Memorandum

TO: RULES AND OPEN
GOVERNMENT COMMITTEE

FROM: Mayor Matt Mahan
Councilmember David Cohen

SUBJECT: SEE BELOW

DATE: October 10, 2023

APPROVED

Date: 10/10/2023

SUBJECT: INCENTIVIZING ARTIFICIAL INTELLIGENCE INNOVATION

RECOMMENDATION

1. Direct the City Manager to design and bring to council an Artificial Intelligence (AI) economic development pilot program. The program will support the launch and re-location of AI companies within San Jose City boundaries with the goal of improving the economic vitality and quality of life throughout Silicon Valley and the world; and

   a. Work with industry and investors to set a strategy for San José to provide the support AI-focused companies will need over the coming 3 to 5 years to succeed. Staff should consider aspects of job creation, job quality, land/property fit and impacts, suppliers/vendors required, and environmental impacts; and

   b. Establish initial requirements and criteria for program participation. Consider qualifications for viable firms, commitments for jobs and investment, and a commitment to responsible AI practices; and

   c. Explore providing energy incentives, tax and fee rebates, and expedited planning and permitting processes; and

d. Return to council for discussion through the budgeting process if additional resources are required to implement the pilot program.

2. Direct the City Manager to collaborate with cross-sector partners to explore the potential for locating an AI incubator, accelerator, applied laboratory, and/or co-working space in San José.

3. Direct the City Manager to plan and support the City of San José's adoption of AI tools, ensuring responsible use and maximizing City efficiencies. Set goals that identify priority uses for AI to help address the City's workload and service needs, address effective procurement and contracting for AI, as well as the use of potential grants and partnerships.

4. Direct the City Manager to help firms and organizations seek and secure grants from the federal and state governments that support the development of San José's AI economy.

5. Direct the City Manager to explore and integrate ethics, best practices, and benchmarking into internal AI workflows and external practices through creating or participating in working group entities.

BACKGROUND

The City of San José has long held a strategic goal of attracting greater employment opportunities. For far too long, San José has grappled with having more homes than jobs, meaning lower tax revenue per capita and fewer services. The city's workforce has faced challenges due to its relatively small size and resource limitations. This Artificial Intelligence (AI) initiative is dedicated to reshaping this landscape by drawing in more employment opportunities, investments, and by enhancing workforce productivity within City Hall itself.

Developing San Jose's ecosystem of AI related firms can catalyze a transformative impact on the quality of life not only in Silicon Valley, but across the globe. Our vision for AI opportunities in San José extends beyond the confines of geographical boundaries, aiming to redefine the way AI technologies influence and enhance lives across the world.

The City Manager should establish robust initial program requirements and rigorous criteria that AI firms must meet in order to be eligible for program participation. City staff should carefully deliberate the following factors when formulating these criteria: qualifications of viable firms, commitments regarding job creation and investment, cumulative San José presence and activity (such as having offices and/or data processing facilities in San José), the potential for job generation within the city, the maturity level of the company (including its age and funding status), the likelihood of enhancing residents' quality of life, and the potential for job displacement among residents.

Right now, San José firms are subject to conventional San José Clean Energy rates, a 5% tax on electricity, gas, telecommunications, and water, along with time-consuming planning and permitting regulations. As part of this pilot program, we should explore innovative approaches to

expedite permit processes, provide utility tax rebates, and reduce energy rates for AI firms. These efforts would alleviate the burden on this fledgling industry and foster a conducive environment for AI-related enterprises.

As we establish an AI company incentive program, it is imperative that our city staff expertly craft the program criteria to ensure sustained compliance among program participants. To achieve this, we must set clear expectations and actively monitor adherence to these standards over time. Our staff should take into consideration the City's AI Guidelines and coordinate with the City's Internet Technology Department (ITD) to ensure the criteria remains consistent across policy documents.

The preliminary economic incentives outlined should be strategically designed for simplicity, with a deliberate focus on maximizing their inherent value. This approach seeks to streamline the comprehension of these incentives for both the general public and the private sector, and ignite enthusiasm among potential stakeholders.

The geographical expansion of our AI ecosystem should be guided by strategic considerations without being overly specific. We hope to empower City staff to explore opportunities to broadly nurture this expanding industry in North San José and in Downtown San José but want to ensure that flexibility is key in our approach to any new growth.

Recently the City of San José signed a Letter of Intent with an accelerator; Plug and Play Tech Center (Plug and Play). The Mayor's Office and City Staff are now holding initial discussions with Plug and Play to strategize on how we can successfully launch an AI incubator in San José that furthers efforts to support San José's AI economy. Our shared goal is to further develop our AI ecosystem and facilitate the launch of small businesses by connecting them with local mentors and leaders. Academic partners like San José State University, non-profit organizations, and members of the private sector are interested to learn how they can help push San José into this next phase of growth.

City leadership should support the City ITD's current work and the work of any other department to procure new systems that proactively address our resident's most persistent concerns around homelessness, public safety, neighborhood quality, and efforts to attract jobs and housing. San José's ITD is already leading innovative initiatives to proactively tackle infrastructure and other resident concerns. Let's do more to encourage civic innovation.

To advance San José's AI economy, let's also build upon the ITD's recent work creating responsible AI governance, releasing Generative AI Guidelines and a national call for tools to proactively improve our City. Expanding upon these initiatives will create a highly productive city workforce, utilizing AI for efficiency, equity, and effectiveness. We are already setting benchmarks for municipal innovation that others are attempting to emulate — let's keep trailblazing.

The CHIPS Act provides for a diverse array of initiatives that underscores America's commitment to AI research and workforce development. We anticipate substantial federal investments will help society ensure the safety and reliability of AI. The legislation establishes AI "testbeds" for comprehensive scrutiny, where potential vulnerabilities and shortcomings within AI systems can be thoroughly examined. Our Intergovernmental Relations Team working

in tandem with the Office of Economic Development and Cultural Affairs, should proactively scout and pursue grants available through the CHIPS Act and within other funding streams.

Of course, all this work must be grounded with the need to integrate ethics, best practices, and benchmarking into internal City policy, AI workflows, and external practices. We should participate in AI working group entities including, but not limited to, the ITD's newly launched Gov GAI Coalition. The Gov GAI Coalition recently launched by the ITD, along with the City's partnerships with National League of Cities, MetroLab, the Global Partnership on AI, and others, should serve as valuable collaborative platforms for sharing knowledge, expertise, and insights with external entities. These cooperative endeavors will not only foster responsible AI development but build on San José's work as a pioneer in setting the standard for ethical AI governance and implementation.

In conversations we've held with AI leaders from the private sector and with the Silicon Valley Leadership Group's Working Group on Responsible AI, we heard loud and clear the importance of folding ethics and industry best practices into our AI-related work. We want to ensure that the tools built here, and the tools used by the city are fair and transparent.

Our overarching goal with this endeavor is to foster more AI-related firms in San José. We are driven by a commitment to enhance the quality of life; both locally and globally. Let's lay a successful foundation for this burgeoning industry in San José by actively nurturing our AI ecosystem, by securing an AI incubator, by investing in this field at the local level, and by partnering with other entities. Our city workforce makes a positive impact on the lives of our residents every single day. If we can incorporate the benefits of AI into city processes, can you imagine the additional benefits we could deliver to our residents? With this effort, we will further position San José as a leader in the AI landscape, transforming the way we live, work, and interact with technology.