

The Mercury News Sunday



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A 40-YEAR RIDE

SVB's story mirrors tech's booms and busts

How a Silicon Valley banker to startups went from a poker game to market-jolting collapse

By **Julia Prodis Sulek**
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In the early '80s, when "high tech" was still written with quotation marks and the region was starting to become known as *The Silicon Valley*, tennis buddies Bob Medearis and Bill Biggerstaff took their idea for a new bank to a poker game in Pajaro Dunes.

Their wives and children would be joining them at their Monterey Bay beachfront rentals the next day, but Friday night the two men gathered their close friends, made a big dinner and explained the plan to open a bank specifically for tech companies. They would call their customers "clients" and name their business after the region's trendy new moniker: Silicon Valley Bank.

Inside: Bank runs used to be slow. The digital age sped them up. E4

Who's in? Everyone around the table — including a Lockheed engineer in charge of pilotless drones in the 1970s and a Memorex executive — ponied up \$10,000 each. They turned for support to a cast of luminaries, including a legendary NFL quarterback, a maverick congressman and the founder of one of the Valley's signature law firms.

And the bank that collapsed this month in spectacular fashion was born.

White glove to black swan

After 40 years of riding waves of tech booms and busts, Silicon Valley Bank disappeared faster than an errant tweet from Elon Musk, spooking customers into a run on deposits, which in turn jolted the banking industry and roiled the U.S. economy and global markets. The fallout has raised major questions about

how the blunders of a single medium-sized bank could unleash a torrent of panic in a region so accustomed to risk.

But Silicon Valley Bank's origin story — and its seemingly prosperous four-decade ride — in many ways mirrors the generations of startups and gambles that turned fields of orchards into the capital of innovation.

"Silicon Valley wouldn't be Silicon Valley without Silicon Valley Bank," said Varun Badhwar, a se-

BANK » PAGE 9

WHO GETS A LEVEE?

THE FIGHT TO SAVE CALIFORNIA FROM FLOODING



JOSE CARLOS FAJARDO — STAFF PHOTOGRAPHER

Hamilton City residents and officials stand on the bank of the Sacramento River on Friday, shielded by a \$125 million levee system the town won after a 35-year-long fight.

Poor and rural Hamilton City reimaged how to manage its river; Pajaro was mired in bureaucracy

By **Lisa M. Krieger**
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The tiny town of Hamilton City sits in the direct path of the mighty Sacramento River, muddy and swollen by March storms.

But a new \$125 million levee system — the product of the community's 35-year-long fight to make something big from something broken — is protecting its 1,900 farmworkers and their families.

After a March 11 levee failure drowned the town of Pajaro, Hamilton City's river also overflowed. But then it gently spread across a landscaped flood plain, losing its fury. The levee held firm. The system, the first of its type in the state, offers a new paradigm for how to respond to flood risk in an era of dangerous climate change.

"It's doing what it's supposed to do," said former Fire Chief Jose Puente, who



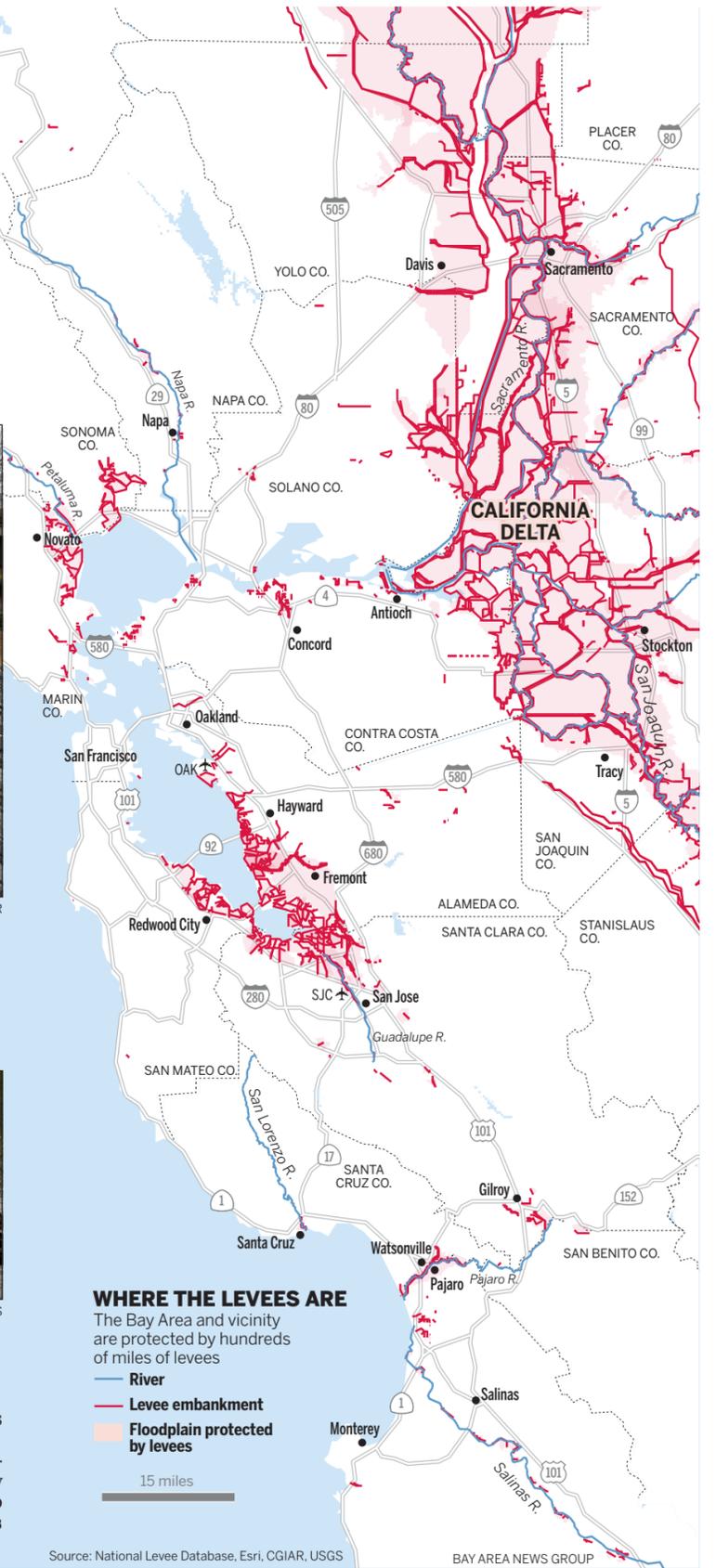
CALIFORNIA DEPARTMENT OF WATER RESOURCES

Floodwaters from the Pajaro River flow through a levee break near the township of Pajaro in Monterey County on March 12.

proudly watched the project excel in its big test.

There are 1,758 levee systems throughout California listed in the U.S. Army Corps of Engineers database, built to

LEVEES » PAGE 8



HOMELESSNESS

Art from encampments captures life on the streets

By **Marisa Kendall**
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There's nothing beautiful about homelessness.

Or is there?

Amid the heartbreaking conditions of the Bay Area's homeless encampments, those with little recourse are fighting their despair by creating works of art. The results can be uplifting — like the celebratory murals painted to

cheer up residents of tent clusters and cars turned into homes. Other times — like a recent play that dramatized Caltrans workers kicking unhoused residents out of a camp — they're gut-wrenching.

With more than 30,000 unhoused residents in the Bay Area and little visible progress toward stemming the homelessness crisis, those who live or have lived in encampments, and those who work with people who do, de-

scribe this artistic expression as vital. For some, it provides a way to heal from the trauma of life on the streets. For others, it's an opportunity to tell their stories and teach the world what it's like to live in their shoes.

"Art has a way of involving people and engaging people and educating people in ways that other ways can't," said Anita De Asis Miralle of Cardboard and Concrete.

ART » PAGE 10



ARIC CRABB — STAFF PHOTOGRAPHER

"Aunt!" Frances Moore with artwork on Wednesday at Driver Plaza in Oakland. Moore, who was once homeless and now helps feed Oaklanders in need, recently starred in a play about homeless encampments. "It's medicine," she says of the play. "Art is medicine."

NEWS ON THE GO

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JOSE CARLOS FAJARDO — STAFF PHOTOGRAPHER

Jose Puente, acting general manager of Reclamation District 2140, walks to the water's edge of Country Road 23 in Hamilton City on Friday. The road is supposed to flood as part of the Ecosystem Restoration Project that helps take pressure off of the levee. The 6.8 miles of levee was constructed in 2020 along the Sacramento River.

Levees

FROM PAGE 1

hold back rivers and protect towns, homes, businesses and crops from flooding. Sixty years old on average, many are past their design lives. But the highest priority for replacing the structures is awarded to affluent urban areas, not small, rural and disadvantaged communities.

The tale of this town, two hours north of Sacramento, shows the challenge of protecting these modest places. Under a federal formula that weighs property values, the cost of building a levee to protect a small community far exceeds the economic benefit.

Like Pajaro, Hamilton City lives on the edge of a volatile river. Like Pajaro, its residents are largely low-income Latinos. Like Pajaro, it repeatedly sought federal funds to fix its levee and was repeatedly rebuffed.

But there are differences, and that's what saved Hamilton City. A group of six farmers, most of them now dead, started the construction campaign decades ago. It stayed unified and relentless in its focus. Volunteers, supported by homespun "Levee Festivals," made 15 trips to Washington, D.C., knocking on doors in Congress to win the hearts of political heavyweights such as Sen. Dianne Feinstein, former Sen. Barbara Boxer and others.

A Bay Area News Group analysis of the U.S. Army Corps' National Levee Database found that 48 California levee systems are categorized as moderate to very high risk, 743 miles out of 5,400 total levee miles in the state. In greatest peril, it found, are four levees in the Sacramento Valley: one in Natomas, along the Sacramento River; two along the American River, above Sacramento, and the fourth along the Feather River, threatening the towns of Yuba City, Live Oak, Gridley and Biggs.

Many have been improved over the past decade, but others don't meet modern engineering standards, according to the 2019 Report Card for California's Infrastructure by the American Society of Civil Engineers, which gives the state's levees a "D" rating. They can't cope with the pressures of a changing climate, strict environmental regulations, rigorous maintenance needs, updated safety standards and rising construction costs.

"We have to continuously invest in California's levee infrastructure. Otherwise, it goes away. It fails," said Glendale civil engineer Yazdan Emrani, chair of the So-



SANTA CLARA VALLEY WATER DISTRICT

A Valley Water team stabilizes erosion along Stevens Creek in Mountain View with log deflectors, which direct water away from the banks and dissipate its energy, helping protect nearby homes from flooding.

ciety's infrastructure policy committee.

But who deserves protection? While the responsibility to prevent floods lies with local communities, the funds to replace levees come largely from state and federal budgets. The government can't afford to replace every levee. With fierce competition for money, projects must be prioritized.

To win funding, a town must prove that for every dollar spent on the project, there is at least a dollar of benefit. While the impacts of six factors — healthy and resilient ecosystems; sustainable economic development; flood plains; public safety; environmental justice; and watershed — are weighed, a community's economic value weighs heavily, because it is easy to measure and compare projects, he said.

"The methodology measures: 'How much is it going to cost? And how much are we going to save?'" said flood expert Scott Shapiro of the Sacramento law firm Downey Brand, who serves as general counsel for the Central Valley Flood Protection Board.

This cost-benefit approach is much more equitable than the historic tradition of "earmarking" funds, where powerful members of Congress steered money to their pet projects, he said. But it favors more prosperous areas.

San Jose, for instance, has 100-year flood protection from the Guadalupe River, thanks to a \$350 million project from Interstates 280 to 880. A newer \$256 million project from the Children's Discovery Museum south to Blossom



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Hill Road protects against the upper river. At the peak of last Tuesday's storm, the river's channel was filled to only 20% of capacity.

Smaller but fast-growing places, like the Central Valley town of Lathrop, can afford to "self-fund" plans through development fees, property taxes and special assessments. Home to the valuable real estate of Tesla's giant "megapack" battery factory, a new VA hospital, two rail lines, the I-5 Interstate highway and burgeoning subdivisions, Lathrop has positioned itself to win government support for a levee so strong that it will protect against a mighty 200-year flood.

But for small agricultural towns, the odds are stacked against them.

In Pajaro, "it's been a real struggle to move the project forward with the Army Corps," said Mark Strudley, executive director of the Pajaro Regional Flood Management Agency.

Pajaro's problems started 50 years ago with a bad le-

WHAT IS AT STAKE?

California has over 5,000 miles of levees, the most of any state in the country. The state's 1,758 levee systems protect the homes of over 5 million residents, 1.3 million structures and \$649 billion in property.

County	Levee system		What is protected by the levee system		
	Number	Miles	Property	People	Buildings
U.S.	6,912	24,498	\$2.19T	17,400,000	5,460,000
CALIFORNIA	1,758	5,403	\$649B	5,140,000	1,320,000
Orange	20	121	\$151B	1,260,000	286,000
Santa Clara	89	177	\$77.4B	416,000	68,200
Los Angeles	77	245	\$60.2B	903,000	190,000
San Joaquin	121	814	\$57.1B	401,000	119,000
Riverside	56	183	\$49.8B	283,000	96,500
Alameda	128	206	\$45.1B	277,000	74,500
Sacramento	73	467	\$37.9B	723,000	207,000
San Mateo	37	80	\$30.3B	121,000	23,200
San Bernardino	273	261	\$24.0B	178,000	52,300
Tulare	3	32	\$18.3B	79,300	22,800
Butte	63	293	\$15.6B	131,000	57,900
Yolo	19	427	\$14.9B	104,000	38,700
Kern	27	101	\$14.2B	66,900	13,000
Solano	39	266	\$11.7B	84,900	31,200
Sutter	23	395	\$11.0B	186,000	54,300
Yuba	17	112	\$11.0B	65,000	21,100
Merced	42	328	\$9.3B	65,800	16,500
Ventura	38	68	\$7.2B	52,100	15,400
Marin	49	62	\$6.3B	27,200	6,130
San Diego	25	35	\$5.0B	44,200	10,100
Contra Costa	66	189	\$4.8B	24,900	8,520
Fresno	35	205	\$4.1B	24,400	7,210
Glenn	5	193	\$3.3B	18,700	8,920
San Luis Obispo	15	30	\$3.3B	47,400	13,300
Santa Cruz	9	30	\$3.2B	22,100	5,490
Santa Barbara	7	25	\$3.1B	46,800	12,700
Kings	15	178	\$1.8B	15,000	4,930
Madera	41	325	\$1.8B	11,800	3,660
Colusa	6	166	\$1.5B	9,640	5,100
Napa	14	13	\$1.4B	7,570	1,300
Stanislaus	84	125	\$910M	4,680	1,630
Monterey	49	57	\$829M	4,540	1,030
Sonoma	59	91	\$630M	2,660	594
Imperial	14	49	\$623M	4,040	1,750
Placer	11	39	\$482M	4,170	1,960
Humboldt	53	90	\$278M	2,170	1,060
Modoc	5	7	\$169M	867	374
Shasta	3	3	\$129M	772	321
Tehama	18	23	\$121M	1,700	654
Lake	21	27	\$107M	1,060	429
Plumas	4	4	\$78M	660	354
Siskiyou	35	52	\$36M	155	62
Del Norte	3	5	\$29M	210	138
Trinity	3	2	\$22M	199	87
Lassen	9	12	\$11M	98	36
San Benito	1	2	\$10M	102	26
Nevada	1	0	\$2M	11	1
Mariposa	1	0	\$1M	54	32
Mendocino	4	3	\$345,000	13	1
Mono	9	1	N/A	N/A	N/A
San Francisco	1	0	N/A	N/A	N/A
Sierra	1	0	N/A	N/A	N/A
Alpine	No levees				
Amador	No levees				
Calaveras	No levees				
El Dorado	No levees				
Inyo	No levees				
Tuolumne	No levees				

Source: U.S. Army Corps of Engineers

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vee design. An improved plan was proposed, then rejected in the 1970s by the region's civic leaders and farmers, who resisted selling their land.

Upkeep was neglected in the 1980s and 1990s. Finally, in 2019, the agency secured \$400 million in federal funding to rebuild the levee. The start of construc-

tion was 1-2 years away when a relentless series of storms hit this winter. Hamilton City's levee was even worse. Built from sand in 1906 by the Holly Sugar Corp. to protect its sugar beet processing plant, since demolished, it was eroding. The town flooded in 1974 and was dangerously threatened in 1983, 1986, 1995, 1997 and 1998.

"Our farmers banded together and said 'We need a solution. This has to change. We're losing our crops. We're losing our jobs. We're losing our homes,'" said Lee Ann Grigsby-Puente, a local businesswoman and volunteer president of the effort, called Reclamation District 2140.

But the obstacles were great.

"The cost of the project dwarfed the value of nearby property and structures, so it made it nearly impossible to justify federal participation," explained Paul Bruton of the U.S. Army Corps.

Meetings with officials were infuriating. "They told us: 'You've got to help yourself before we can help you,'" recalled Jose Puente, Lee Ann's husband. "OK," he vowed. "We're going to be a thorn in your butt."

So the town recruited donors and the best carnitas cooks in town to help raise funds for lawyers, lobbyists and annual trips to Washington, D.C.

"Wherever we could get in the door to talk about our project we went," said Grigsby-Puente, dubbed "The Queen of Levees" by U.S. Rep. John Garamendi. "There was a constant push."

Almost imperceptibly, the tide began shifting. Faced with climate change, funders were increasingly willing to consider nature-based systems.

Encouraged, Hamilton City hatched a new plan. Partnering with The Nature Conservancy, it reimagined what the project could be. Rather than confining the angry river, it would give it more room. The levee could be moved far from the river's edge. A wide flood plain could create habitat and let the river widen.

Seeing proof of both environmental and economic benefits, the Corps agreed to fund most of the project. State and other organizations paid for the rest.

"It seemed like it took forever. We wanted to quit many times. But perseverance — plain old stubbornness — kept us going," Grigsby-Puente said.

Facing a week of more rain, the town rests easy. But it is haunted by Pajaro's devastation, reminding it of what could have been.

"Our heart just breaks for Pajaro," she said. "Because we know we know what it's like."