

SAN JOSÉ spotlight

Watch out, Silicon Valley: Nevada is luring tech businesses away

by Wade Tyler Millward - January 20, 2019



During the fight for a future headquarters for Seattle-based e-commerce giant Amazon, the city of San Jose submitted a proposal that made no mention of its neighbor Nevada or any major cities across the state line.

But the proposal sent by Southern Nevada had a lot to say about San Jose and California.

Charts from the Southern Nevada team included in the October 2017 proposal showed Las Vegas' population growth at 2.2 percent. San Jose: About .7 percent.

Las Vegas had higher employment growth at around 3 percent. San Jose: Around 1 percent.

Las Vegas families made 56 percent more than necessary to cover a typical mortgage. San Jose families: About 37 percent less than needed.

And comparing the electric power costs from utility companies NV Energy and Pacific Gas & Electric, Southern Nevada's proposal showed Northern California's rates about doubled Nevada's for commercial, industrial and residential during the 12 months measured.

These numbers help explain a troubling trend for San Jose — companies seeking less expensive secondary markets for business operations.

One place San Jose should worry about is the Silver State, said John Boyd, principal at The Boyd Co., a site selection firm based in Princeton, New Jersey.

"The saying used to be, 'Go West, young man,'" Boyd said. "Now, it's just the opposite."

Focus on pipeline

Some reasons are unavoidable for why a company moves a business segment or even the whole business away from San Jose, said Chris Burton, the city's deputy director of economic development.

The industries that gave San Jose international recognition also have high turnover and high business fail rates.

But Burton's team controls the pipeline that connects employers, employees, public resources and job training programs.

In an Office of Economic Development report for the 2017-2018 fiscal year, the office said about \$4.85 in tax revenue came from every \$1 spent on business development.

The city saw about \$6 million in tax revenue from assisted companies during the 2017-2018 fiscal year, a new record over the past 10 years.

Companies helped by the office created 3,700 jobs and retained about 2,700 jobs during the year. But the city's highest results came during the 2015-2016 fiscal year with about 11,000 jobs created or retained.

San Jose has less than one job for every employed resident.

Burton wants to target the smaller machine shops and 10-employee family businesses with trouble accessing capital.

The city has moved away from the tax incentives and abatements places like Nevada and Arizona have used to lure new businesses.

San Jose Mayor Sam Liccardo denounced the practice during the Amazon HQ2 competition.

Instead of boasting about tax incentives and abatements, San Jose's proposal highlighted items including \$6.3 billion in transportation improvements and a highly educated population.

"The return on incentives is hard to demonstrate," Burton said.

This philosophy hasn't totally hurt San Jose. In December, the City Council approved a sale of \$100 million worth of land for a new Google campus that will eventually span 50 acres.

Instead, the city has concentrated on programs to help businesses better understand permitting and resources like trash pickup.

The city has hosted job fairs and looks for more co-working opportunities. Over the past 18 months, his office has focused on support for more housing.

San Jose isn't alone in its objections to tax incentives. Places like San Antonio and Toronto also refused to give new incentives for Amazon's so-called HQ2.

In the end, none of those cities — nor Las Vegas or Reno — won the campus.

Amazon split its second headquarters between Virginia and New York.

As technology makes working away from headquarters easier, the competition to lure San Jose businesses increases, Boyd said.

Companies are looking at places like Austin, Texas; Salt Lake City, Phoenix and even internationally, he said.

Reno gets attention

Burton's rival across the state line in Reno, Nevada, shares his interest in helping small businesses.

But Stan Thomas' version of help includes tax incentives, something he hopes to see included in the biannual Nevada Legislature when it meets this year. Thomas oversees marketing and competitive expansion for the Economic Development Authority of Western Nevada.

Reno has changed much since Thomas, a California native, moved to the area about 30 years ago. The latest driver for that change is a new Tesla factory from Tesla, landed in 2014. After that, Thomas received 200 phone calls a day from companies interested in moving to the Reno area.

Eight years ago, his team conducted two site visits a month. Now, he does about 10 site visits a month. Last year, the authority assisted 11 technology companies and 14 companies from California

“The Bay Area has been very good to us,” Thomas said.

Companies tell his team that fewer taxes, less regulations and a lower cost of living all made opening a business operation in Northern Nevada attractive.

Thomas’ recruitment strategy has mostly included building relationships with site selection experts across the country, forgoing print ads and visiting conventions and trade shows.

“Used to be, ‘Oh you’re moving to Reno,’” he said. “It’s not like that anymore.”

Without tax incentives, Nevada would be a “flyover state,” said Paul Anderson, executive director of Nevada Governor’s Office of Economic Development.

“One hundred percent of nothing is still nothing and that’s what we’d end up with if we didn’t offer incentives,” Anderson said. “We’re giving up short-term tax revenue for the long-term gain.

Otherwise we can go back to the days of being a passive organization waiting for the phone to ring.”

Both the Reno and San Jose economic developers will wait and see what new direction, if any, their state’s new governors take economic development.

Gavin Newsom, a Democrat, was sworn in as California’s governor in January. So was Nevada’s new governor, Democrat Steve Sisolak.

While lieutenant governor, Newsom engaged in economic development projects, which could prove good news for businesses, Boyd said.

The San Jose economic development office expects a new memo this month on business development activities. The Reno team expects a new report on its activities in February.