THE CITY OF SAN DIEGO

# REPORT TO THE CITY COUNCIL

DATE ISSUED: June 14, 2011

ATTENTION: Rules Committee
Agenda of June 22, 2011

SUBJECT: Report from the Mayor's Office of Economic Growth Services regarding the City's Economic Development Strategy

SUMMARY:

In response to the national recession and the commensurate rise in local unemployment, the Mayor has included an Economic Recovery Strategy in each of the proposed budget documents since FY2009. The most recent Economic Recovery Strategy adopted by Council is included as an attachment. This document reflects an annually updated snapshot of the city's economic status and policy adjustments relating to the City's economic development efforts.

To compliment the Economic Recovery Strategy an Economic Development Strategy is being created to provide an examination of current economic and socio-economic conditions, a discussion of the City's comparative advantages with respect to certain industry clusters and an explanation of the City's business development programs, initiatives, and policies. The proposed Economic Development Strategy being drafted will include the following sections:

- Current Economic Conditions
- San Diego's Economic Base
  - Military Installations
  - Tourism
  - Manufacturing
  - International Trade
  - Other Base Sector Industry Clusters and Business Establishments
- The Importance of Small Businesses in San Diego
- Major Tax Revenue Generating Businesses
- Existing Business Development Programs & Districts
- Other Economic Development Efforts & Future Initiatives
- Council Policies

Input on these sections is requested from the Rules Committee to assist in the effort of developing a final Economic Development Strategy document for future review.

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# Economic Recovery

The national economic recession has adversely affected San Diego. Significantly reduced economic activity overall has led to a spike in the local unemployment rate, currently standing at 10.3 percent as of January 2011. Spending in the construction, manufacturing, finance, and real estate sectors continues to remain flat, which in turn has affected the wholesale and retail sectors. The City of San Diego, itself dependent on sales tax revenue to provide General Fund services such as fire and police protection, again faced a projected General Fund revenue shortfall that resulted in difficult decisions and trade-offs to develop a balanced Fiscal Year 2012 budget.

The City continues to focus its efforts on strengthening its economic base and regaining fiscal stability through a number of programs and initiatives:

- Business Support and Expansion Programs
- Economic Roundtables
- Small Business Development Programs
- Federal and State Stimulus Programs

## Business Support and Expansion Programs

The City of San Diego remains committed to restoring economic stability and reducing the level of local unemployment. By focusing on its comparative advantages such as its skilled labor force, desirable climate, and its strategic location adjacent to Mexico and the Pacific Rim, San Diego can compete for new job-creating public and private-sector investment. A few of the City's initiatives are outlined below.

### Economic Development Efforts

The Mayor is committed to building on the City's economic development programs that have contributed to the economic growth of the business community. This plan for economic recovery continues to be centered on a four-pronged strategy designed to ensure that investment dollars flow into San Diego quickly:

1. A business expansion, attraction, and retention (BEAR) effort designed to highlight the advantages of doing business in San Diego
2. A regulatory streamlining effort that eliminates duplicative and bureaucratic procedures which do not meaningfully contribute to protecting the public interests
3. A focus on emerging technologies, including the implementation of the Mayor's CleanTech Initiative designed to increase demand for renewable energy (e.g. solar), biofuels, energy efficient solutions, and "green" products
4. The completion of critical path infrastructure facilities which will be especially attractive to base sector businesses

The local biotechnology industry has grown to over 500 companies, employing over 37,000 skilled staff producing an annual economic impact to our local economy of over $9 billion. Other industries such as telecommunications, software, electronics, and defense have had similar successes. The Mayor's CleanTech Initiative demonstrates the City's commitment to capturing the economic benefits of new and emerging technologies. Specific examples include Kyocera Solar, Inc. that recently

announced its decision to begin manufacturing solar panels in the City of San Diego Industrial Park. San Diego now has two of California's four solar panel manufacturing plants, due to the addition of Siliken Renewable Energy to the Otay Mesa Community. The biofuel industry continues to expand in San Diego. New Leaf Biofuel in Barrio Logan has the capacity to produce 1.5 million gallons per year (GPY) of biodiesel and is currently producing and selling over 800,000 GPY. Synthetic Genomics Inc. in the University Community has constructed a new 8,000 square foot greenhouse facility to support its continued research and development (R&D) efforts to produce an algae-based biofuel.

The Mayor's Office of Economic Growth Services (EGS) has ramped up its business retention efforts to ensure that businesses remain fully supported and recognized and are able to access state and federal programs. During this time, the Mayor has met with many local manufacturers who have either expanded R&D or production operations or are considering expansions.

The BEAR Team provides economic development services to businesses on a citywide basis with a particular focus on the North City industrial parks. BEAR administers the Business & Industry Incentive Program (permit assistance, due diligence, and incentives), Business Cooperation Program (sales and use tax rebates), and the Guaranteed Water for Industry Program (the industrial use of reclaimed water). The BEAR Team also analyzes the fiscal and economic impacts of proposed projects, policies, and other issues that affect economic development within the city.

The Government Incentives Team is focused on State and federal incentive programs for designated geographic areas. The Government Incentives Team's programs include: the State Enterprise Zone and Recycling Market Development Zone, the federal Renewal Community, and the federal Foreign Trade Zone (for businesses within 60 miles of the Otay Mesa Port of Entry involved in the import/ export of merchandise or materials used in the manufacturing/assembly process).

### Tourism Marketing District

In December 2007 the Mayor recommended, and the City Council adopted, a new Tourism Marketing District to ensure a stable funding source for the marketing of the City to tourists and business travelers. This district collects assessments from hotel operators who may pass on the assessment to customers. The assessments are pooled in order to provide funding for marketing, promotions and special events which generate hotel room night stays. The San Diego Convention & Visitors Bureau receives a guaranteed percentage of funding and is responsible for conducting national advertising campaigns. Other organizations also receive funding to augment these efforts. This dedicated funding source will bolster the City's ability to market San Diego as a visitor destination.

### Economic Roundtable

The Mayor has continued to convene economic roundtables which include leaders from the San Diego region to meet and help shape an agenda to proactively deal with the regional economy.

These areas of continued focus are:

- Retain, grow, and attract companies to promote expansion of existing and emerging business sectors
- Streamline local regulation for business including planning, permitting, and license processes
- Promote the expansion, attraction, and retention of CleanTech industries with the objective of becoming a recognized leader in the development of clean technology-based products and solutions

The Mayor has asked various organizations to assist him in overseeing the implementation of next steps associated with these areas of focus as well as to provide regular updates on how we are achieving success in dealing with the regional economy.

### Small Business Development Programs

Small businesses are a major contributor to San Diego's economy representing more than 90,000 businesses (approximately 93 percent of all businesses in the City) and about half of San Diego's job growth since 1991. In 1991, the City of San Diego created one of the first municipal offices in California dedicated solely to helping small businesses succeed – the Office of Small Business. The City also sets aside millions of dollars each year for programs to help small businesses prosper.

### Direct Assistance

There are a variety of programs available to directly assist small businesses ranging from providing detailed information on City and regional services, to helping with start-up questions and providing assistance with permitting issues. The City also provides matching grants to businesses in targeted areas for storefront renovation projects.

### Development and Retention Programs

The Office of Small Business, in partnership with the business community and economic development agencies, administers several programs for small business development and retention including the following:

- Business Improvement Districts
- City/Business Improvement District Council Partnership
- Community Parking District Program
- Technical Assistance Coordination
- Small Business Ambassador

### Advocacy and Regulatory Relief

The Office of Small Business staff and the Small Business Ambassador advocate for small business concerns and coordinate several programs to ensure that small businesses have a voice in many issues that affect their ability to succeed.

### Local and Small Local Business Enterprise Program (L/SLBE)

In order to provide economic opportunity for its residents and businesses and stimulate economic development, the City has developed and implemented various policies that directly impact how public funds are spent. These policies are aimed at using the power of the public purse to stimulate economic development through the support and empowerment of the local community, especially those aspects of it that have been placed at a disadvantage in the past. The major programs that were created to serve these respective groups are:

- Mentor Protégé Program
- Subcontracting Outreach Program (SCOPe)
- Minor Public Works Program
- Small Local Business Enterprise Program, adopted in Fiscal Year 2010

Supporting and/or complementing these programs are policies regarding living wage, prevailing wage, disadvantaged business enterprises, certifications, and apprenticeships.

# Economic Recovery

The SLBE Program supports policies that establish contract-by-contract construction project goals and a 20 percent voluntary goal on Architecture & Engineering consultant, goods & services contracts. It also allows for a minimum bid discount of 2 percent for meeting goals on goods and services contracts. The Program also provides for additional points in negotiated professional services contracts and increased points as the level of small local business participation increases.

The intended impacts included:

- Increasing the number of certified businesses participating in City contracting and in development projects
- Increasing the circulation of City dollars within the community and thus stimulating a stronger economic base
- Promoting the development of certified businesses through joint ventures and mentor/ protégé relationships

The new policies provide economic opportunity to local residents and businesses by supporting local economic development while paying competitive prices for goods and services. At the same time, the SLBE Program does not obstruct efforts to attract outside investments that are critical to the City's economic growth.

## Federal and State Stimulus Programs

Securing federal and state funds not only helps advance City projects and priorities, but assists in driving jobs and stimulating the economy for the region.

In 2010, $1.3 million in federal funding was dedicated to four projects: the acquisition of equipment to enhance technology capabilities of the Police Crime Lab; partial funding for a feasibility study for the City's four-reservoir water supply intertie system; construction costs for relocation of fiber optic cable necessary to advance a major interstate highway interchange improvement project; and book and technology acquisition at Skyline Hills Branch Library.

In addition to the direct funding to the City, regional funding from the federal budget included $2.33 million in military construction funding for the Point Loma Naval Marine Mammal Surgical Suite; and $2 million for the San Diego Area Water Reclamation Program.

Numerous border projects were also major recipients:

- In the Tijuana River Valley, the City was awarded $700,000 from the State Water Resources Control Board for restoration and $250,000 from the California Coastal Conservancy for reclamation in the Nelson Sloan Quarry. The Army Corp of Engineers also issued the necessary permits to conduct flood control desedimentation activities.
- The Cross Border Facility received a presidential permit on August 3, 2010.
- Caltrans awarded the City $150,000 to study the feasibility of an Intermodal Transportation Facility at the San Ysidro border crossing. Additionally, SANDAG plans to include $15 million in the next Regional Transportation Plan (RTP) for planning and design of the San Ysidro Intermodal Center.
- The Route 11/ Otay Mesa East Port of Entry Project received $75 million from the Proposition 1B Trade Corridor Improvement Fund, $13 million from the State Transportation Improvement Program, and $800,000 from the federal government.

- The six lane SR-905 project will connect vital interstate routes to move people and goods across the border. This $619 million highway project received $74.5 million in Recovery Act Funds, $2.13 million in Federal Demonstration Funds, and $260,000 from SANDAG.

Through the Prop 84 Urban Greening Planning Program, $250,000 was awarded for an urban greening plan in City Heights to create a system of green streets that link existing, planned and proposed community facilities, parks, and trails in adjacent canyons. In addition, through the Sustainable Communities Planning Grant Program, $1,000,000 was awarded for a comprehensive update of the Southeastern San Diego Community Plan update.

California's Housing and Community Development Department (HCD) designated 13 communities to be part of a Catalyst Projects for California Sustainable Strategies Pilot Program. At least one project was designated per Metropolitan Planning Region, with the City of San Diego as the only city in California to receive two designations: a Gold Catalyst Designation for the Village at Market Creek and a Bronze Catalyst Designation for Civitas (formerly known as Quarry Falls).

Designated Catalyst Projects will receive targeted technical assistance from teams of State Agencies and additional consideration when applying for specific State funding programs, including CalTrans' Community Based Transportation Planning Grants. Additionally, the Village at Market Creek will receive $1,000,000 in Affordable Housing Innovation (AHI) Program funding.

Also, in December, the City was notified that we would receive Gang Reduction, Intervention and Prevention grant (CalGRIP) funding for gang prevention initiatives in the amount of $369,000.

## Future of the City's Economic Health

San Diego's economic policies will continue to focus on the growth of the city's economic base. This base primarily consists of four "clusters" or groups of related industries: manufacturing, international trade and logistics, tourism, and the military.

### *Manufacturing*

The manufacturing sector contributes the largest single economic impact to the regional economy. San Diego's manufacturers are engaged in research and development (R&D), manufacturing, sales, distribution, product servicing, and repair activities in a wide range of industries such as biotech and medical, CleanTech, defense and security, food manufacturing, and telecommunications. As land and fiscal resources become more constrained due to a variety of factors, regulatory land use policy and fiscal policy (e.g. financial incentives) should be targeted specifically to those private-sector businesses which are both part of the economic base and which have the willingness and ability to create middle income job opportunities for local residents. These businesses are primarily found in the manufacturing sector and have significant job growth potential.

Five of the City's 10 largest employers are in this sector and include telecommunications manufacturer Qualcomm, and four major defense contractors: General Atomics, General Dynamics, Northrop Grumman, and Science Applications International. General Atomics has continued to add jobs at its Aeronautical Systems division, and smaller defense sub-contractors like ATK and AEM completed major expansions in Fiscal Year 2010. Medical device, diagnostics, and equipment manufacturers continue to thrive in San Diego, led by Biosite, CareFusion, Gen-Probe, and Illumina, each of which generate significant employment opportunities and sales tax revenue for the City. Drug manufacturers Amylin Pharmaceuticals, Biogen-IDEC, Johnson & Johnson, Novartis, and Pfizer continue to operate major research laboratories in the University Community.

San Diego has a comparative advantage in these industries for primarily three reasons: (1) very high labor quality including ex-military personnel with security clearances, (2) the continued presence of

major primary research institutes and universities such as Sanford-Burnham, Salk, Scripps, UCSD, and related support organizations, and (3) proximity to Mexico which has its own comparative advantage in the manufacturing of high quality and high-technology products in high production volumes, where national security, product safety, and intellectual property concerns are not a major consideration.

In order to better support the local manufacturing sector, the Mayor has recommended to the City Council that the City apply to the State of California for an expansion of the San Diego Regional Enterprise Zone to include the areas within the communities of Kearny Mesa, Linda Vista and Navajo. Expansion of the Enterprise Zone will provide a strong supply-side stimulus to the local manufacturing sector by permitting these firms to substantially reduce their California income tax. Economic Growth Services anticipated that the City would add at least 30 additional north city industrial parks to the Enterprise Zone in Fiscal Year 2011. However, due to the Governor's budget proposal, which includes the elimination of the Enterprise Zone Program, all expansions are on hold pending the outcome of his proposal.

### *International Trade & Logistics*

San Diego's proximity to Mexico provides the City with an important comparative advantage in terms of capturing international trade activity. The Otay Mesa border crossing is adjacent to several large industrial parks containing over 14 million square feet of existing industrial space and over 1,000 acres of developable industrial land. This part of the city has been designated by the State as an Enterprise Zone and portions of it have been designated by the federal government as a Foreign Trade Zone (FTZ). These designations allow logistics businesses to claim lucrative state income tax credits and the ability to defer, reduce, or eliminate trade duties. The availability of several modern vacant distribution centers, comparatively low lease rates, tax and duty advantages, and the completion of the SR 905 Freeway will enable the City to position itself as an attractive location for trade-servicing and logistics companies. In Fiscal Year 2011 Costco Wholesale completed its 300,000 square foot Costco Packaging Center to distribute Kirkland products to 157 retail outlets in Mexico and the southwestern United States. The Mayor is in the process of seeking authorization from the federal Department of Commerce to restructure the FTZ which would help facilitate businesses involved in international trade to utilize the FTZ program. Approval is anticipated in the 1st Quarter of Fiscal Year 2012.

### *Tourism*

Because of its warm Mediterranean climate, San Diego is a top-ranked tourist destination. San Diego competes with similar cities such as Los Angeles, San Francisco, Seattle, and Miami for vacationing tourists and business travelers. The construction of the San Diego Convention Center has dramatically improved the City's ability to attract business travelers while retention and enhancement of family-oriented attractions such as the San Diego Zoo, Balboa Park Museums, and Sea World has helped attract vacationing families.

The City will continue to maintain facilities under its purview and to ensure the preservation of clean, safe beaches and well-maintained parks. Using the dedicated funding source provided by the new Tourism Marketing District, the City will be able to maintain one of the nation's lowest transient occupancy taxes (TOT), which should also help keep San Diego competitive with other tourist destinations.

Since opening in 1989, the San Diego Convention Center has generated over $21.0 billion in regional economic benefits and $400 million in tax dollars for the City. A Phase 3 expansion of the convention center is currently being pursued. It is anticipated the new conventions attracted by the

expanded facility will bring $372 million in added visitor spending and $17 million in new tax revenue annually. The expansion itself will create and support nearly 7,000 new jobs.

### *Military*

The City has a long history of accommodating the Department of the Navy, including not only the Pacific Fleet, but also the United States Marine Corps (USMC), the Space and Naval Warfare Systems Command (SPAWAR), along with several smaller commands. The Department of the Navy has announced its intention to construct several new facilities throughout the County ensuring a long-term presence. Beyond supporting these efforts however, the City can do little to increase or influence the size of the military presence in San Diego. Fortunately, the military has increased its physical presence in San Diego County providing a pillar of stability for the local economy.

## Conclusion

The City of San Diego has made it a top priority to focus on economic recovery for the City and its residents. This recovery plan is aimed at preparing the local economy to rebound with the national economy, or even sooner. It relies on the City's position as a military town, a tourism draw, and a manufacturing leader, specializing in the defense, biotechnology, and clean technology industries.