

Testimony of Chuck Reed
Mayor of San José, California
To the House Committee on Oversight and Government Reform

March 5, 2010

Since the passage of the Stimulus Package last year, San José has been awarded more than \$100 million dollars from the ARRA program. These funds will allow us to begin long over due improvements in our roads, invest in our transit networks, improve our airport, and train our workers. As a region, the Silicon Valley has been awarded nearly \$900 million dollars. Stimulus funds received by the region have had an impact on both maintaining our workforce and spurring short term job creation. We appreciate the money.

Unfortunately, San José and Silicon Valley have been hit hard by the economic downturn, nearly every industry has lost significant jobs. Between July 2008 and July 2009, Silicon Valley experienced a loss of 42,000 jobs; manufacturing (-13,800), professional services (-9,100), transportation (-8,600), and construction (-7,800) have been hit the hardest. Our unemployment rate has soared to 13.3% ahead of both the State (12.4%) and the nation (10.1%).

Our problems are compounded by the State of California's chronic budget problems and the near collapse of the capital markets in 2008. The state has helped itself to more than \$400 million of the city's funds over the past 12 years. Huge losses suffered by our pension plans will require the city to spend \$50 million dollars next fiscal year to cover our pension obligations contributing to a budget shortfall of over \$100 million dollars in FY 2010-2011.

That is why it is so important to continue to invest in the private sector in order to create jobs that are permanent and will continue long after the federal government stops paying for them.

California is unique in that it has always been open to new ideas. Silicon Valley in particular has attracted entrepreneurs and innovators for decades.

One example is the Department of Energy Loan Guarantee program, which allows many companies to invest in new equipment, expand their operations, add talent, and grow their companies. These companies can go anywhere in the world and are actively being recruited by foreign governments. The DOE loan guarantees will make it possible for them to stay in the US.

Last year, 10 Silicon Valley renewable energy companies had DOE loan guarantee applications pending. Several of these companies are looking to expand their production and manufacturing operations. Slowly processing their loan guarantee applications will allow other countries to lure our companies abroad, taking their innovations and jobs with them. One of these companies, Nanosolar, has orders that will take three years to fulfill and needs to expand their production capacity. They want to build a 300,000 square foot manufacturing facility here in Silicon Valley; we cannot afford to lose them.

While we fight to keep our new clean tech companies here in the United States, our existing successful companies doing business world wide are facing major challenges. US tax policy is preventing many of our technology companies from bringing their earnings home and re-investing them in the US. Congress and the Administration are considering a proposal which would severely limit, and possibly eliminate entirely, U.S. multinational businesses' ability to "defer" U.S. taxes on active foreign business income.

This is a bad idea. The loss of deferral would immediately increase taxes for U.S. businesses with worldwide operations and have a negative impact on employees and suppliers in the US. The additional tax burden would ultimately force U.S. companies to stop hiring in the US, move jobs and investments overseas, or surrender lucrative markets to foreign competitors. In addition, the additional cash drain on many U.S. companies could make them acquisition targets of foreign competitors.

In order to remain competitive globally, U.S. tax policy needs to incentivize our companies to expand their operations and hire workers here rather than the country they happen to land contracts. Limiting U.S. multinationals'

identified as one of the best solutions for regional prosperity, permanent jobs and global influence that would make the United States the leader in Clean Technology. We agree.

Silicon Valley has achieved a unique position. We have a rich history of innovation, a population supportive of technological advancements, and a collection of some of the most renowned universities in the world. The acknowledgement of Clusters being an integral part in economic recovery aligns with the recently passed Jobs Bill: a key component is investing in things that create permanent jobs, such as an innovation "eco-system."

Silicon Valley businesses are already able and prepared to collaborate. The Valley, though internally competitive, has been fostering a sense of collaboration since day one, because the benefits of shared technology are obvious. The Milken Institute review of Tech Centers Clusters described Silicon Valley as a "unique ecosystem of collaborating entities." We work together and through these interactions jobs, profits, and tax revenues are generated naturally. That is good for our region and for the country.

The ARRA investment in our cities, job training, education, and infrastructure surely helped stabilize our national economy and opened the door towards recovery, but what helped turn the tide last year is not sustainable. The next wave of federal investment needs to focus on the creation of long-term, permanent jobs that only come from the private sector. As we have seen in the recent past, targeted federal investment in new technologies will foster new companies and innovations creating thousands of jobs that will grow the national economy. We look forward to working with you.