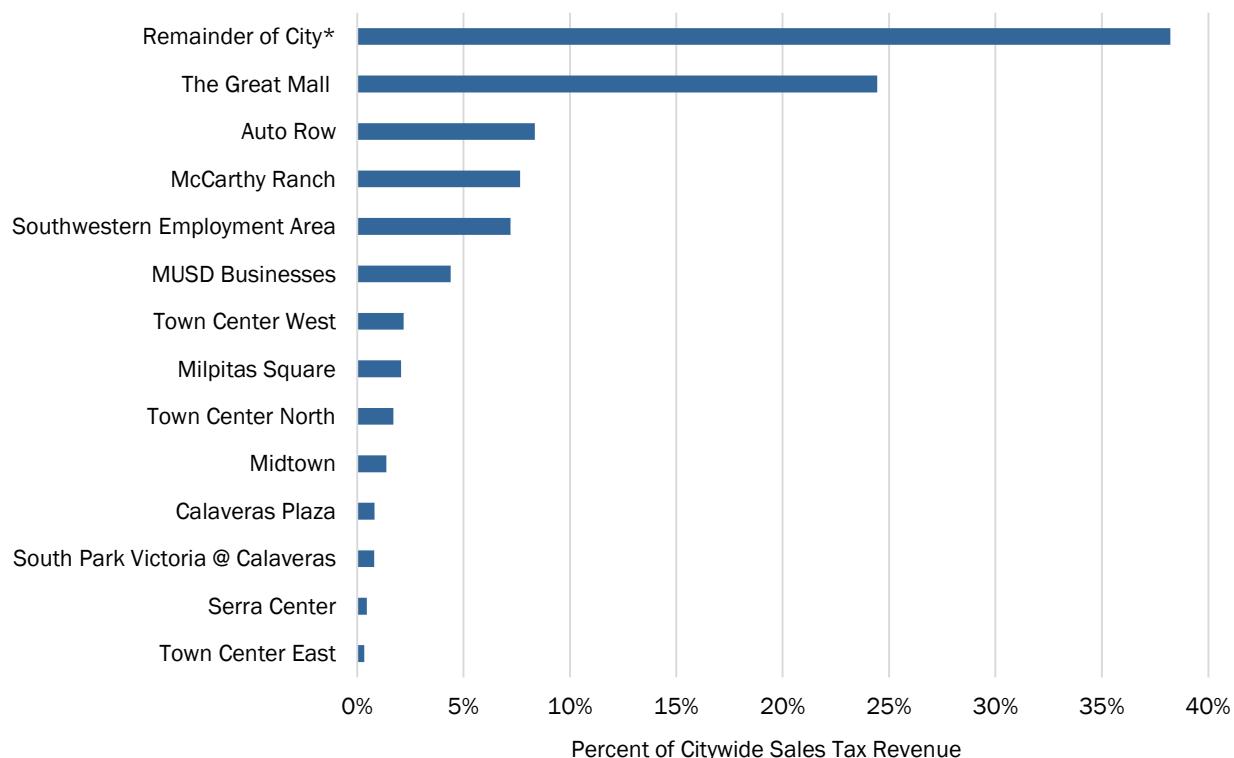
FIGURE 52. CITYWIDE SALES TAX REVENUE BY CATEGORY (NOT ADJUSTED FOR INFLATION), 2010 TO 2018



Source: MuniServices, 2019; Strategic Economics, 2020.

Different areas within the city generate substantially different sales tax revenue for the City, but the City does not currently track many subareas generating business-to-business sales tax revenue (Figure 53). The sales tax subareas are shown in Figure 44. For example, the Great Mall, Auto Row, McCarthy Ranch, and Southwestern Employment Area all generate high revenues, while others, like the Serra Center and South Park Victoria at Calaveras, generate very little revenue. It is important to note that the “Remainder of City” subarea category includes all areas not tracked as sales tax subareas by MuniServices, such as Manufacturing Area North and the larger McCarthy Industrial Area (including McCarthy Center and the zone west of McCarthy Blvd), which generate significant B2B revenue (see sales tax subareas shown in Figure 44).

FIGURE 53. SALES AND USE TAX REVENUE BY SUBAREA, 2018



*"Remainder of City" includes all sales tax revenue generation that did not come from the subareas identified by Muni Services. This includes a large share of industrial and office employment areas in the City, which are major generators of business to business sales tax revenue.

Education and Workforce Development

This section summarizes existing education and workforce initiatives in Milpitas, and outlines broader trends, opportunities, and concerns around the future of the workforce in Milpitas, with an emphasis on building skills and opportunities for Milpitas residents. Findings are based on interviews with key education and workforce organizations and stakeholders in Milpitas. These findings help to clarify how the City can prioritize and support education and workforce development efforts. These efforts will be more important than ever due to the mass layoffs occurring as a result of efforts to combat the COVID-19 pandemic.

EXISTING PARTNERS AND INITIATIVES

The City of Milpitas promotes education and workforce development for Milpitas students, residents, and workers through its engagement with an array of local and regional partners. Workforce development and education programs are implemented through mission-specific organizations and institutions such as school districts, community colleges, workforce development agencies, and other non-profit organizations. The City plays an essential role by acting as an intermediary between these partners and Milpitas employers, coordinating between organizations, and assisting with implementation of specific programs.

Examples of partners working to advance educational and workforce opportunities in Milpitas include:

- Milpitas Unified School District (MUSD)
- Milpitas High School
- Milpitas Adult School
- San José City College, Milpitas Extension (located in Milpitas)
- San José Evergreen Valley Community College (located in southeast San José)
- San José State University (located in Downtown San José)
- NextFlex, an institute of Manufacturing USA
- NOVA, the workforce development board for Silicon Valley

These organizations collaborate extensively with local companies, City staff, and with each other, to implement a variety of programs, events, and resources. Many of the efforts underway aim to enable Milpitas' diverse population to benefit from the rapid economic growth occurring in the City, especially in the advanced tech, R&D, and manufacturing sectors. Existing initiatives are summarized below.

FlexFactor. The FlexFactor program, hosted by NextFlex²⁵ in partnership with the City of Milpitas, Evergreen Valley College (EVC) and MUSD, is in its fourth iteration in Milpitas. The City of Milpitas is providing funding for the current iteration. FlexFactor is a four-week entrepreneurship program for high school students that exposes them to the diversity of professional opportunities in the advanced manufacturing sector. The Office of Economic Development facilitates the connection to companies, while MUSD coordinates with students to implement the program. EVC provides dual enrollment to the students, college credit, and in 2019 partially funded an iteration of the program with the City of Milpitas. Students gain a hands-on understanding of the college application process, learn about

²⁵ NextFlex is a nonprofit that is also known as America's Flexible Hybrid Electronics Manufacturing Institute.

employment opportunities in local manufacturing companies, and develop their own manufacturing innovation that they eventually pitch to a panel of experts.

Manufacturing Day. In 2017, the City of Milpitas organized its first Manufacturing Day in partnership with MUSD. The event has been held annually since then. This event brings together students, educators, and Milpitas-based manufacturers. It gives students the chance to visit companies in Milpitas and introduces them to the range of career opportunities in manufacturing. The event also helps companies meet potential future candidates to address their shortage of skilled labor.

New college programs and courses focused on advanced manufacturing and skilled trades. For example, the Milpitas Extension offers a four class certificate in coding, data science, and business entrepreneurship to provide students with opportunities to enter the tech sector. Evergreen Valley Community College is also developing a new program focused on information modeling and CAD. San José State, through the College of Engineering, also connects students to industry through seminars and experiential learning.

Other targeted outreach efforts. The Milpitas Adult School and the NOVA Workforce Development Board have developed various efforts and outreach for adults coming out of the Elmwood Correctional Facility, adults attending English as a Second Language classes, and people with disabilities.

KEY TRENDS AND ISSUES

Several challenges were raised by stakeholders in relation to workforce and education in Milpitas. The main issues are listed below:

Shortage of workers in skilled trade occupations. Across the Bay Area, workforce development boards and organizations such as the Association of Manufacturers Bay Area (AMBAy Area) are noting a shortage of workers in skilled trade positions, such as electronic technicians, machinists, welders, and industrial/mechanics maintenance workers. This is due to the combination of existing workers entering retirement, and the younger workforce not having the right training to meet the skills requirements. Some stakeholders mentioned that high school students, in particular, should be more exposed to skilled trade opportunities—this is in part the aim of initiatives such as Manufacturing Day. Several companies in Milpitas rely on these types of positions, so this is an issue that could affect Milpitas' advanced manufacturing industry sectors.

Need for STEM literacy across all occupations. In general, stakeholders noted that workers across the spectrum of industry sectors increasingly require basic digital literacy and even basic STEM knowledge. These skills also encourage upward mobility within a given industry.

Housing and transportation costs. Housing costs are a significant challenge for businesses that need to hire middle- or low-wage workers. Prohibitive housing costs in Milpitas and surrounding communities mean that workers are forced to live, and commute from, further and further away. This makes recruitment and retention difficult for Milpitas companies. In fact, some companies reported challenges with recruitment and retention even for higher wage workers. This issue was raised by a variety of different stakeholders.

APPENDIX: SUMMARY OF COMMUNITY WORKSHOP AND ONLINE SURVEY

COMMUNITY WORKSHOP AND ONLINE SURVEY SUMMARY



Milpitas Economic Development Strategy

The City of Milpitas is preparing a new Economic Development Strategy that will guide the City's efforts over the next five years to enhance the diverse local economy, create workforce development opportunities and cultivate an entrepreneurial environment. Economic development and job growth are priorities for the Milpitas City Council.

A community workshop was held on October 24, 2019 at 6 pm at City Hall to discuss and gather feedback on the following topics:

- Identifying forward-looking economic growth opportunities in Milpitas based on broader regional and global trends;
- Retaining and expanding existing businesses and industries;
- Attracting emerging technologies;
- Preparing the local workforce for future jobs;
- Encouraging commercial and industrial development and reinvestment; and
- Investing in the City's fiscal health.

The workshop material was also available for input in person after the workshop, as the feedback boards were at City Hall through November 2019 and at the Milpitas High School library in December 2019. In addition, in November 2019 an online survey was launched to gather input from the community on Milpitas' needs and priorities related to the Milpitas Economic Development Strategy project. Approximately 50 members of the community or stakeholders participated in person, and approximately 60 individuals completed the online survey.

The following summary includes key takeaways of input from both the workshop and related activities, and the online survey.

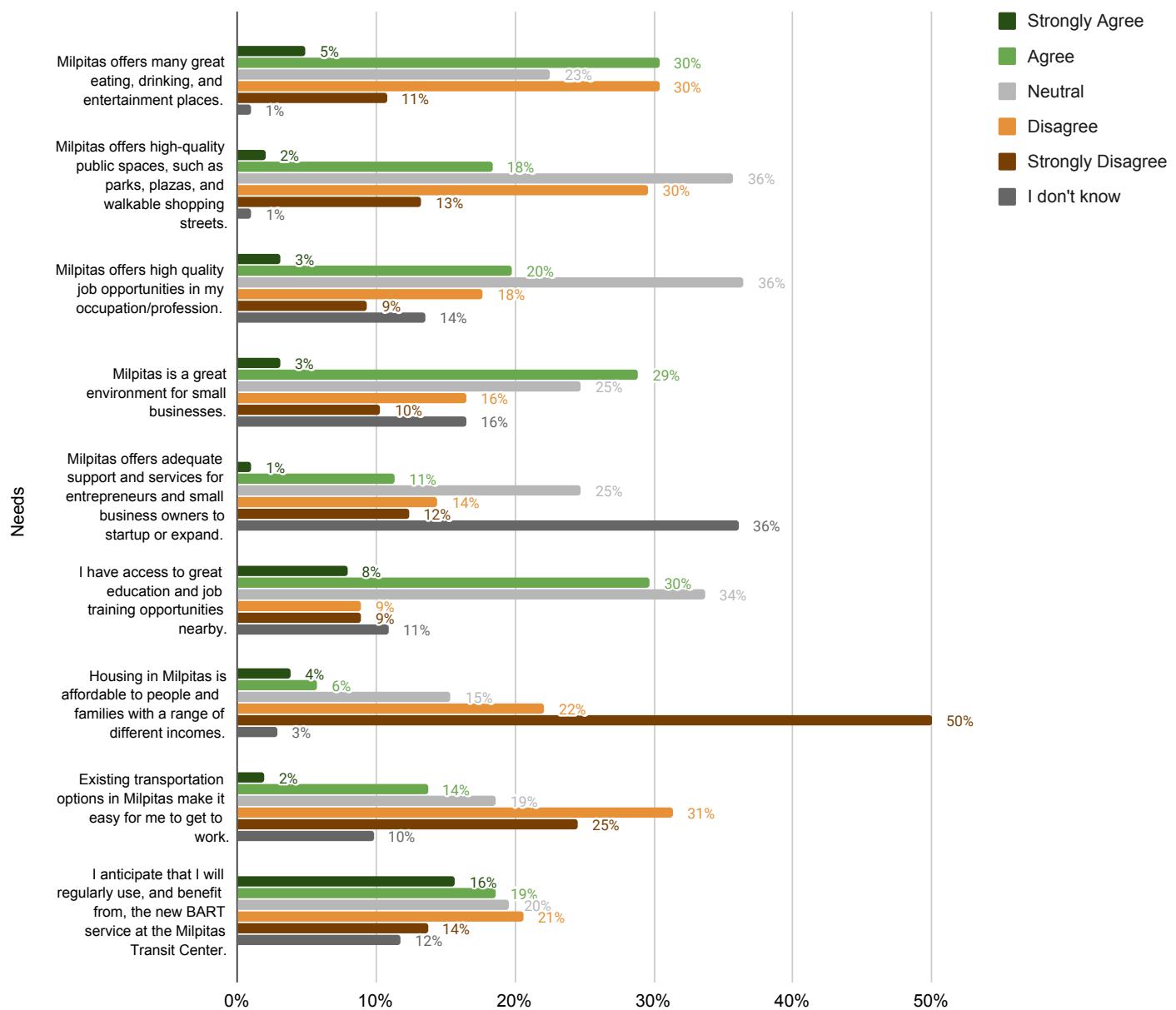
MEETING THE CURRENT NEEDS

Participants were asked to rank how well the following needs are being met in Milpitas. Of the nine needs, *Housing in Milpitas is affordable to people and families with a range of different incomes* received the most **Strongly Disagree** votes.

Figure 1.1 summarizes the input received related to how well the City of Milpitas is meeting the community's current needs. The following introduction accompanied the question about how well Milpitas is meeting the community's current needs.

We want to understand how well your needs in the areas of employment, education, transportation, housing, and recreation are met in Milpitas. Please indicate your level of agreement with each statement below.

Figure 1.1: Meeting Current Needs Graphic



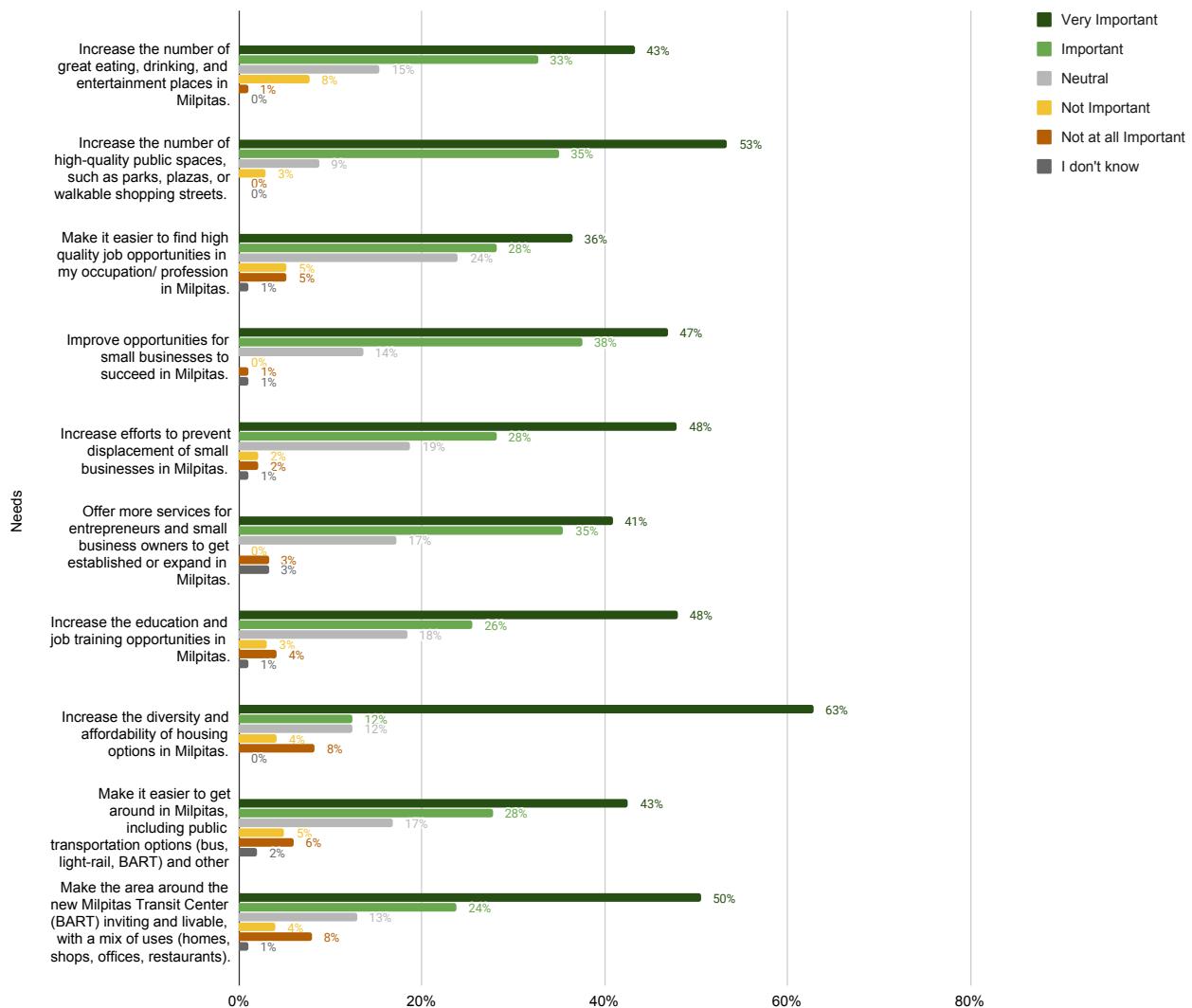
MOST IMPORTANT NEEDS FOR THE FUTURE OF MILPITAS

Participants were also asked to rank on a scale of **Very Important to Not Important at All**, the future needs in Milpitas. The future need with the most **Very Important** votes was *Increase the diversity and affordability of housing options in Milpitas*. This is consistent with the input received on the Meeting Current Needs question, indicating that housing was an important topic for workshop and survey participants. The need that received the most combined **Very Important** and **Important votes** combined was *Increase the number of high-quality public spaces, such as parks, plazas, or walkable shopping streets*.

Figure 2.1 depicts the importance of each future need. The following introduction accompanied the question about how well Milpitas is meeting the community's current needs.

Of the needs identified in the previous question, we want to know which are the most important to you. This will inform the priorities set forth in the City's new Economic Development Strategy. Please select how important each action is for you.

Figure 2.1: Future Needs Graphic



ADDITIONAL IDEAS

Through both sources of feedback (in person and online), participants were also asked to share any additional ideas. The most noted topics were Housing and Public Spaces, followed by Amenities and Services, and Expanded Opportunity for Businesses, as represented in the graphic below. Following the graphic are the transcribed notes from the feedback boards, generally organized by topic.



Figure 3.1: Word cloud of the most common Additional Ideas

Transcribed summary of additional ideas, organized by topic.

Aesthetics

- I have been in this area for over 35 years and I don't like the insane ugly building that is going on. I understand that things change and progress must happen but did anyone think about how it would look and feel?
- Find a way to encourage residents to honor the rules about trash totes not being visible from the street except in the 24 hours before and after expected trash pickup.

Amenities / Services

- Better boba shops (x3)
- Cocktail bars and restaurants
- Downtown Bar
- More grocery stores

- Community based mental health resources
- Smaller and more mobility friendly grocery stores
- Make new stores and more near food
- Consider the idea of the PRT.
- Get going on an "American" supermarket near the Transit Center.
- Push for more public parks --- WITH accessible parking. In-lieu fees are NOT the universal solution. The "park" at the Great Mall end of Apex is a joke.
- With all the new buildings around the new BART station there is still no grocery store, congestion is worse and having BART there is not going to lessen it much
- More services at Senior Center
- Would like to see more small restaurants with American Cuisine.
- Not a place to spend an evening out.

Community and Access

- Enhance Downtown Milpitas (x3)
- Enhance Midtown
- Making the city a little more accessible for people to go places, have more cultural events, art & craft festivals to introduce people to entrepreneurs & small businesses.
- Show more of the City's culture
- Improve access to the city

Diversity

- It stifles the community, only bringing in one type of person, and one acceptable way of life. That's not healthy for us a city. We need to make it possible to live here on a wider range of incomes and lifestyles.

Expanding Business/Employment

- Milpitas should focus on being the most Business-Friendly city in California. If Milpitas has that reputation many High-tech companies will want to establish their Headquarters in Milpitas or at least have a major presence in Milpitas.
- Allow businesses to open faster and support expansions, which I have heard Milpitas is decent at, but not great.
- Bring the businesses that can employ those who would like to work closer to home that does not involve restaurants or retail.
- provide more opportunities for setting up businesses.
- More corporations in Cisco Building
- Class A office buildings
- Permit process is slow and unfriendly. There is no sense of support between the building department and small businesses like ours. They just make demands and often contradict each other between fire and building. Very disappointing.
- Expanded Business will, in turn, bring high-paying jobs, and with it, employees with incomes who can afford the high price homes.

Governance

- Milpitas is becoming the 'gateway' into the Silicon Valley.
- Our elected officials need to focus on Better governance

Growth

- Growth for growth sake is ridiculous.
- City is growing too fast
- Milpitas is too crowded
- No additional building in our foothills.

High-Quality Public Space

- More parks but BETTER parks. Make Milpitas more liveable and enjoyable to be in
- While a downtown would be great, I would much rather see some distribution of wealth to the things that impact most of us (affordable housing, larger roadways, and more schools).
- If the city of Milpitas could Get control and take over to; make Main Street Not Industrial but multicultural inviting.
- We do have a lot of parks, however their use is for toddlers to 3rd/4th grade. With the population increase, there is a shortage of parks/ fields for athletics. There's nothing in the increasing population to S Milpitas. We need more fields with lights to accommodate practices/league play.
- Highly paid employees will want high quality public spaces, parks, high quality shopping centers, restaurants, Community theater, walkable shopping streets like Castro Street in Mountain View or Santana Row. It all starts at the TOP with a Business-Friendly City.
- Cultural Venue
- More community gathering space
- Convention/meeting space
- Upgrade parks (remodel)
- Skate parks around Milpitas
- Needed: more greenery and flowers by side of the foot paths
- I have lived in Milpitas for 20 years because it used to be affordable and is still relatively affordable, compared to rest of Silicon Valley. Because of course due to the proximity to jobs around the "golden triangle" (880,101,237). I have tolerated the lack of vision for a liveable city for economic survival. On the weekends, we leave town for other destinations nearby for restaurants, walking, shopping, outdoors. I have watched as countless housing developers have wooed city council to vote against the educated, better judgement of trained City Planning staff and as a result we have ad hoc housing projects tucked all over the city, next to industrial uses and still have no central, community friendly "sense of place" in Milpitas, no downtown. It's just a bedroom community with cheap discount stores. The main street connector project (from library to great mall) had promise but I don't see how we will ever have a downtown Mountain View, or Willow Glen or Los Gatos with all the hodge podge of development that is set back from the street with cars and parking in front .. you need to be bold, provide incentives to property owners to re-develop under appropriate "Mixed uses" (retail, dining, on ground floor, housing above) use eminent domain as needed and for goodness sake put the buildings up next to the (slightly wider) sidewalks and parking behind (or in structures behind) so that people have a reason to walk, see the sites be with others .. Later you can enhance the street with amenities, like lighting, trees & benches. But first you have to envision main street like Santana Row (but it will take another 20 years to make a dent). I will have moved on by then. Good luck Milpitas BTW - BART will be good for commuters going out of area but otherwise not much benefit to City residents. It's still easier to go everywhere by car. Only when gas is \$6 or \$7 maybe. Otherwise the Transit hub area will be the City's main drain of resources in the future due to housing density and safety concerns due to population passing through. So again, doubt there will be the will, focus or budget to do anything substantial on main street. Milpitas is "no place"

Housing

- Bring rent control to Milpitas, similar to San Jose.

- Milpitas needs significantly more housing and less zoning regulations. Allow development to grow and expand because I need employees. It would be very helpful if they live close to where they work. Overall, don't like fear of growth stop you. We are growing and need to have housing for those coming or those that we currently here, will continue to be forced out and leave. I am 4th generation here and too many of my friends and family have left because cities didn't create enough housing. Don't worry about affordable housing because with enough housing it will be affordable. prices will go down once we build enough.
- Housing costs should be in line with the salaries of those who live in the city or who are looking for an affordable place to live.
- Milpitas is becoming the 'gateway' into the Silicon Valley. Our elected officials need to focus on Access to affordable housing. Only by proactively addressing these issues will Milpitas be able to lay a foundation for continued success as this unique region and economy continue to grow.
- Honestly, I think housing prices are the biggest problem; everyone who is not a) directly working for a major tech company and b) living with others who are c) also working with the major tech companies can't even hope to establish themselves here.
- City is ruining small suburban town by trying to be a big city with high density housing.
- No more high-density housing.
- The cost of housing is out of control.
- Affordable housing #1 priority in Milpitas
- Need Affordable housing
- Milpitas is getting crowded. We don't need any more apartments.
- Too many apartments
- Apartment or housing for low income families
- We don't need more apartments. They're way too expensive anyways. Too much construction.
- Less crowded apartments, spread them out more

Identity

- Needed: Branding through art, threading through city pulling it together
- Make Milpitas not known for trash/how smelly we are but more food places to decorate the city more.
- There is no theme to Milpitas. The area around BART and Great Mall is a hodge-podge. Crowded and unattractive.
- I think of Milpitas as a "commuter" city, where many people live but understand they must venture out to find a nice downtown to stroll through.
- This should be a small, suburban town

Maintenance

- Our infrastructure (schools and roads particularly) need to better match the increased housing development before increasing the burden on roads by adding more businesses.
- Clearing weeds and litter around the roadways would also be nice. Thank you!

Mobility

- Need safer sidewalks (x2)
- Pedestrian/bike bridge at E Curtner Ave to Yosemite Dr over the train tracks
- More transit to community colleges because high school students need transit for summer classes

Outreach

- Seniors and older adults seem to be neglected in your econ development program, yet they are the ones with disposable income. they have limited investment opportunities here so they just send money offshore

- Project Website
- City Homepage/ EDS

Parking

- You will never get lots of people shopping here unless you include parking
- Parking issue at major destinations

Safety

- In residential neighborhoods, increase the number of speed limit signs to remind "cowboys" to limit to 25 mph.
- Milpitas is becoming the 'gateway' into the Silicon Valley.
- Our elected officials need to focus on Public safety
- How can city of Milpitas make the residents feel safe

Students/Education

- Students do not get much sleep, not to mention the early wakeup for school, would recommend changing the school hours from 8-3pm to 10-5pm
- If students take the same class but with a different teacher, the classes should have the same difficulty.

Traffic

- Better control of traffic for us residents.
- We must do something about the traffic issues and unsafe streets, such as those surrounding Spangler school. The intersection on Calaveras and Abbott is like getting through the game Frogger.
- Stop building until you can fix the traffic and cut down on crime. Make Milpitas a nice city to live in again.
- Improve traffic flow
- Too much traffic and more coming
- Improve the north/south traffic flow during commute hours, when the whole World seems to be pouring through the east/west roadways.

Transit

- People will be driving to BART. parking in the new buildings is not adequate
- Need a really cheap shuttle service to transport commuters from the new BART station to major employment zones.

APPENDIX

The following are pictures of the feedback boards and from the workshop.

ANY OTHER IDEAS?

What issues and opportunities should be addressed in the Economic Development Strategy?
What are your other ideas for the strategy?

