



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: December 2, 2013 REPORT NO: 13-098
ATTENTION: Rules and Economic Development Committee
SUBJECT: Economic Development Strategy 2014-2016
REFERENCE: Council Policy 900-01 "Economic Development"

REQUESTED ACTION: Forward the Economic Development Strategy 2014-2016 to the City Council for adoption.

STAFF RECOMMENDATION: Forward the Economic Development Strategy 2014-2016 to the City Council for adoption.

SUMMARY:

Background

The City's current economic development strategy ("*Community & Economic Development Strategy 2002-2004*") was written by City staff in the year 2000 and adopted by City Council in early 2001. Efforts to write a new strategy were begun as early as 2004 but delayed in 2006 with the onset of the "Strong Mayor" form of government. In 2010, the City Council's Committee on Rules, Open Government, and Intergovernmental Relations ("Rules Committee") indicated a desire to have Mayoral staff (the newly formed "Mayor's Office of Economic Growth Services" or "EGS") prepare an updated economic development strategy for its consideration. The Rules Committee was particularly interested in having a new strategy which took into consideration the current economic climate (post "tech wreck" of 2000, post 9/11, post recession of 2009, etc.) In mid 2011, staff completed a draft "platform" strategy ("*Economic Development Strategy 2011*") and presented it to the newly formed City Council Committee on Economic Development & Strategies ("ED&S Committee") in January of 2012. The committee took no action regarding the Economic Development Strategy (EDS) at that time.

In September of 2012, the Office of the City Auditor completed its "*Performance Audit of the Economic Development Program*." This performance audit was almost entirely focused on the draft EDS, and found few if any operational deficiencies regarding the administration of existing City economic development programs or use of funds. The Auditor found the draft EDS "*lacks critical elements*" including among other things, "*a Mission, Goals, Objectives, Actions, Economic Indicators, and Performance Measures*" and that it should have linkages to other City documents such as the General Plan, and to other City efforts, such as the Capital Improvement

Program. The Auditor provided a lengthy and detailed analysis, compared the City's draft EDS to that of other cities, and in particular suggested a need to improve internal (interdepartmental) coordination and outward linkages to "stakeholders."

In October of 2012 the ED&S Committee requested that staff incorporate the recommendations of the Office of the City Auditor and the economic development recommendations of the Independent Budget Analyst ("IBA") into the draft EDS which staff had presented to the Committee in January of 2012, and to return to the committee with the updated document in January 2013. City staff added these components to the draft EDS in late 2012 and early 2013. In November of 2012 the City Council adopted amendments to Council Policy 900-01 "Economic Development" which sets forth guidance for the elements of the City's EDS. In early 2013 staff also incorporated the guidance of Council Policy 900-01 along with relevant portions of the ED&S Committee's "*Year-End Report and First Year Recommendations*." In the later part of 2013 staff also incorporated some of the suggestions provided by the Office of the Mayor.

Discussion

The proposed EDS takes into account 13 years of lessons learned from the successes and failures of hundreds of commercial and industrial projects and ventures, input from a wide spectrum of stakeholders during this 13-year time period, evaluation of the activities and strategies of competing jurisdictions such as Portland, San Jose, and Los Angeles, review of the guidance provided in the *Performance Audit of the Economic Development Program*, and formal subject matter training, as well as the review and evaluation of contemporary local research on the fiscal, economic, and socio-economic issues facing the City. Five basic themes emerged from the research and formal training done by City staff:

Middle-Income Jobs

The priority goal of the EDS is the creation of middle-income "blue-collar" jobs. San Diego is creating many salaried professional jobs (esp. science, engineering, and managerial) and many low-wage retail and service-sector jobs. Apart from the steady growth of the predominantly low-wage hospitality industries, the creation of low-wage retail and service-sector jobs follows inexorably from the creation of high-wage office and R&D jobs as a result of the consumer spending of high-wage office and R&D employees. As shown in the EDS, recent economic research done at the National University System Institute for Policy Research ("NUSIPR") indicates that San Diego is replacing lost middle-income jobs (mainly in manufacturing) at a rates slower than both California and the United States. The trend towards a two-class society, with wealthier communities north of the 8 Freeway, and poorer communities south of it, is accelerating at an alarming rate.

Basic Economic Development

The business community is not monolithic. Most businesses do not provide public benefits in the form of jobs and tax revenue – they provide a service to residents. Economic development public benefits are created by manufacturers and hoteliers, and by certain parts of the retail, wholesale, public, and service sectors. These public benefits take the form of base sector jobs created in certain industries when goods and services are provided primarily to people outside

the San Diego region, or when hoteliers, manufacturers, and retailers generate tax revenues for the City by providing taxable goods and services to people who live outside the City. The policy focus of the EDS is to provide regulatory accommodation and/or other financial benefits, in accordance with Council Policy 900-12, only to those businesses which meaningfully contribute such public benefits to the City. “Across-the-board,” “One-size-fits-all,” and “First-come, first-served” are not approaches which are consistent with commonly-accepted economic development principles and practices. Accordingly, in order to grow the local economic base and the City’s tax base, the draft EDS therefore recommends that the City treat businesses differentially, based upon the presumptive public benefits to be received by the City.

Basic economic development results from public support (preference) of those businesses creating the greatest amount of public benefits, even where such support – e.g. allocation of land, water, sewer services, or regulatory accommodation, may come at the expense of those businesses which provide the least public benefits. The City should thus focus its efforts, to the extent allowed by State and federal law, on its best “customers.”

Cities Perform Economic Development

Economic development in San Diego principally occurs within its eight City administrative office buildings (City Administration Building, City Operations Building, Civic Center Plaza, Executive Complex, 600 B St., Police Headquarters, Metro Operations Center, Ridgehaven Court). The City’s management and employees determine whether or not job and revenue creating businesses will make investments and operate facilities in the City. Outside organizations such as economic development corporations, trade associations, academic institutions, labor organizations, and other non-profit and quasi-governmental organizations play a subsidiary long-term role in economic development. *Regulatory reform and effective interdepartmental coordination of activities and policies affecting economic development is the crux of the proposed draft EDS.*

Small Businesses Recycle Economic Benefits Created by the Economic Base

Small businesses are generally (with some exceptions) not “engines of the economy” and for the most part do not make up a significant part of the economic base – large and medium sized businesses perform this function. While 93% of all businesses in the City are considered “small” according to City of San Diego standards (12 or fewer employees), 62% of county residents work at employers (mostly businesses) which have 50 employees or more.

Small businesses play an important, but secondary role in the local economy, by recycling profits back into the local economy and by improving the attractiveness of the City as a tourist destination. This occurs as business owners spend the profits of their businesses at other businesses when they consume goods and services locally. This compares favorably, for instance, to the practices of corporate chains which almost immediately export profits to shareholders worldwide. Small businesses are thus contributors because of their marginal propensity to consume goods and services locally. In addition, small businesses tend to occupy and improve older buildings in charming “main street” corridors which are attractive destinations for visiting tourists seeking more authentic shopping and dining experiences.

Small businesses are generally influenced more by regulatory accommodation and public improvements than by tax incentives, microloans, or other direct subsidies. This stems largely from small businesses' inability to hire professionals to process permits or to absorb the costs of compliance by spreading such costs across a large business operation which typically include locations in other cities and states where the costs of doing business are lower.

The City Can Increase Tax Revenues Simply by Supporting its Manufacturers and Retailers

The City can do a better job of supporting its largest business taxpayers through the provision of regulatory relief measures which should generate additional tax revenues from activities in regional commercial centers and industrial parks with no adverse impacts on neighborhoods. As just one example, San Diego's sign codes are much more restrictive than those in other cities, which impairs the ability of local businesses to create brand awareness, to market their products and services to travelers and other customers located outside the City, and to identify themselves as a part of the social fabric of the City. The draft EDS proposes regulatory accommodation for those businesses and industries which provide significant public benefits in the form of middle-income, base sector jobs and tax revenues. These accommodations, such as for parking and signage, can be made in large regional commercial zones and industrial zones with no visual, safety, or quality of life impacts to neighborhoods.

Another example is the collection of fees and taxes. While California state law limits the ability of the City to impose new taxes and fees (procedurally and substantively), the City still retains flexibility to depart from unimaginative "across the board" approaches to the funding of municipal facilities and services by taking more realistic, market-driven approaches which recognize the fiscal, economic, and socio-economic contributions of some businesses, along with the ability of that business to relocate or expand outside the City.

FISCAL CONSIDERATIONS:

There are no fiscal impacts associated with this action.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

The Committee on Rules, Open Government, and Intergovernmental Relations discussed the efforts of staff to provide an updated EDS on March 24, May 19, and October 20, 2010 and again on June 22, 2011, each time following a staff presentation from the Mayor's Office of Economic Growth Services (EGS). The committee requested that staff continue to work expeditiously on the EDS and return to the committee with a draft for its consideration.

On January 30, 2012 an initial draft EDS was presented to the Committee on Economic Development and Strategies which evaluated and discussed the draft, but took no action at that time. On October 8, 2012 this Committee heard a presentation from the Office of the City Auditor regarding its evaluation of the initial EDS draft brought forward by EGS, and requested that staff return to the Committee with a revised draft EDS in January of 2013. The Committee requested that the revised draft EDS include the recommendations provided in the *Performance Audit of the Economic Development Program*. On October 22, 2012, this committee evaluated a report from the Independent Budget Analyst ("IBA") regarding the development of the EDS

entitled: *Comprehensive Economic Development Strategy: Possible Goals for Committee Consideration and Inclusion into the Strategy*, discussed a presentation on related City Council Policies by EGS, presented its own *Year-End Report and First Year Recommendations*, and recommended to Council certain Amendments to Council Policy 900-01 "Economic Development." On November 28, 2012 the City Council considered and approved the proposed amendments to Council Policy 900-01, which prescribe specific policy direction and a structure for the EDS.

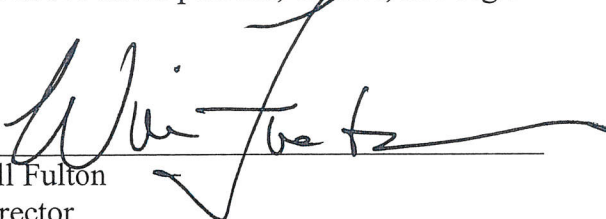
On January 30, 2013, the Council Committee on Rules and Economic Development heard a presentation from the Office of the City Auditor regarding its *Performance Audit of the Economic Development Program* and the IBA's *Comprehensive Economic Development Strategy: Possible Goals for Committee Consideration and Inclusion into the Strategy*.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

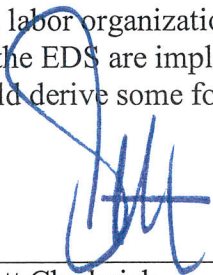
The revised draft EDS is now ready for public comment from stakeholders and other interested parties. The draft EDS represents a work product of 13 years duration during which time City staff received significant amounts of input, both solicited and unsolicited, relating to economic development priorities and the creation of a business-friendly environment. This input came from a wide variety of stakeholders and organizations including hundreds of individual businesses, business organizations, other non-profit organizations, other City departments, the City Attorney's Office, seven Council Offices, two City Council Committees, the Office of the Independent Budget Analyst, and the Office of the City Auditor. This final draft however, was entirely prepared by City staff without the prejudice of any outside influences or paid consultants.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Key stakeholders would certainly include all of the residents of the City of Diego who would be the beneficiaries of potential future job opportunities, entrepreneurship opportunities, and tax revenues to fund essential municipal services. Additional stakeholders would include individual businesses within the City, local business organizations, labor organizations, and community-based organizations. If the policy recommendations of the EDS are implemented, some or all of the above-listed persons, entities, and organizations could derive some form of economic benefit.



Bill Fulton
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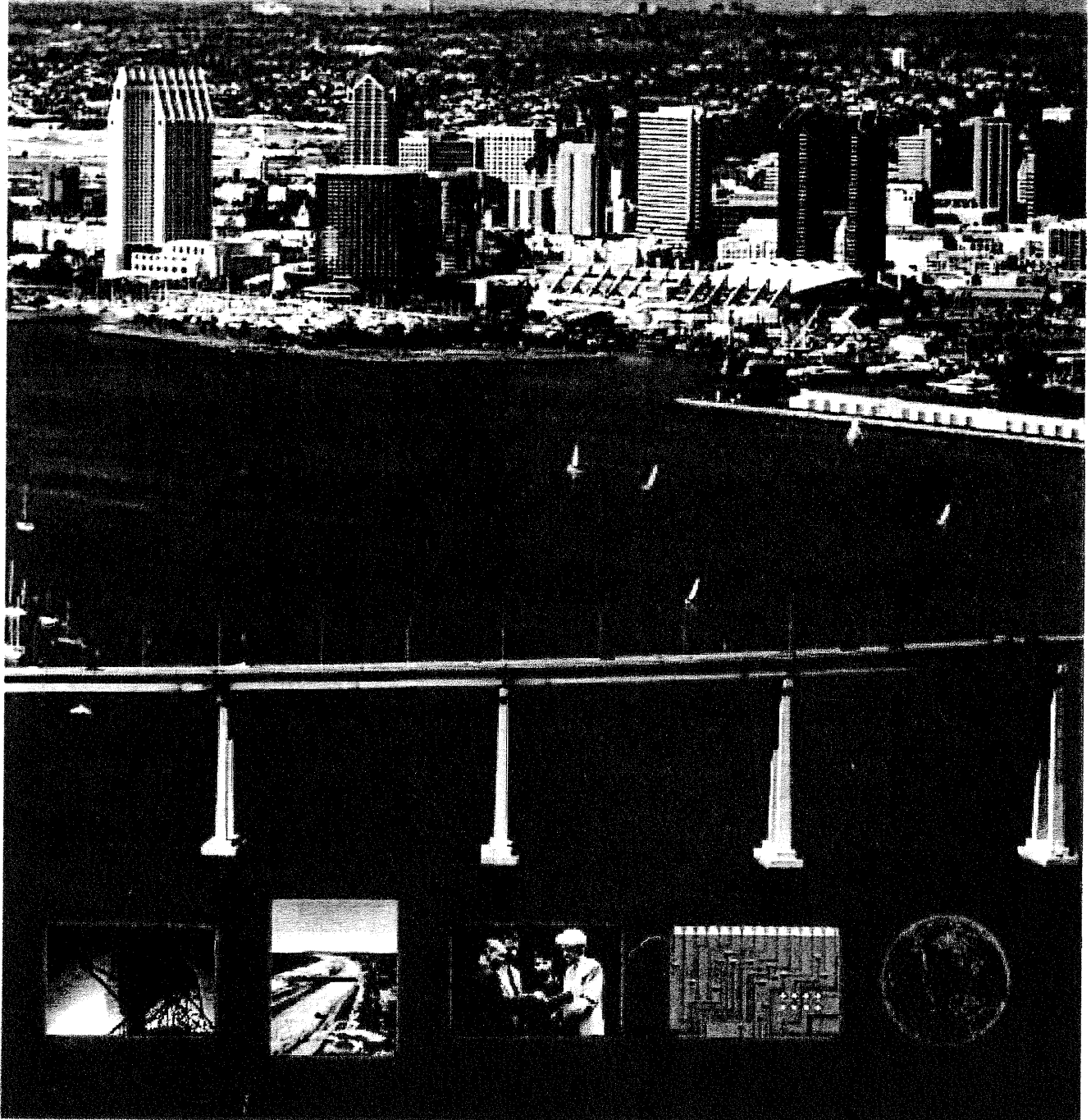
- Attachments(s):
1. Existing Community & Economic Development Strategy 2002-2004
 2. The Economic Development Audit (2012)
 3. Council Policy 900-01 "Economic Development" (revised 2012)
 4. Draft Economic Development Strategy 2014-2016
 5. List of stakeholders who provided input to the draft EDS



THE CITY OF SAN DIEGO

Community and Economic Development Strategy

2002 - 2004



Adopted by the San Diego City Council - May 15, 2001

EXECUTIVE SUMMARY
**COMMUNITY AND ECONOMIC
DEVELOPMENT STRATEGY**

FY 2002 – 2004

The City's current economic development strategy was adopted as a response to the economic downturn of the early and mid-1990's, and provides for business development assistance to the six targeted industry clusters of telecommunications, biomedical / biosciences, software, electronics manufacturing, financial and business services, and defense and space manufacturing. Since that strategy's adoption, the regional economy has improved and, further, more detailed research on industry clusters has been completed. However, San Diego's economy is increasingly being threatened by such issues as traffic congestion, air and water pollution, the cost of energy, and neighborhood quality. Projected population increases will place further pressure on such "quality of life" issues. As the City Council considers updating its General Plan consistent with the "City of Villages" concept to deal with these issues, it is timely to reconsider and update the Community and Economic Development strategy.

The proposed Strategy update covers five issue areas with the following recommended changes:

- Regional Economic Prosperity – continuing business development incentives, but more narrowly focused on key middle income-producing industries;
- Increasing Economic Opportunity – expanding job training and skills development for the "new economy," and connecting jobs to the training;
- Implementing "Smart Growth" – coordinating redevelopment and business development activities to achieve smart growth goals
- Energy Independence – collaborating with the Energy Conservation and Management Division to implement and promote conservation and related measures to businesses; and
- Revenue Enhancement – continuing revenue enhancement activities.

The proposed Strategy also includes recommendations for issues to research and consider for future action, such as new revenue sources.

I. Regional Economic Prosperity

The single major factor affecting the San Diego regional economy is the condition of the national economy. There have been troubling signs in the national economy through the second half of 2000, including a declining stock market, declining consumer confidence, an increase in unemployment claims, and declines in other key economic indicators. Some of these trends have increased sharply as this report is being prepared.

However, San Diego's economic resurgence in the last five years has been more broadly based than some other areas. San Diego's growth has not been driven by the "dot.com" business model that imploded in recent months in other parts of the nation. In the short run, San Diego will likely weather the current business cycle with only modest job losses in selected sectors and slower growth overall. An understanding of San Diego's current economic structure, coupled with a description of how we got there, can help fashion public policies that can help maintain a solid regional economy.

San Diego's Economic Growth

Since the Second World War, San Diego's economic base (defined as the sectors that import dollars into the region for local circulation) has been in manufacturing, particularly its defense manufacturing sector. Manufacturing as a whole in the United States, once the foundation of secure middle income jobs, has largely left the U.S. for Ireland, Puerto Rico, Mexico, Thailand, Indonesia, and other low-wage "off-shore" locations. While it may be argued that the global economy is creating new markets for U.S. goods and services, as indicated by the growth of international trade, this trend nonetheless is contributing to the decline of middle income households and to a lessening of job stability and opportunities for career ladders. In San Diego, manufacturing as a whole has declined, but between defense contracting and the uniformed military presence, the regional economy has tended to wax and wane more in relation to federal defense appropriations than with the national business cycle.

In the early 1990's, San Diego suffered its greatest economic reversal since the Great Depression. The region was impacted by the multiple effects of worldwide corporate restructuring that led to a worldwide recession, the collapse of speculative Savings and Loan real estate investments that had prompted overbuilding in the region, and, most significantly, massive reductions in U.S. Defense Department military contract expenditures. The best example of the impact of defense reductions was the closure of General Dynamics, which went from 17,000 employees to 0 in four years. The economic downturn lasted from late 1989 through mid-1995, much longer than the two-year recession in most of the U.S.

Since mid-1995, however, the San Diego region has rebounded strongly. Part of the increase is due to the strength of the national economy led by technology investment. But much of the improvement has resulted from the diverse economic base that grew out of defense contract reductions and corporate down-sizing, the passage of the North American Free Trade Agreement and the resulting increase in cross-border trade, and to a lesser degree the growing importance of tourism. While uniformed military and defense manufacturing remain important, they have been eclipsed by, not one, but several sectors. Most of these sectors, such as

biotechnology and electronics manufacturing, were already present in San Diego but grew into prominence during the 1990's, while others such as communications and software/computer services emerged as new sectors in San Diego. The defense sector has undergone a transformation of its own, with the core of aerospace manufacturing replaced by research and information systems, led by SAIC, General Atomics, and Cubic Corporation. Also, the Navy's Space and Warfare Systems Command (SPAWAR), which provides command and communications systems for the fleet, has added an estimated \$1 billion to the local economy for contract services.

The number of jobs represented by these new industries is relatively modest (at 16% of regional employment), but their significance arises from three factors: first, they export goods or services from the region and therefore import new dollars; second, they offer employee wages higher than the regional median, thus having a strong multiplier effect on retail and service sectors; and third, many of the sectors are part of the so-called "new economy" which is technology-driven and growing at a faster rate than other export segments. Tourism, stimulated by the completion of the Convention Center, is contributing increasing value to the local economy. While its wage rates do not match those in the technology sector, therefore resulting in only modest multiplier effects, it is nonetheless a stable importer of dollars and was the one industry that continued to grow during San Diego's early-1990's recession.

Industry Clusters

As the recession deepened in the early 1990's, City officials commissioned the first industry cluster studies to better understand the structure of the local economy and to tailor economic development policies to specific opportunities. Industry clusters are a grouping of linked or related industries which have an employment or gross revenue base that is greater than the national average and which, therefore, export proportionately more goods or services and import proportionately more dollars. As net importers of dollars, these base industry clusters drive other business transactions and thus create additional jobs ("multiplier effect"). (For a more detailed description, see, "San Diego Regional Employment Cluster: Engines of the Modern Economy," SANDAG, May-June, 1998.)

That first study identified six clusters as drivers of the local economy and which therefore should be targeted for public support. These clusters were telecommunications, biomedical / biosciences, software, electronics manufacturing, financial and business services, and defense and space manufacturing. This last cluster, while declining significantly in economic importance, was identified as a key cluster because of its high multiplier effect. Environmental technology was added later as a targeted industry. The San Diego City Council adopted Council Policy 900-12, which authorized advocacy support and financial incentives for these targeted industries. Under Council Policy 900-12, incentives include advocacy and assistance on development permit applications, expedited permit processing, rebate of manufacturing personal property taxes, fee credits or reimbursements, use tax credits, and reduction of water and sewer capacity fees. The City Manager established the Business Expansion and Retention (BEAR) Team in the Economic Development Division to implement Council Policy 900-12. The City Council adopted numerous actions to reduce the tax burden and improve the regulatory climate for all businesses. Finally, the contract with the Regional Economic

Development Corporation (EDC) was revised to include outreach to and liaison with targeted industries, in addition to its traditional role of business attraction through marketing, trade show attendance, and international trade delegations.

Local businesses made investments, achieved market successes, and hired the new employees, leading to San Diego's economic resurgence. However, without the City's targeted industry cluster support, many of San Diego's businesses may well have relocated elsewhere and our region would not be as economically diverse and strong as it now is. Some of the firms that took advantage of the City's targeted industry strategy, resulting in major new investments, include Sony, ComStream, Ligand Pharmaceuticals, Parker-Hannifin, AMCC, Intuit, Dura Pharmaceuticals, S-T Microelectronics, Qualcomm, Alliance Pharmaceuticals and many others. These firms' success, in turn, has had a "snowball" effect. As the region has become more prominent as a "new economy" locale, that image, combined with the region's high quality of life, has made it more attractive for new business investment, both for entrepreneur relocations and for major firms' expansion sites. Examples of unprecedented new corporate investment in the region include Johnson & Johnson, Nokia, Gateway 2000, Novartis, SUN Microsystems, and, most recently, Intel. As the region's economic marketing agency, the EDC has branded – and burnished – this image as "Technology's Perfect Climate."

Factors Affecting the Growth of Local Clusters

Three characteristics of these clusters' growth that must be considered in particular are the importance of R&D operations, the growth of international exporting, and the large number of small businesses. Over 90% of San Diego businesses have twelve or fewer employees, and the average employer size is 59 employees. Regionally, 97% of businesses have 100 or fewer employees. In 1990, 60% of regional employees worked for a firm with 100 or more employees, while in 2000 only 48% do so. The majority of San Diego's small businesses are in the retail and service sectors, but many of the "new economy" sectors also consist of small businesses; furthermore, some of the now-large employers were once small. Thus, small businesses and entrepreneurship have played a particularly strong role in San Diego's recent economic growth, as verified by various economic studies of San Diego's resurgence.

The region's research institutions, including universities, nonprofit foundations, and for-profit R&D operations, have been critical to nurturing high technology entrepreneurship. The number of jobs in R&D and research institutions and their contribution to the gross regional product are unquantifiable because of the way that industry data are maintained, but their importance is clear. UCSD's Connect Program, which provides entrepreneurial support to science-based business applications, has been a particularly significant contributor.

International trade has contributed strongly to growth across almost all industry sectors. Twenty-five percent of the increase in regional gross product from 1995 to 1998 was attributable to international trade, and 44% of that was trade with Mexico. The growth of maquiladora manufacturing in Tijuana has leveraged the growth of headquarters, R&D, pilot manufacturing, and warehousing in San Diego.

Recent Industry Cluster Research

SANDAG, the San Diego State University Geography Department, the Regional Technology Alliance, the San Diego Workforce Partnership, and the Center on Policy Initiatives have continued and expanded industry cluster analysis to achieve a more sophisticated understanding of the regional economy and to make recommendations for public policies. Results have included an identification of at least sixteen regional industry clusters that are economic drivers, an understanding of the occupations within the clusters and changing skill requirements of the workforce, anticipated increases or declines in specific clusters' economic significance, and the limitations of a cluster-based strategy. These studies have implications regarding public policies.

For the City of San Diego's policies, the following key points about industry clusters may be considered:

- Biomedical Products – Grouped in the earlier study with biotechnology, this manufacturing cluster has declined somewhat both in economic significance as well as wage rates, due to the general decline in manufacturing described above as well as cost cutting in the health care sector as a whole.
- Biotechnology and Pharmaceuticals – Despite substantial volatility, this cluster continues to contribute importantly to job growth, local investment, and, importantly, San Diego's image as a high technology center. For reasons related to FDA product review and the timing of capital investments, the cluster is highly sensitive to local regulatory processes.
- Business Services – This cluster has seen the fastest job growth of all clusters in the San Diego region. The growth and wage rates are highly variable, and are responsive to market conditions. Local economic development policies have little impact on this cluster.
- Communications – A decade ago, this industry cluster was simply a subset of defense manufacturing. San Diego's telecommunications industries now lead the world in innovation. Local economic development policies have been critical to, initially, retaining this vital cluster in San Diego and, later, assisting its rapid growth in jobs and investment. As with biotechnology, the cluster is highly sensitive to local regulatory processes. The sector will likely face substantial changes in the next few years.
- Computer and Electronics Manufacturing – As noted above, the growth of the "new economy" has been accompanied by the decline of manufacturing. Fortunately for San Diego, the region has bucked this trend over the last decade with slow but steady job growth in computer and electronics manufacturing. The region has maintained these jobs, in part, because some of manufacturing has required job skills not readily available off-shore and, in part, because the rapid growth of manufacturing in Tijuana has leveraged specialized manufacturing requirements in San Diego. The trend to off-shore manufacturing will continue, and SANDAG projects that this cluster will gradually

decline as a part of the regional economy. However, manufacturing operations are highly capital intensive and, once made, tend to remain in use. These investments can sometimes be leveraged by local economic policies, especially those providing significant operational savings such as Enterprise Zones.

- Defense and Transportation Manufacturing – Despite its dramatic losses in the early 1990's, the SPAWAR presence in San Diego and recent increases in defense contracting may help soften declines in other clusters locally. However, this sector varies according to federal budgetary policy rather than local economic development policies. However, state tax savings provided to the shipbuilding industry through the Metro Enterprise Zone have contributed to that industry's efforts to commercialize.
- Entertainment and Amusement – Previously considered a subset of tourism, this sector has emerged as a growing influence on the regional economy. The sector is both highly variable and volatile, yet it has seen steady growth as the region has prospered. Further, wage rates in constant dollars in this cluster are above those in the visitor industry and have improved.
- Environmental Technology – Environmental technology has not achieved the growth nationally or locally that was predicted for it in the late 1980's, primarily because it was driven by regulatory compliance requirements. While initially growing, the industry contracted as regulatory standards have been met or were relaxed. In San Diego, this sector's already small base has declined substantially in jobs and revenues and has little foreseeable likelihood of growth.
- Financial Services – Previously grouped with business services, this cluster has declined significantly in San Diego as a result of mergers, acquisitions, and national regulatory changes. While wage rates in this cluster range widely, they are falling as a whole in constant dollars.
- Medical Services – This cluster has also seen rapid employment growth along with declining real wages. With the aging of "baby boomers," it will likely see even greater job growth in the next twenty years. However, this cluster has been highly volatile due to pressures for cost containment, changes in federal reimbursement formulas, and other factors. While further shake-outs will likely continue in this cluster, there will be significant job opportunities, especially for skilled nurses and in-home supportive service providers.
- Software and Computer Services – As with business and financial services, this cluster is highly responsive to market conditions, and thus local economic development policies have little impact on this sector. Wage rates, however, are above the regional norm. After short-term variability, this will likely remain a growing cluster.
- Visitor Industry Services – Part of the earlier study's tourism cluster, this cluster has seen steady and rapid employment growth (second only to business services), yet its growth has not matched the pace of growth in most other large cities. The wages of

employees in this sector, while highly variable, in the aggregate have declined in constant dollars. The City of San Diego makes numerous public investments in support of this cluster, including financial support of CONVIS, financing the expansion and operation of the Convention Center, use of public facilities (the Zoo, Wild Animal Park, the beaches, etc.), and infrastructure investments. In return, the cluster contributes importantly to City general fund revenues.

- Other Clusters – The SANDAG cluster study identifies four other clusters that are significant to the regional economy. These are fruits and vegetables, horticulture, recreational goods manufacturing, and uniformed military. The first three, while significant for the region, have but a modest presence in the City of San Diego. Uniformed military, while arguably having more impact on the regional and the City economy than any other cluster, defies application of the methodological tools that SANDAG applied to the other clusters. Furthermore, as with defense contracting, it varies with federal appropriations decisions rather than with market conditions or in response to local economic development policy.

Where is San Diego's Economy Going?

The leading local indicator of economic activity is the number of new permits issued for base industries. These permits predict job creation, which predicts the market for housing roughly two years later. Housing in turn drives the market for retail activity, both in permits and in sales, and thus in City revenues. As a result, City revenues shift upward and downward two to three years after base industry investment shifts. The number of new permits issued for base industries (except for visitor industry services, which continues to increase) peaked in the current business cycle in late 1999, indicating a probable peak in housing permit activity in 2001 followed by a gradual decline. This also implies a gradual reduction in City revenue growth after 2002. The decline in base industry permits has been gradual, contrary to the national trend, which has seen substantial reductions in other economic indicators. This predictor therefore indicates continuing, but slowing, economic growth for San Diego.

There is anecdotal evidence that base industry investment may be forced into a rapid slowdown because prime employment land has become scarce and, as a result, prices for the few remaining parcels have increased greatly. Otay Mesa is the one remaining area with substantial employment development opportunity. There is also evidence that rapidly rising housing costs may soon impose wage pressures on employers, thus creating local inflationary pressures and reducing new facility investments, as has already happened in Silicon Valley. There is evidence that the quality of local K-12 education may limit economic prosperity, in the short run, by reducing San Diego's desirability as a place to live for families of high technology employees and, in the long run, by failing to provide the necessary education foundation for future employees' high technology skills. Finally, there is anecdotal evidence that other quality of life issues, including traffic congestion and the quality of public amenities, may affect business investment decisions.

Implications for the Community and Economic Development Strategy

ACTIONS:

1. Continue to provide business development incentives authorized under City Council Policy 900-12 and through the Enterprise Zone Program for businesses and projects that provide middle income job opportunities (manufacturing, R&D, and wholesale trade and distribution) and for the targeted clusters of biotechnology and pharmaceuticals, communications, and computer and electronics manufacturing.
2. Discontinue business development incentives under City Council Policy 900-12 for retail sales and industry clusters not identified in this strategy, unless such firms are provided assistance consistent with the economic opportunity, smart growth, energy independence, or revenue enhancement provisions of this strategy described below.
3. Continue and expand the services of the Office of Small Business and the Business Finance Program to include technical and financial assistance for small, emerging technology firms and firms involved in international trade.
4. Continue to contract with the Regional Economic Development Corporation (EDC) for services that promote the region's image as a high technology center.
5. Continue the Foreign Trade Zone Program with its strong incentives for cross-border trade, and enhance its marketing and promotion.

RESEARCH AND POLICY CONSIDERATIONS:

1. Continue to review and incorporate SANDAG, San Diego Workforce Partnership, and Center on Policy Initiatives industry cluster studies into the City's economic development strategy.
2. Continue to review the effectiveness of education institutions, at all levels, in providing the skill levels needed for the region's continuing prosperity, and continue to build relationships with those institutions.
3. Engage in regional solutions to address the shortage of employment lands and affordable housing (see "Implementing Smart Growth" below). In particular, work with the County of San Diego and the City of Chula Vista to establish a coherent vision and action plan for Otay Mesa's future as an employment center.

4. Engage in a comprehensive study of the Border Development Zone, as authorized by State law, to identify financing opportunities for infrastructure or other appropriate investments to enhance San Ysidro and Otay Mesa as manufacturing and border trade areas and to facilitate cross-border travel.
5. Review the effectiveness and, if appropriate, expand support of partnership agencies which provide technical and financial assistance for small, emerging technology firms and firms involved in international trade (e.g., CDC Small Business finance Corporation, San Diego World Trade Center, Regional Technology Alliance).

II. Expanding Economic Opportunity

Despite the region's current economic strength, the prosperity is not evenly distributed. Recent studies conducted by the Center on Policy Initiatives have indicated that certain employment sectors are paying less in constant dollars than they did twenty years ago, and that the proportion of households living in poverty has increased rather than declined during the 1990's. While the rate of unemployment in the region has declined to a level under 4%, certain neighborhoods continue with double-digit unemployment rates. There has been growth in the proportion of both high-end and low-end paying jobs, while the proportion of middle-income jobs has declined. Instead of a traditional "bell curve" distribution of incomes, the distribution is now skewed with peaks at the both the low and high ends. However, the peak at the low end is much larger than the peak at the high end, with forty-four percent of San Diego households now meeting the HUD definition of "low or very low income." The Center on Policy Initiatives calls this the "hourglass economy."

Income inequality is exacerbated by a highly competitive housing market that is pushing prices and rents to unaffordable levels. The region's population increases and other factors have forced up the cost of land so that housing developers have little economic reward to develop affordable housing. Publicly funded housing programs barely scratch the surface of the affordable housing need. As a result, low-income households are concentrated in the oldest and least expensive parts of the City. A concentration of poverty leads to what sociologists refer to as a "culture of poverty," in which social interactions are governed by short term survival, including success in high-risk, high-reward, illegal activities, while the values of the broader culture, such as workforce responsibility and success in school, are avoided. Schools in these neighborhoods fail, not because the teachers or school districts are doing the wrong thing, but because their message ceases to be relevant to the dominant culture of poverty. When the schools fail, the remaining middle income and upwardly mobile households take flight, further concentrating the culture of poverty. The combination of fewer middle income jobs, the concentration of poverty, the culture of poverty, and the increasing high end job opportunities, all point to a region with increasing income, social, and spatial disparities. These disparities in turn impose increased service costs on the City and on County funded social service agencies.

Low-income households are further challenged by the difficulty of securing health insurance. It is estimated that 37% of San Diego's full-time employees, and a majority of those with half-time or less employment, are uninsured. Families without health insurance, besides lacking basic health security, impose disruptions on schools and the workplace. They often defer routine health concerns until they become emergencies, thereby resulting in much higher hospital emergency room costs, which are ultimately borne by taxpayers.

Land Use and Business Impacts of Economic Disparity

Spatial disparities based on social and economic disparities impose land use impacts that are felt directly by residents of all economic strata. Businesses throughout the region, including those high technology firms with high salaried employees, still hire many employees at moderate wages for numerous clerical, service, and entry-level occupations. These moderate-

wage employees typically live in older parts of the region, and thus travel long distances to work, adding to freeway congestion and air pollution. In many cases, however, potential moderate-wage employees do not have access to automobiles or realistic transportation alternatives, and thus become isolated in their neighborhoods, are unable to compete for these jobs, and eventually become further isolated culturally and educationally. Retail and personal service businesses also suffer as a result of being unable to find employees at moderate wage rates, or the employees they do hire are unreliable because of transportation difficulties. As a result business service quality - and profits - suffer.

Changing Jobs Skills

An emerging characteristic of the New Economy is that job skills are no longer a static set of skills that an employee can be trained once to fill. Rather, as technology changes rapidly, the employee skills must change as well. Furthermore, it seems that all new jobs, even the lowest-paying service jobs, increasingly require basic computer skills. Job development no longer is simply training to fill a specific job, but instead requires training on how to increase skills that are relevant to advancement needs. Not surprisingly, employees who are already well-educated and highly skilled are adept at responding to changing skills needs and move quickly from job to job as technology changes, while those who are less-educated and skilled are often left behind by these changes. To further complicate the growing jobs skills gap, career advancement in the New Economy seldom occurs within the same firm but increasingly requires moving around among firms with changing technical skills requirements. From a jobs development perspective, this has two implications: first, jobs skills will increasingly require a solid base of experience and competence in using computers; and second, career advancement will increasingly require knowledge, not of specific new technologies, but rather of how to continually acquire new competencies.

Implications for the Community and Economic Development Strategy

ACTIONS:

1. Authorize business development incentives as provided under City Council Policy 900-12 to firms which make a written commitment to hire at least ten full-time employees through the One-Stop Career Centers; to pay employees a wage that will meet a family's self-sufficiency needs, as defined by the San Diego Consortium Policy Board's "Self-Sufficiency Definition for Employed Adults and Dislocated Workers," (January 12, 2001); and to provide family health care benefits.
2. Collaborate with the San Diego Workforce Partnership to implement businesses' written commitments to hire employees through the One-Stop Career Centers at defined family self-sufficiency levels and with family health care benefits.
3. Continue and expand the City's support for K-12 education through the "6-to-6 Program," and ensure that the Program includes opportunities for exposure to computer literacy efforts.

4. Continue and expand the City's support for working families through the provision of child care centers, including the provision of business incentives under City Council Policy 900-12 and other financial incentives, as appropriate.
5. Continue and expand City programs which provide support for disadvantaged individuals to become active participants in the mainstream economy, including disability services, welfare-to-work programs, homeless family services, and youth diversion programs.
6. Continue and expand development permit review processes and public facility improvements that enhance accessibility for persons with disabilities.
7. Continue the Enterprise Zone Program with its generous tax incentives for manufacturing businesses as a means of furthering middle income manufacturing jobs and for connecting jobs in the Zones to residents in identified low-income census tracts.
8. Continue to contract with the EDC for services which promote the relocation and expansion of high technology and manufacturing businesses into the City's adopted redevelopment project areas and Enterprise Zones.
9. Expand the services of the Office of Small Business and its partnership agencies (Asian Business Association, Contracting Opportunity Center, ACCION, etc.) to include technical assistance and financial support for community serving businesses, with an emphasis on job creating opportunities.

RESEARCH AND POLICY CONSIDERATIONS:

1. Research and adopt a City Council Policy that ensures that decisions regarding the allocation of Community Development Block Grant funds, social service funds, and other discretionary funds are made consistent with federal or other applicable laws and regulations; that reflect adopted City Council priorities (such as this Strategy); and that take into account the effectiveness and capacity of recipient organizations.
2. Research and consider support for initiatives to provide health care coverage for those currently uninsured.
3. Support community development corporations and other community-based organizations that provide for education support programs, community-based skills development, and programs to bridge the "digital divide."
4. Support and participate in the Regional School-to-Career Partnership.
5. Pursue designation of a federal Empowerment Zone, to take advantage of the substantial federal program funding and for the tax incentives that encourage job-creating investments in low-income census tracts.

6. Support regional initiatives that encourage development of affordable housing and that improve the jobs/housing balance.
7. Support the continuation and expansion of San Diego Workforce Partnership programs that provide incumbent worker training, career path development, and computer skills training.
8. Support the continuation and expansion of San Diego Workforce Partnership programs that integrate workforce development with housing, social services, transportation alternatives, and other programs connecting work to community.
9. Encourage the San Diego Workforce Partnership to locate workforce development and training programs in those neighborhoods with high unemployment levels.
10. Collaborate with the San Diego Workforce Partnership to provide workforce development services through the City's network of Community Service Centers.

III. Implementing Smart Growth

San Diego is becoming increasingly attractive for the relocation or expansion of Silicon Valley firms. This attractiveness has resulted, as discussed above, because of San Diego's growing reputation as a high technology center and because of the region's high quality of life. Technology firms that rely on a highly educated and skilled workforce know that quality of life is more important than low costs when it comes to finding and keeping employees. Intel's investment at the Scripps Ranch Business Park is the most recent example of this trend. Another factor is that, relative to Silicon Valley, our housing costs are low and transportation problems are small. San Diego has a reputation for a quality workforce, a legacy of good public education, quality post-secondary education at UCSD, SDSU, and the community colleges, and a labor pool of retired navy personnel. Finally, the San Diego jobs market has commanded relatively low wages because its high quality of life has served as an attraction.

Quality of Life as an Economic Development Issue

Despite this current competitive advantage, the San Diego region is growing rapidly and this growth imposes serious challenges to the region's quality of life. At some point, housing costs will impose inflationary pressures on wages. There is anecdotal evidence that this is already happening. While San Diego does not currently suffer from the serious air pollution problems and the gridlock of many other large cities, localized traffic congestion is starting to become a business investment consideration and, unless addressed, San Diego will succumb to air pollution and gridlock. The region's K-12 education system has recently ranked in national site selection publications at the "D" level or lower, strongly affecting employees' decisions about where they want to live. The City has faced consistent problems with water pollution, sewage breaks, and beach closures, affecting negatively the City's most unique quality of life assets. And finally, retaining our open spaces is an important component to the region's quality of life.

In addition to quality of life issues, San Diego suffers from an "hourglass economy," as noted above. San Diego does not have the inner-city "donut hole" abandonment phenomenon of certain cities, but it does suffer seriously from a concentration of poverty that leads to a culture of poverty. As previously described, a culture of poverty, in turn, leads to school failure, further flight by middle income households, an acceleration of crime, and other social costs. It has been estimated that the City of San Diego has a current deficit of \$2.5 billion in unmet infrastructure needs, for parks, libraries, schools, roads, etc. San Diego citizens have responded to our K-12 facility needs with new investment commitments though passage of Proposition MM, but new school facilities alone will not address the growing culture of poverty. All of these factors affect San Diego's quality of life, its image as a high technology business location, and ultimately its prosperity.

The City of Villages

The City of San Diego is currently updating its General Plan. In response to growing quality of life issues and the need to plan for anticipated population growth, the City's Planning Department has prepared a draft plan update, characterized as a "City of Villages." To be implemented as a Strategic Framework Element to the General Plan, this approach to updating

the General Plan incorporates “smart growth” principles. The City of Villages, while essentially a land use planning document, will require numerous tools for its implementation. For example, for the first time, the San Diego’s General Plan will include economic prosperity policies to be refined in an Economic Prosperity Element of the Plan.

Implementing “Smart Growth”

The Community and Economic Development Department is responsible for administering redevelopment, revitalization, and numerous other programs and projects which implement the General Plan, and thus the Department Strategy is intended to be a “bridge” to the Strategic Framework Plan in order to take advantage of smart growth project opportunities. As the first step to updating the City General Plan, the Strategic Framework must go through a number of further steps before it can be formally adopted. The Community and Economic Development Department’s Strategy is intended to incentivize private investments that improve the jobs/housing balance, close the private financing gap for mixed-use and infill projects, encourage enhanced design to meet the requirements of neighborhoods in accepting additional development, etc. Future Department Strategy updates will reflect the Strategic Framework Update and Economic Prosperity Element, upon their adoption.

Redevelopment – the use of tax increment financing and land assembly as authorized under the California Community Redevelopment Act – is the most aggressive tool available to the City to deal with the physical manifestations of poverty and disinvestment. This broad grant of authority makes redevelopment the most powerful tool available to implement the City of Villages. The currently adopted redevelopment project area plans are inherently consistent with the City of Villages concept. The City currently has fifteen active redevelopment project areas located in the communities of greatest physical and economic need. The Centre City Development Corporation, a nonprofit corporation wholly owned by the City of San Diego that contracts with the San Diego Redevelopment Agency to implement redevelopment projects in the downtown, is well along the way of redeveloping the two downtown project areas as the central focus of a smart growth strategy. The other project areas are at varying levels of implementation, but all are conceptually consistent with “smart growth” policies, and specific redevelopment projects may be identified as City of Villages pilot projects.

Redevelopment is a powerful tool for community revitalization, but it must be used sparingly and judiciously, for two reasons. First, redevelopment law requires findings that a designated area meets the law’s definition of physical and economic deterioration. Second, tax increment financing diverts tax revenues from the City and other taxing entities, thereby reducing money to pay for basic public services. In implementing redevelopment projects, local government must balance the redevelopment needs in a specific neighborhood against the tax needs of the broader community. For this reason, the City has used other revitalization tools in identified areas. These tools have included focused public improvements, adoption of business improvement districts and landscape and lighting maintenance assessment districts, focused neighborhood improvement projects (such as Operation Weed & Seed), and support for community development corporations and other community based organizations.

While the City often plays a leadership role in revitalizing our oldest neighborhoods, most of the funding comes from private investments. The U.S. Small Business Administration (SBA) provides a variety of cost-effective small business financing tools. San Diego's CDC/Small Business Development Corporation is a leader in providing access to SBA Section 7(a) business loans, SBA micro-loans, and other financing products, and is the nation's largest provider of SBA Section 504 loans. SBA 504 loans provide businesses with the opportunity to own their own business real estate and, as with homeownership, this ensures that businesses have a stake in their communities. Small businesses in an Enterprise Zone or a redevelopment project area can qualify for a larger 504 loan amount.

Lending institutions are encouraged to make lending investments in our oldest communities by the City-County Reinvestment Task Force. The Task Force monitors and reports on lenders' compliance with the Community Reinvestment Act. With recent changes to this law, however, the Reinvestment Task Force is seeking a further means of promoting private investment into older neighborhoods, and is currently exploring establishment of a "San Diego Capital Collaborative" equity investment fund, similar to efforts taken in other large cities. In the meantime, the City's Redevelopment Agency is now prepared to consider providing gap financing of mixed-use and other smart growth projects on a case-by-case basis. These public and private financing tools, along with a redirection of other economic development tools to designated areas, must all be considered as part of a broad strategy in implementing the City of Villages concept.

Implications for the Community and Economic Development Strategy

ACTIONS:

1. Continue and, where appropriate, adopt new redevelopment project areas as the City's most powerful and aggressive tool for addressing physical and economic deterioration.
2. Continue and expand the use of revitalization tools, including focused public improvements (sidewalks, landscape improvements, signage, public art), focused neighborhood improvement projects (Operation Weed & Seed, Enterprise Community), storefront improvement grants, business improvement districts, landscape and lighting maintenance assessment districts, property-based business improvement districts, and neighborhood-focused clean-up and recycling campaigns, as appropriate to the needs of specific communities.
3. Continue and expand support for community development corporations and other community-based organizations that directly address the need for affordable housing and other goals of the City of Villages.
4. Continue and expand support for public/private initiatives that address quality of life issues, such as the Adams Avenue Business Improvement Association's work with the City to develop an elementary school for the San Diego Unified School District.

5. Continue and expand gap financing, based on project area tax increment, for infill, re-use, mixed-use, and affordable housing projects in redevelopment project areas, on a case-by-case basis.
6. Authorize the use of business development incentives under City Council Policy 900-12 for adopted redevelopment projects; for mixed-use projects, infill projects, and re-use projects in locations identified in the City of Villages Plan; and for housing which meets the needs for both low-income and middle-income households, consistent with the City's inclusionary housing policy.
7. Authorize the use of business development incentives under City Council Policy 900-12 for employment generating projects in areas identified in the City of Villages Plan as benefiting from increased employment to improve the jobs/housing balance.
8. Contract with the EDC for services which promote the relocation and expansion of employment generating projects, with a focus on high technology firms, in existing high-density residential areas identified in the City of Villages Plan.
9. Continue and expand the existing collaboration among the City, CCDC, the Downtown Partnership, the Regional Technology Alliance, and the EDC to take advantage of the downtown's fiber optic infrastructure through the "Bandwidth Bay" initiative as a location for digital technology business development.
10. Continue to contract with the EDC to serve as a liaison with the region's major employers to promote "civic entrepreneurship," as a means of including these firms in seeking solutions to the region's planning and infrastructure challenges and in engendering partnerships among firms and neighborhoods.
11. Authorize the use of Redevelopment Agency housing set-aside funds to help finance affordable housing which is developed outside redevelopment project areas in conformity with the City's inclusionary housing policy.
12. Market the availability of SBA Section 504 loans at increased eligibility levels in Enterprise Zones and redevelopment project areas.

RESEARCH AND POLICY CONSIDERATIONS:

1. Research and consider giving preference in City funding to community development corporations and other community-based organizations that provide for affordable housing.
2. Explore and, where feasible, implement cooperative arrangements (including revenue sharing, housing replacement plans, etc.) with other government jurisdictions which address issues of jobs/housing balance, the shortage of affordable housing, the appropriate redesignation of land uses, and other smart growth strategies.

3. Research and consider the expansion of property-based business improvement districts and/or the consolidation of assessment districts with other special purpose districts, to achieve efficiencies in implementing improvement projects.
4. Assess the results of the Bandwidth Bay initiative and, if appropriate, apply the concept to other communities that may be candidates to support digital technology small business growth.
5. Research and consider programs that encourage the adoption of strategies for market-based investment into older communities, such as the City-County Reinvestment Task Force's proposed "San Diego Capital Collaborative."
6. Research and consider new or increased sources of financing for affordable housing.
7. Research and consider City fee schedules that are tied to smart growth policies as described in the City of Villages plan.
8. In conjunction with the Planning Department, identify new pilot or demonstration smart growth projects in redevelopment project areas and work collaboratively to implement these projects; and ensure that the biennial update of the Community and Economic Development Strategy is consistent with the Strategic Framework Element and the Economic Prosperity Element, as each is adopted.

IV. Energy Independence

While SANDAG and the City of San Diego have adopted and pursued comprehensive, long-term, integrated economic development strategies based on industry cluster analysis, any local economy can be at risk from external pressures. An immediate threat to the San Diego region is the escalating cost and increasing unavailability of energy. The pressures facing the region have already imposed substantial costs on large and small businesses alike and threaten the region's long-term economic health. These threats have resulted from a complex mix of national and global issues that cannot be resolved through local action. However, local action can mitigate the short-term impacts and set the stage for long-term energy independence.

The Economic Development Division's Enterprise Zone staff are working to encourage development of a gas fired electricity generating "peaker" in the Zone. However, energy independence requires more than developing new energy suppliers, but must also include a mix of conservation and micro-generating capacity.

Implications for the Community and Economic Development Strategy

ACTIONS:

1. Continue to pursue the application of Enterprise Zone and business development incentives under City council Policy 900-12 to encourage new sources of electrical generating capacity in the region.
2. Through the City's various business outreach efforts, promote the availability of existing energy conservation and independence options, as provided by the California Energy Commission, San Diego Gas & Electric, and others.

RESEARCH AND POLICY CONSIDERATIONS:

- Under the direction of the City's "energy czar," research and consider authorizing business development incentives under City Council Policy 900-12, financing options, and other appropriate incentives for both business and residential construction projects that incorporate conservation "best practices" and on-site electricity micro-generating capacity.

V. Revenue Enhancement

The region's economic growth has stimulated population growth, but City revenues have not kept pace with the increased demand for services that accompanies the growth. The primary reason for this is that the California tax structure makes it difficult for local government to raise revenues to match service demand, an issue beyond the scope of the Community Development Strategy. However, there are revenue issues relevant to the Strategy.

The first issue is the relationship of service delivery to tax generation. The City of San Diego has 49% of the region's population yet a majority of the region's larger employers are located within the City limits, with an estimated 65% of the region's employees working in San Diego. While manufacturers and office users pay their proportionate share of property taxes, retail sales are collected from the retail point of sale. Retail centers are typically located adjacent to residential areas. As a result, the City receives less than half of regional sales taxes despite being the employment location for a majority of the region's employees and providing disproportionately for the employers' public services. This problem is exacerbated by some of the smaller cities in the region competing aggressively for sales tax-generating projects, especially new auto sales.

A second issue is that property tax receipts reflect both the valuation of the property taxed and the frequency of property sales transactions (and thus upward reassessments). The City of San Diego accounts for the greatest proportion of the region's low and moderate income households. These units have lower valuations per unit, in part because they are older and in part because they are more frequently part of a multi-unit complex. Further, they change ownership less frequently because they are often held as investment property. As a result, the City of San Diego receives less property taxes per capita than all but a few other cities in the region.

A third issue is that use taxes, which are levied on purchases of goods from out-of-state at the same rate as sales taxes, are supposed to be distributed to local jurisdictions based on the location of the purchaser. The largest payment of use taxes is on business-to-business transactions for major manufacturing equipment. However, the State Board of Equalization distributes use taxes according to the sales tax distribution, which as noted above favors cities with proportionately greater retail sales centers. With the City of San Diego accounting for more than half of the region's use tax payers but less than half of the retail tax collectors, the City fails to receive its proportionate share of use taxes to cover service demands. It is estimated that the City of San Diego annually loses between \$14 million and \$20 million in use taxes that are legally San Diego's to other cities throughout the state.

Implications for the Community and Economic Development Strategy

ACTIONS:

1. Continue and expand programs, both based on tax increment revenues in redevelopment project areas as well as market-driven programs (e.g., the College Eastern Area Revitalization and Economic Review), which encourage first-time homeowners and move-up home buyers.
2. Contract with the EDC for it to establish a marketing program or special rate mortgage program to encourage employees of high technology firms to purchase homes in older neighborhoods.
3. Encourage the development of market rate and mixed rate homes in redevelopment project areas, in conjunction with an effectively enforced inclusionary housing policy.
4. Continue and expand the Business Cooperation Program, which commits major use taxpayers to file through a direct pay permit thereby increasing City use tax revenues.
5. Establish a mechanism for conducting an independent cost/benefit analysis, reflecting not just fiscal impacts but broad economic and social impacts and the quality of jobs created by the specific project, on permit application reviews for major projects under consideration by the Planning Commission and/or the City Council and on recommendations for development incentives requiring City Council approval.
6. Continue to provide business development incentives under City Council Policy 900-12 to development projects or firms that generate new, net, annualized revenues to the City in the form of property, sales, and/or use taxes of \$500,000 or more.

RESEARCH AND POLICY CONSIDERATIONS:

1. Research and consider new financing mechanisms or the expansion of existing mechanisms, including but not limited to: landscape and lighting maintenance assessment districts; property-based business improvement districts; assessment districts which allow a deferral of collecting the assessments until transfer of title; an increased business tax certificate fee; an increased property transfer fee; a utility users fee; a trash collection fee; and "best practices" followed in other jurisdictions.
2. Working with the Intergovernmental Relations Department, pursue changes in state and federal laws and regulations that ensure the maximum return of revenues to which the City is legally entitled, including but not limited to use taxes misdirected as a result of State Board of Equalization practices or use taxes uncollected as a result of lax enforcement of interstate internet or catalogue sales.

Performance Audit of the Economic Development Program

CITY'S ECONOMIC DEVELOPMENT PROGRAM NEEDS IMPROVED

STRATEGIC PLANNING

SEPTEMBER 2012

Audit Report
Office of the City Auditor
City of San Diego



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THE CITY OF SAN DIEGO

September 25, 2012

Honorable Mayor, City Council, and Audit Committee Members
City of San Diego, California

Transmitted herewith is an audit report on the Economic Development Program. This report is in accordance with City Charter Section 39.2. The Results in Brief is presented on page 1. The Administration's response to our audit recommendations can be found after page 45 of the report.

We would like to thank staff from the Mayor's Office and the Economic Development Division, as well as representatives from other City departments for their assistance and cooperation during this audit. All of their valuable time and efforts spent on providing us information is greatly appreciated. The audit staff members responsible for this audit report are Matthew Helm, Efram Bycer, and Chris Constantin.

Respectfully submitted,

Eduardo Luna
City Auditor

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Table of Contents

Results in Brief	1
Background	4
Audit Results	12
Finding 1: The City’s Economic Development Strategic Plan Is Outdated, and Proposed Plan Lacks Key Elements Necessary for an Effective Economic Development Strategy	12
Finding 2: The City’s Proposed Economic Development Strategic Plan Should Be Better Aligned with other Key City Strategic Efforts to Improve Central Coordinating Role	25
Conclusion	35
Recommendations	37
Appendix A: Definition of Audit Recommendation Priorities	38
Appendix B: Audit Objectives, Scope, and Methodology	39
Appendix C: Program Funds Administered by the Economic Development Division and Economic Growth Services, Fiscal Years 2010-2012	40
Appendix D: Roadmap of Recommended Next Steps and Key Issues for City Council’s Economic Development and Strategies Committee	42
Appendix E: Management's Response	45
Appendix F: Management’s Comments and Our Evaluation	51

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Results in Brief

Economic development is a broad concept that refers to increasing the size of the regional economic base and enhancing the economic well-being of a community. It is important to note that any economic development program operates within the broader context of the current economic environment. Effective economic development programs target key industry clusters to advance specific economic goals. It is essential that economic development strategic planning incorporate an assessment of current economic and business conditions, establish a clear mission, objectives and actions to fulfill that mission, and measure performance on an ongoing basis.

Prior to July 2012, the City of San Diego operated its core economic development programs through two separate divisions—the Mayor’s Office of Economic Growth Services (EGS) and the Economic Development Division (EDD). These two City divisions administered multiple programs with funding of over \$57 million¹ each year since fiscal year 2010 to both directly and indirectly support economic development. According to City staff, most of this funding comes from the business community or from the federal government through voluntary fees, self-assessments, and grants. Nevertheless, given the scope, magnitude, and importance of these programs, the City needs to take steps to improve its strategic planning for economic development. Specifically, the City should:

1. Update the economic development strategy and include key strategic planning elements: City Council Policy 900-01 adopted in 1992 provides for an annual review and biennial submission to the City Council of a comprehensive economic development strategy. EGS prepared and presented a draft of the *City of San Diego Economic Development Strategy, 2011* to the City

¹ City officials noted that not all of the monies included in this total are considered community and economic development funds under the City’s current definition. We include the total program funding amount in order to better convey the overall size of the programs that the departments administer. See Appendix C for additional information and descriptive funding detail.

Council's Economic Development and Strategies Committee in January 2012, but the document has yet to be recommended for approval by the Committee or adopted by the City Council. The proposed strategy lacks several key elements of a general strategic plan, including clearly stated mission, goals, objectives, and actions to achieve that mission, relevant economic indicators, and robust performance measures to assess program progress. Information included in the Citywide Strategic Plan and in department-level tactical plans provide a starting point for improving the proposed economic development strategy. However, the information in these documents supplements but does not supplant the need for a comprehensive strategy specific to economic development.

2. Strategically align core economic development programs with other interrelated City efforts: The City's proposed Economic Development Strategic Plan focuses only on a portion of the City's economic development tools, and consequently needs additional alignment with other strategic and operational documents. Better alignment of goals, priorities, and strategies across interrelated programs and efforts would enhance the City's ability to link its economic development vision down to operations and leverage other programs to achieve citywide goals.
3. Leverage its central coordinating role with key internal and external stakeholders: In addition to improving its economic development strategic plan, the City has an opportunity to better leverage its central role in economic development through greater coordination with key stakeholder groups. The City should establish processes to coordinate interrelated efforts across the several City departments with programs and efforts that have a significant bearing on economic development. Additionally, the City needs to improve processes for strategically coordinating its efforts with its key external partners on economic development.

City officials provided us oral and written comments on a draft of this report (Management's written response is presented in Appendix E). City departments also provided technical comments, which we have incorporated throughout the report,

as appropriate. Overall, the City agreed with our recommendations to improve the content, scope, alignment, and coordination issues related to the City's economic development strategy, and supported our recommendation for the City Council to consider relevant City Council Policy clarifications. The City's written response outlines a few areas of conceptual disagreement with specific findings related to the scope of the economic development strategy document, the City's coordinating role, and our description of program funding. We provide a general evaluation of these comments in Appendix F.

Background

Economic development refers broadly to the concept of increasing the size of the regional economic base to expand the distribution of wealth and improve the regional standard of living. More plainly, economic development can be characterized as the creation of jobs and wealth and the improvement of quality of life. Effective economic development is the result of a collaborative process involving local government, other economic development entities, and private industry. Governments generally achieve economic development through policies and programs designed to support businesses, provide services and infrastructure, and spur sustainable development. Since all communities differ in their geographic and political strengths and weaknesses, each community or region will have its own unique economic development strategy.

Much of today's economic development literature emphasizes the important role of industry clusters. Clusters are geographical concentrations of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated institutions.² Organizations within each respective cluster are linked by complementarities and commonalities and share related needs for talent, technology, and infrastructure.³ Industry clusters can affect competition and economic development by 1) increasing the current productivity of constituent firms or industries; 2) increasing the capacity of cluster participants for innovation and productivity growth; and 3) stimulating new business formation that supports innovation and expands the cluster.⁴

A leading economist and researcher on clusters and economic development, Dr. Michael Porter, asserts that government should focus policy on reinforcing and building upon

² Michael E. Porter, "Location, Competition, and Economic Development: Local Clusters in a Global Economy," *Economic Development Quarterly*, February 2000, p. 15.

³ *Ibid*, p. 16.

⁴ *Ibid*, p. 21.

established and emerging clusters rather than creating new ones. According to Porter, government can play a central role in recognizing clusters and then removing obstacles, relaxing constraints, and eliminating inefficiencies that impede productivity and innovation, including human resource, infrastructure, and regulatory constraints.⁵

City's Economic
Development
Operations

Prior to July 2012, the City of San Diego (City) operated its main economic development programs through two separate units—the Mayor's Office of Economic Growth Services (EGS) and the Economic Development Division (EDD). These two City divisions administered multiple programs with funding of over \$57 million⁶ each year since fiscal year 2010 to both directly and indirectly support economic development. Most of this funding comes from the business community or from the federal government through voluntary fees, self-assessments, and grants.

EGS is responsible for five core programs and related business development activities: the Foreign Trade Zone (FTZ), the Enterprise Zone (EZ), the Business and Industry Incentive Program, the Business Cooperation Program, and the Guaranteed Water for Industry Program. The EGS staff is divided into the Government Incentives Team, which administers the EZ and FTZ programs, and the Business Expansion, Attraction, and Retention (BEAR) Team, which administers the other three programs. The federally-designated FTZ has a number of benefits for businesses operating within it including duty deferral, duty exemption, inverted tariff, logistical benefits, and elimination of duties on waste, scrap, and rejected or defective parts. The EZ that encompasses portions of San Diego, National City, and Chula Vista is a State program that stimulates business activity through a series of tax credits and business income tax deductions. The BEAR Team provides real estate due diligence, permit assistance, sales/use tax rebates, logistical support, and liaises between other City departments and public agencies on

⁵ Ibid, p.26.

⁶ City officials noted that not all of the monies included in this total are considered community and economic development funds under the City's current definition. We include the total program funding amount in order to better convey the overall size of the programs that the departments administer. See Appendix C for additional information and descriptive funding detail.

behalf of businesses seeking to expand in or move to San Diego.

EDD is organized into three work units: the Department of Housing and Urban Development (HUD) Programs Administration (HPA), Business Finance, and Office of Small Business. Two-thirds of EDD's staff work within the HPA unit. HPA is responsible for grant compliance and overseeing administration of the City's federally funded Community Development Block Grant Program (CDBG) entitlements.⁷ The unit reported that CDBG entitlements for fiscal year 2012 totaled \$17.5 million, of which \$1.3 million was allocated to community and economic development projects. The Business Finance unit manages two revolving loan funds which are intended to provide gap financing to local businesses for working capital or capital purchases. These loan programs are funded by the U.S. Department of Commerce, Economic Development Administration, and totaled approximately \$3.2 million in fiscal year 2012.⁸ The remaining EDD staff are part of the Office of Small Business, which administers a number of programs, including Business Improvement Districts and the Small Business Enhancement Program. For a complete list of programs and respective budget information, please see Appendix C.

Effective July 1, 2012, both EGS and EDD are now within the Development Services Department as part of the organizational restructuring laid out in the City's fiscal year 2013 Budget.

The City has reorganized its economic development functions, including the programs that make up EGS and EDD, in numerous ways. Exhibit 1 below shows the number of reorganizations that occurred from fiscal year 2007 through the recent changes made as part of the fiscal year 2013 budget:

⁷ EDD's HPA unit oversees the Community Development Block Grant Program. CDBG seeks to ensure decent affordable housing, to provide services to the most vulnerable communities, and to create jobs through the expansion and retention of businesses. HPA oversees contracts with non-profits throughout the city to spend the entitlement funding on CDBG-approved projects.

⁸ We calculated this amount using total capital data, as reported by the City to the Department of Commerce.

Exhibit 1

Reorganization of City's Economic Development Functions

Fiscal Year	Organizational Structure
2007	<ul style="list-style-type: none"> Community and Economic Development, Planning, and Development Services are part of the Land Use and Economic Development Department
2008	<ul style="list-style-type: none"> Planning, Urban Form, Redevelopment and Economic Development organized into City Planning and Community Investment (CPCI) The BEAR team, Office of Small Business, Enterprise Zone, and CDBG Program are included in CPCI
2009	<ul style="list-style-type: none"> Planning, Urban Form, Redevelopment, Economic Development and Facilities Financing Program organized into CPCI Economic Development includes the BEAR Team, Tourism Marketing District, Office of Small Business, CDBG Program, Enterprise Zone, and the Business Finance Program
2010	<ul style="list-style-type: none"> Economic Growth Services, including the BEAR team and Government Incentives team becomes part of the Mayor's Office through Community and Legislative Services CPCI is organized into Planning, Urban Form, Economic Development, Redevelopment, and Facilities Financing Program. Economic Development includes Office of Small Business, CDBG Program, and Business Finance section
2011	<ul style="list-style-type: none"> Economic Growth Services, including the BEAR team and Government Incentives team, becomes part of the Mayor's Office through Community and Legislative Services CPCI organized into Planning, Urban Form, Economic Development, Redevelopment, and Facilities Financing Program. Economic Development includes the Office of Small Business, HUD Programs Administration (CDBG and other federal entitlement programs), and the Business Finance Section
2012	<ul style="list-style-type: none"> BEAR and Government Incentives teams organized into Mayor's Office of Economic Growth Services CPCI dissolved with planning function moving to Development Services and Economic Development Division, including HUD Programs Administration, Business Finance, and Office of Small Business, under Assistant Chief Operating Officer
2013	<ul style="list-style-type: none"> Economic Development Division and Economic Growth Services, including all programs, moved to Development Services Department Development Services reorganized into Customer Service and Department Administration, Permit Issuance and Code Enforcement Division, Economic Development and Project Management Division, Advanced Planning and Engineering Division, and Building Construction and Safety Division

Source: OCA based on City budget data.

Economic Development Program Related Budget

According to the City's adopted fiscal year 2012 budget, the City allocated \$5.5 million in funding for EGS and EDD personnel and non-personnel expenditures. As shown in Exhibit 2, EDD had 33.30 FTEs and an operating budget of about \$4.4 million. EGS was allocated almost \$1.2 million and nine FTEs.

Exhibit 2

City of San Diego Economic Development Program Budget and Personnel, Fiscal Year 2012

Department/Program	FY 2012 Positions	FY 2012 Budget
Mayor's Office of Economic Growth Services	9.00	\$1,169,327
Economic Development Division		
-Economic Development	3.00	\$ 561,624
-HUD Program Administration	20.54	\$1,799,404
-Small Business and Neighborhoods	9.76	\$2,370,556
Economic Development Division (TOTAL)	33.30	\$4,731,584
TOTAL	42.30	\$5,540,911

Source: OCA based on City budget data.

City of San Diego's
General Plan

The City refers to the General Plan as its constitution for development that sets out a long-range vision and policy framework for how the City should plan for projected growth and provide public services. Accordingly, the City's economic development efforts fall within the broad objectives of the General Plan. State law requires each city to adopt a general plan to guide its future development and mandates that the plan be periodically updated to assure its continuing relevance and value. It also requires the inclusion of seven mandatory elements: Land Use, Circulation, Housing, Conservation, Noise, Open Space, and Safety. However, State law permits flexibility in the presentation of elements and the inclusion of optional elements to best meet the needs of a particular city. The City of San Diego's General Plan addresses state requirements through the following ten elements: Land Use and Community Planning; Mobility; Economic Prosperity; Public Facilities, Services and Safety; Urban Design; Recreation; Historic Preservation; Conservation; Noise; and Housing. The City Council adopted the Strategic Framework Element in 2002 to guide the comprehensive update of the entire 1979 Progress Guide and General Plan. The City Council also adopted a subsequent update to the General Plan in 2008.

Economic Prosperity
Element of the General
Plan

The policies in this element are intended to improve economic prosperity by ensuring that the economy grows in ways that strengthen the City's industries, creates and retains good jobs with self-sufficient wages, increase average income, and stimulate economic investment in our communities. Several cross-cutting issues are addressed in the Economic Prosperity Element:

1. Industrial Land Use
2. Commercial Land Use
3. Regional Center and Subregional Employment Areas
4. Education and Workforce Development
5. Employment Development
6. Business Development
7. Community and Infrastructure Investment
8. Military Installations
9. Visitor Industries
10. International Trade, Maritime Trade, and Border Relations
11. Redevelopment
12. Economic Information, Monitoring, and Strategic Initiatives

Importantly, the Economic Prosperity Element calls for the City to prepare and update an Economic Development Strategic Plan every three years to report on economic trends, describe targeted industry clusters, identify economic issues for the City, inform infrastructure and land use priorities, develop strategies for addressing near to mid-term economic issues, and identify new initiatives with the private sector within the context of long-term goals. Further, the element provides for the development and sustained use of comprehensive economic and performance indicators to monitor community economic performance and assess the effectiveness of the City's economic development efforts.

As previously noted, the City of San Diego adopted a comprehensive update to the City's General Plan in 2008. Subsequently, the City adopted a General Plan Action Plan

(Action Plan) in 2009 to identify actions needed to bridge policy and implementation. The purpose of the Action Plan is to serve as a tool to monitor the City's implementation over time to assess progress and the effectiveness of the 2008 General Plan. The Action Plan identified short- (0-3 years), mid- (3-5 years), and long-term (5-10 years) timeframes for implementation. The 2010 General Plan Monitoring Report, accepted by the City Council on December 6, 2010, is intended to report on the progress on implementing the actions set forth in each of the elements of the General Plan.

City Management
Program, City Strategic
Plan, and Department
Tactical Plans

The objective of the City Management Program is to integrate strategic planning and performance monitoring efforts with the budget decision-making process. As part of this program, the Mayor adopted a Citywide Strategic Plan, which, according to City officials, was informed by the General Plan and other sources of legislative and public input. The City Strategic Plan includes a sustainable growth and economic prosperity goal and the following objectives to serve that goal:

1. Plan for smart and coordinated growth;
2. Cultivate CleanTech and promote base and emerging sector industries, including manufacturing, international trade, and tourism, as well as support the military;
3. Develop fiscally-sound civic projects that enhance the San Diego's quality of life; and
4. Enhance water reliability through conservation and development of alternative resources.

Another part of the City Management Program involves the development and maintenance of department tactical plans for all Mayoral departments, and excerpts of those plans are included in the departments' budget narratives. Accordingly, EGS and EDD have presented department-specific goals, objectives, and performance measures in their budget narratives.

It is important to note that the City Management Program is an on-going process that has been affected by budget reductions. Information on the Program included in the City's budget for fiscal years 2011-2013 notes that new goals and objectives and

sizing/workload data have not been included in each of these fiscal years because of changes resulting from budget reductions and updates planned for the Citywide Strategic Plan. The City further notes that budget reduction for the fiscal years noted make it difficult to provide reliable projections of service levels and performance targets. In an analysis of the City's program measures, the City's Independent Budget Analyst (IBA) reported in February 2012 that the City's use of performance measures has evolved significantly since 2006.⁹ The IBA further noted that the City included over 600 departmental performance measures in the fiscal year 2009 and fiscal year 2010 budget documents, suspended measures for fiscal year 2011, and issued 167 interim measures in 2012. In fiscal 2013, the City included 293 measures in its budget documents. Importantly, the IBA notes that the provision of measures has been at the discretion of the Mayor, and when provided, the measures have not been easily available to the public.

⁹ IBA Report 12-08, Feb. 3, 2012.

Audit Results

Finding 1: The City's Economic Development Strategic Plan Is Outdated, and Proposed Plan Lacks Key Elements Necessary for an Effective Economic Development Strategy

Leading government and private sector organizations utilize strategic plans as the basic underpinning of goal-setting and performance measurement for key programs. At its most basic level, a strategic plan is an organization's articulation of an overall mission or vision translated into specific goals and actions that take into account current conditions, opportunities, challenges, and includes a framework for assessing progress. Given the scope, complexity, and cross-cutting nature of economic development programs, timely and robust strategic plans are a particularly important aspect of a successful economic development effort.

The City Council recognized the need for timely and effective economic development strategic planning and established policy accordingly. Specifically, City Council Policy 900-01 adopted in 1992 provides for an annual review and biennial submission to City Council of a comprehensive economic development strategy. However, it has been more than 10 years since the City last provided a formal update of its 2001 plan. The Mayor's Office of Economic Growth Services (EGS) prepared and presented a draft of the *City of San Diego Economic Development Strategy, 2011* to the City Council's Economic Development and Strategies Committee in January 2012, but the document has yet to be adopted by City Council.

Based on our review, the proposed strategy lacks several key elements of a general strategic plan, including a clearly stated mission, goals, objectives, and actions to achieve that mission, relevant economic indicators, and robust performance measures to assess program progress. As a result, the City lacks an effective tool for describing, planning, coordinating, and measuring outcomes for key City efforts that are intended to create jobs and broadly benefit the region's economic health.

City's Economic
Development Strategic
Plan Is Outdated

Although the City initiated work on updating its Economic Development Strategic Plan in 2011, the City has not formally updated its plan since 2001.¹⁰ City officials indicated that the gap in the City's economic development strategic planning was due, in part, to restructuring and reorganizations of the City's economic development-related departments that took place in 2005, 2008, and 2011.¹¹ At the urging of the City Council, EGS prepared and presented a framework for an economic development strategy to the City Council's Rules, Open Government, and Intergovernmental Relations Committee in June 2011. The Committee recommended further work with the City Council Offices prior to finalizing the draft of the strategy. Subsequently, the City formed the Economic Development and Strategies Committee in 2012. In January 2012, EGS presented a draft of the *City of San Diego Economic Development Strategy, 2011* to that Committee. The document has yet to be adopted by City Council, pending results of this review.

Council Policy 900-01, "Economic Development," effective in 1992, provides the framework for a comprehensive economic development program and strategic plan which promotes and sustains a healthy diversified economy throughout San Diego." Importantly, the policy also provides for an annual review and biennial submission to Council of a comprehensive economic development strategy. As noted previously, the City had not submitted an economic development strategy for Council review since 2001.

The City's 2008 update to the General Plan provides additional policy guidance regarding the timing for the economic development strategic plan. Within the ten elements that comprise the General Plan, the Economic Prosperity Element provides that an Economic Development Strategic Plan be developed and updated every three years to, among other things, develop strategies for assessing near-to-mid-term economic issues within the context of long-term goals. In reports issued in 2007¹² and 2010,¹³ the City's Independent

¹⁰ *The City of San Diego Community and Economic Development Strategy, 2002-2004* Adopted by the San Diego City Council, May 15, 2001.

¹¹ See Background, pp. 7.

¹² IBA Report 07-115, Dec. 5, 2007.

Budget Analyst (IBA) noted that the economic development strategy was out of date and recommended that the City update the strategy and abide by the Economic Prosperity Element's three-year update timeframe.

Notwithstanding discrepancies between City Council policy guidance and the City's General Plan regarding timing, the City's 2002-2004 economic development strategy is outdated by either timeframe. As noted above, economic development efforts take place within the broader context of a constantly changing economic environment. Given that one of the main purposes of strategic planning is to establish priorities, out-of-date plans are not likely to reflect current priorities. Timely strategic planning is therefore essential to the overall relevance and effectiveness of the strategic planning effort.

Proposed Economic
Development Strategic
Plan Lacks Critical
Elements

Based on our review of the proposed Economic Development Strategic Plan submitted for Council review in 2012, we found that the plan lacks several key elements, which limits the plan's utility for internal and external stakeholders. The proposed plan is divided into three main sections, including 1) a brief overview of San Diego economic climate; 2) broad descriptive information on San Diego's base sector industries; 3) descriptions of the City's various economic development programs

The Citywide Strategic Plan and the Mayor's annual reporting of excerpts of department-level tactical plans in the City's budget do provide important additional mechanisms for maintaining focus on the City's economic development programs and activities. However, the information included in those documents should supplement, not supplant the need for the comprehensive economic development strategy described in City Council policy and the General Plan's Economic Prosperity Element.

Relative to basic strategic planning criteria (summarized below), there are several shortcomings in the type and amount of information presented in the City's proposed economic development strategy. For example, the plan does not articulate an overall mission for the City's economic

¹³ IBA Report 10-37, Apr. 29, 2010.

development efforts, nor is there a clear connection to how or whether the various City economic development efforts are significantly improving economic conditions in the targeted base sector industries. As currently drafted, the proposed plan is an information summary of three distinct areas, with little connectivity between the sections. Although the types of information in the proposed plan would be essential parts of a strategic document, the overall content of the plan falls short of the comprehensive economic development strategic and goal-setting framework described in City Council policy and the General Plan.

Additionally, research and guidance from expert organizations, such as Government Finance Officers Association (GFOA), the National Performance Management Advisory Commission, the U.S. Government Accountability Office (GAO), the U.S. Office of Management and Budget (OMB), and the International City/County Management Association (ICMA), hold that an effective and useful strategic plan should contain the following elements:

- Mission
- Goals ,Objectives, and Actions
- Economic Indicators
- Performance Measures

Exhibit 3 summarizes the type of information contained in the City's proposed plan compared to the key essential elements of an effective strategic planning document.

Exhibit 3

Comparison of Information in City of San Diego’s Proposed Economic Development Strategy and Key Strategic Planning Elements

Types of Information In City Proposed Economic Development Strategy	Key Strategic Planning Elements Not Included in City’s Proposed Economic Development Strategy
<p>Economic Climate: Proposed plan contains basic, limited information on the San Diego economic climate—the proposed plan devotes one paragraph in the 25 page document to a high level discussion of current economic conditions.</p> <p>Description of Base Sectors: Proposed Plan contains broad descriptions of base sector industries in San Diego. The proposed plan provides brief synopses of the military, tourism, manufacturing (including biotech, CleanTech, defense and security industries, electronics and communications, and food and beverage), and international trade. Each sector description is followed by a brief narrative conclusion section that summarizes economic development opportunities in the sector.</p> <p>Program Description: Proposed plan contains descriptive summaries of the City’s various economic development programs, but does not set forth specific goals or performance measures for the programs.</p>	<p>Mission: An effective strategic plan should articulate the mission and vision of the City’s overall economic development efforts.</p> <p>Goals, Objectives, and Actions: An effective strategic plan should include mid- to long-term goals and near-term objectives and actions for economic development efforts targeted at achieving the overall mission.</p> <p>Economic Indicators: Effective economic development strategic planning efforts should include establishing and monitoring a range of regional, community-level, and industry sector-specific economic indicators to establish the context for the plan.</p> <p>Performance Measures: An effective strategic plan should include a range of performance measures to assess progress towards achieving specific program objectives, as well as progress towards fulfilling the overall economic development mission.</p>

Source: OCA analysis.

We also reviewed economic development strategies for nine U.S. cities, and compared the content of those strategy documents with the general criteria described above.¹⁴ Although the specific content and presentation varied among the cities, the cities consistently addressed key strategic planning elements. (See Exhibit 4)

Exhibit 4

Selected Cities' Economic Development Strategic Plan Elements

City (State)	Clearly Stated Mission, Goals, Objectives, and Actions	Economic Indicators	System of Performance Measurement
Atlanta (GA)	Yes	<ul style="list-style-type: none"> • Uses data from multiple sources to analyze current situation and establish priorities • Identifies three primary components of the economy 	<ul style="list-style-type: none"> • Report comparing projected goals to actual results
Denver (CO)	Yes	<ul style="list-style-type: none"> • Demographic and spatial data informs the strategies and allocation of resources 	<ul style="list-style-type: none"> • Outputs delineated for each objective in the plan • Conduct additional analysis as part of plan implementation
Dallas (TX)	Yes	<ul style="list-style-type: none"> • Outlines economic, demographic, and geographical changes necessitating a new strategic approach • Lists indicators to track progress along desirable economic outcomes 	<ul style="list-style-type: none"> • Individual workplans aligned with strategy • Project tracking database • Semiannual scorecard • Client relationship management database
Los Angeles County (CA)	Yes	<ul style="list-style-type: none"> • Identifies risks associated with not having a proactive strategic plan • Identifies five components central to economic development success • Surveyed businesses to determine challenges, threats, and opportunities 	<ul style="list-style-type: none"> • Annual reporting along goals and objectives compiled from inquiries to LA County government agencies, news articles, and press releases

¹⁴ We reviewed economic development strategies from Atlanta, GA; Denver, CO; Dallas, TX; Los Angeles County, CA; Portland, OR; San Antonio, TX; San Francisco, CA; San Jose, CA; and Seattle, WA.

City (State)	Clearly Stated Mission, Goals, Objectives, and Actions	Economic Indicators	System of Performance Measurement
Portland (OR)	Yes	<ul style="list-style-type: none"> • Outlines changing economic conditions from economy defined by natural resources to an economy with global green opportunities 	<ul style="list-style-type: none"> • Two Year Status Report highlighting progress with job creation and economic vitality goals
San Antonio (TX)	Yes	<ul style="list-style-type: none"> • Background section provides an overall assessment of, but not limited to, the geography of the region, its population, economy, workforce, and education issues 	<ul style="list-style-type: none"> • Specific performance measures outlined
San Francisco (CA)	Yes	<ul style="list-style-type: none"> • Describes the City's economic performance and economic drivers 	<ul style="list-style-type: none"> • Plans to evaluate and refocus the City's assistance programs for business and evaluate economic impact of the City's policies on business
San Jose (CA)	Yes	<ul style="list-style-type: none"> • Illustrates the structure and characteristics of the San Jose economy, and changes since 2004 • Highlights milestones from the implementation of the previous economic development strategy 	<ul style="list-style-type: none"> • Creation of 18-month work plans to implement strategy • Tracks jobs and revenue generated for both completed projects and projects in progress
Seattle (WA)	Yes	<ul style="list-style-type: none"> • Explicitly lists challenges hindering future economic development • Identifies three principles guiding economic decisions • Lists five key indicators for economic benchmarking 	<ul style="list-style-type: none"> • Track select indicators and report progress with plan implementation • Develop a website where public can view progress of specified initiatives

Source: OCA analysis of selected cities' economic development strategic plans.

Mission, Goals, Objectives, and Actions Clearly defined goals, objectives, and actions are essential to achieving the mission of any economic development initiative in that they provide context and accountability. The clearer and more precise these elements are, the better able the City will be to maintain a consistent direction, regardless of leadership and other organizational changes.

Several of the stakeholders we interviewed, including officials from other economic development organizations in San Diego and industry associations, indicated that it is important for the City to have an economic development strategy that clearly communicates the City's mission. First, a clearly communicated mission is a signal to the business community and the public that economic development is a priority. Second, a description of specific goals and objectives is helpful to the business community because it delineates the City's roles and responsibilities. Lastly, economic development officials that we interviewed from several other cities told us that their city's economic development plan had been valuable in their communications with the business community. For example, officials from Los Angeles County, Seattle, and Portland indicated that their economic development strategic plans had been an important tool for recruiting and retaining businesses in their regions. Specifically, these officials said they were able to use their strategic planning documents to communicate overall mission and priorities to businesses, as well as provide a clear picture of the types of services available to businesses and the strategic rationale for providing the services.

Economic Indicators Current economic indicators provide crucial context for the overall strategy, and the City's economic development strategy would be improved by tracking relevant indicators. The GFOA and other expert organizations emphasize the importance of establishing the economic context within which a program operates as a first step to establishing an effective strategic plan. More specifically, the Economic Prosperity Element of the General Plan contains clear direction for the formulation and ongoing monitoring of community economic indicators. The Economic Prosperity Element calls for 1) the monitoring and reporting of economic indicators on an ongoing basis, 2) the provision of regular indicator reports, 3) updates to the indicators as new information becomes available, 4) utilization of the indicators to identify the need for new strategies and priorities for public investment. Utilizing economic indicators for the City of San Diego would logically provide the most useful data to inform decisions on City-specific programs. However, it is acknowledged that economic indicators specific only to the

City of San Diego may be difficult to assemble. In instances where City-specific indicators are impractical, regional indicators may be the only reasonable approach.

We found that the City had an internal effort underway from about 2006 to 2009 to monitor a range of community economic indicators. However, that process was suspended in 2009. According to a cognizant City official, the effort was suspended following the reorganization of the City's economic development departments in 2008. We also found that other organizations, including the San Diego Association of Governments, have robust efforts to track a range of economic indicators, which the City could use in place of or to supplement its own efforts. Officials from those organizations also indicated that this would be an obvious area where the City could partner externally to obtain information that would be useful to the City's economic development strategic planning efforts.

Economic development planning officials from several of the cities we reviewed emphasized the importance of economic indicators as part of their planning efforts. Officials from Portland, Seattle, and Los Angeles County each indicated that their respective economic development strategic planning efforts began with an extensive analysis of regional and industry-specific indicators to determine regional and cluster strengths and weaknesses. For example, the City of Seattle produces a separate economic indicators report that is intended to provide key dashboard metrics that align with the city's economic development efforts. The indicators report includes a variety of metrics on business income, job growth, business start-ups and closures, educational system performance, and income distribution. Seattle officials and other officials that we interviewed noted that they continue to monitor these types of indicators to help assess direct and indirect economic development program effectiveness in their regions.

Performance Measures The National Performance Management Advisory Commission notes that "it is impossible to overstate the importance of measurement in the operations of government." Internally, an effective performance measurement system can help organizations understand how decision-making processes or

practices led to success or failure in the past and how that understanding can lead to future improvements. Within the context of a city's economic development efforts, performance measurement and reporting is also a valuable tool for communicating results externally to the business sector and to the public, and can be used as the platform upon which to openly discuss how to improve results.

GFOA, ICMA, and other organizations suggest that it is important to establish a range of performance measures to assess the quantity, quality, timeliness, cost, and outcomes for economic development efforts. Economic development officials from San Diego, other municipalities, and other organizations that we interviewed noted the difficulty in determining specific impact of program efforts. For example, fluctuations in the overall economic environment may make it difficult to determine if a specific economic development program is achieving the intended outcome. That is, a weak economic climate may not necessarily mean that a specific City program is ineffective, and vice versa. Notwithstanding the effects of externalities on program measurement, research and experts we interviewed indicated that it is essential to maintain a range of performance measures to monitor overall trends and outcomes of economic development efforts.

Recently, several City Council members have expressed support for the development and implementation of performance measures for City programs, including measures related to economic development. Additionally, the IBA has made previous recommendations to the Mayor to provide consistent, data-driven performance measures to evaluate progress towards achieving City program and policy goals, and has compiled and published input from City Council on this issue.¹⁵

To obtain additional perspective on economic development performance measurement, we reviewed the economic development strategic plans for nine cities. Each of the cities' plans described a range of performance measures, although the specific types of measures varied among the cities. While the

¹⁵ For example, see IBA Report 12-08, Feb. 3, 2012; IBA Report 12-12 REV, Mar. 15, 2012; and IBA Report 12-16, Apr. 27, 2012.

types of measures varied, it is noteworthy that each of the plans we reviewed included some range of measures to assess progress towards broader goals and/or to identify progress towards completing specific tasks. For example, the City of Dallas’s plan utilizes a range of broad performance outcome-related measures as proxies to indicate progress towards achieving each of its desired outcomes (goals). The relevant portion of the plan is summarized in Exhibit 5 to illustrate the types of measures employed.

Exhibit 5

City of Dallas Selected Economic Development Goals and Performance Measures

Economic Development Goal	Related Performance Measures
Economic Growth	<ul style="list-style-type: none"> • Laborforce employment • Payroll employment • Real estate construction, by type • Building permits and value
Economic Opportunity	<ul style="list-style-type: none"> • Unemployment rates • Estimated underemployment rates • Per capita personal income • New business starts, by industry • Commercial occupancy rates • Median home value
Sustainable Revenue	<ul style="list-style-type: none"> • Total city revenue • City revenue by source

Source: City of Dallas, Office of Economic Development.

Other cities include more specific, output-related measures as part of their economic development performance assessment. For example, the City of Seattle publishes specific department-level goals and targets with agreed-upon dates of completion, as well as an assessment of whether the target or goal has been met. Exhibit 6 provides an excerpt of Atlanta’s performance assessment process to illustrate the types of measures employed in the City of Seattle economic development department.

Exhibit 6

City of Seattle Selected Economic Development Goals and Performance Measures

Economic Development Goal	Related Performance Measures
Strengthen and Revitalize Neighborhood Business Districts and Commercial Districts	<ul style="list-style-type: none"> • Award \$1 million through the “Only in Seattle” framework • Implement storefront/façade improvements • Add 2-5 neighborhood business districts to the “Only in Seattle” campaign
Improve Navigation of Business Permitting Processes and Access to Services	<ul style="list-style-type: none"> • Complete evaluation with specific recommendations on ways to better integrate the delivery of the City’s environmental services to businesses • Make recommendations on affordable and effective ways to assist businesses in the navigation of permits necessary to open restaurants • Execute recommendations for improvements in the delivery of environmental services and assistance to restaurants

Source: City of Seattle, Office of Economic Development.

An economic development strategic plan that contains the type of key elements described above and builds upon existing City efforts would provide the City with 1) an important internal tool for managing the cross-cutting efforts of the several City departments that must necessarily be involved in economic development; 2) critical information to facilitate decision-making, planning, and prioritization of limited resources among individual economic development programs; 3) a clear and comprehensive description of the City’s roles and responsibilities versus those of key external stakeholders; 4) an opportunity to provide the business community and the public with a clear, holistic description of City efforts; 5) a comprehensive set of indicators to identify the need for new strategies and priorities for public investment; and 6) an adequate range of performance measures to assess the quantity, quality, timeliness, cost, and outcomes for the City’s economic development efforts.

Recommendation #1 The City Council's Economic Development and Strategies Committee should review existing City Council policies to 1) clarify when and how frequently the City should submit the Economic Development Strategic Plan to the City Council and the timing for any interim reviews; and 2) establish guidelines for the content of the Economic Development Strategic Plan that requires inclusion of the elements necessary for a robust and comprehensive economic development effort. (Priority 2)

Finding 2: The City's Proposed Economic Development Strategic Plan Should Be Better Aligned with other Key City Strategic Efforts to Improve Central Coordinating Role

The City's proposed Economic Development Strategic Plan focuses only on a portion of the City's economic development tools and consequently requires additional alignment with other strategic and operational documents.¹⁶ The proposed strategy addresses only the economic development efforts carried out by the Mayor's Office of Economic Growth Services (EGS) and the Economic Development Division (EDD). However, as noted in the General Plan's Economic Prosperity Element, there are several other City programs and activities that directly affect economic development in the region, including efforts related to land use, capital improvement, workforce development, water, housing and redevelopment, and transportation, among others. These efforts need to be appropriately reflected in the City's strategy to provide a basis for coordination and to provide internal and external stakeholders with a clear context for how the various efforts are interrelated. Additionally, the economic development strategy needs to be consistently reflected in the relevant portions of the Citywide Strategic Plan and department-level information presented as part of the budget process. As noted in the General Plan, the economic development strategy is intended to be a comprehensive synthesis of the totality of the City's economic development efforts. Accordingly, it is essential that the plan contain linkages 1) upward to higher level strategy and policy; 2) laterally to other relevant comprehensive City plans; and 3) outward to external stakeholder efforts.

From a strategic planning standpoint, better alignment of goals, priorities, and strategies across interrelated programs and efforts would greatly enhance the City's ability to link its economic development vision down to operations and leverage

¹⁶ It was beyond the scope of this review to assess the adequacy or effectiveness of other City program's strategic planning efforts. Nevertheless, the interrelationship between the programs with a direct or indirect economic development component is a critical aspect of the City's overall economic development effort.

other programs to achieve citywide goals. From an operational standpoint, establishing ongoing mechanisms and processes for coordination would further benefit the City's economic development efforts. To that end, we identify two key potential areas the City should address to better leverage its central coordinating economic development role. Specifically, the City should 1) establish a mechanism or process for coordinating with other City programs and activities that have an economic development component, and 2) improve processes and mechanisms for strategically coordinating its efforts with its key external partners on economic development.

Proposed Economic Development Strategic Plan Needs Stronger Upward Alignment to City's General Plan

Based on our review, the proposed strategic plan does not incorporate references or direct linkages to the General Plan's Economic Prosperity Element. The General Plan's Economic Prosperity Element is the City's principal, comprehensive articulation of high-level, long-term economic development policy. The element links economic prosperity with land use and employment policies and underscores the connectivity to the other elements set forth in the General Plan.

According to the Economic Prosperity Element, the City's Economic Development Strategic Plan should operationalize the broad policies established in the element. Specifically, the Economic Prosperity Element states that the strategic plan is to

"further refine the policies in this element. It translates regional economic and quality of life information to more specific economic policies and programs. Regular updates to the strategy will identify those industries that are growing for which San Diego is competitive in the global marketplace."

Accordingly, there should be a direct connection between the policies outlined in the Economic Prosperity Element and the goals, objectives, and actions set forth in the Economic Development Strategic Plan. This type of connectivity would, for example, require the proposed strategy to include a section on land use policy and establish strategic economic development goals that comport with this policy. This type of connection is especially critical given the important relationship between land use policy and economic development. For example, a city's policy determination to designate specific

lands for industrial use provides the opportunity for the establishment of job-creating industry in that location. As a result, land use is directly correlated to whether economic development occurs in that specific area. As noted in the Economic Prosperity Element, “the supply and type of employment land uses in the City are significant factors in determining the ability of the City to meet the needs of a rapidly changing economy.” Further, the element states that the “diminishing supply of industrial land is a potential challenge to the growth and retention of base sector industries providing middle-income job opportunities in the City.” Without aligning land use policy with the economic development strategy, the City cannot take the necessary steps to define and carry out economic development priorities.

Proposed Economic Development Strategic Plan Needs to be Aligned Laterally with Other Comprehensive City Plans

As noted above, the City’s economic development efforts extend beyond the scope of the programs administered by EGS and EDD. Accordingly, the City Economic Development Strategic Plan needs to establish clear lateral connectivity to the breadth of the City’s interrelated efforts on economic development issues.

The City’s General Plan, GFOA guidelines, and leading industry practices hold that a city’s economic development strategy should include the full range of programs that have a bearing on economic development outcomes, including efforts related to infrastructure, workforce development, housing and redevelopment issues, and transportation, among others. Aligning plans within the Economic Development Strategic Plan does not require that the economic strategy subsume or supplant the strategic planning efforts of any other program. Rather, proper strategic alignment of related goals for various city efforts would provide a mechanism for greater coordination and contextual awareness of the manner and extent to which a particular program is contributing to the broader economic development mission. Additionally, a document that describes and aligns the various interrelated efforts would provide the City with a valuable tool for communicating its mission and demonstrating the scope of City efforts to external stakeholders, including the business community.

Other cities’ economic plans that we reviewed each included a

robust description of all interrelated efforts across a range of city programs. Each of these cities' plans specifically noted the importance and benefit of alignment for purposes of coordinating among various departments. For example, the City of Seattle's economic development strategic plan focuses on the connectivity between investment in capital infrastructure projects and economic development in the city. The plan describes how major infrastructure initiatives are engines of job creation and sets forth priorities for those projects that correspond to the city's overall economic development goals. Similarly, the plan also references zoning, land use, workforce, and education issues and specifically ties those issues to its overall economic development goals.

Two specific examples underscore the need for better lateral alignment between the City's Economic Development Strategy and other comprehensive efforts. First, the proposed strategy is not linked nor aligned in any way to the City's Capital Improvement Program (CIP).¹⁷ GFOA guidance notes the importance of integrating economic development strategy with capital improvement projects so that these related efforts can occur in concert with each other. By so doing, communities can realize the benefits of the capital investments in job creation and infrastructure improvement.

Second, the proposed strategy is not aligned with the Community Development Block Grant (CDBG) Consolidated Plan. In general, the purpose of the CDBG Consolidated Plan is to 1) identify a city's or state's housing and community development (including neighborhood and economic development) needs, priorities, goals and strategies, and 2) stipulate how funds will be allocated to housing and community development activities. The lack of explicit alignment with CDBG's housing and community development needs, priorities, and goals significantly limits the potential effectiveness of the economic development strategy.

¹⁷ Our 2011 performance audit report on the City's Capital Improvement Program (CIP) noted the importance of aligning the City's CIP with the General Plan. The report also highlighted other challenges of aligning interrelated City efforts. For example, the report noted challenges resulting from a lack of coordination between the City's CIP and the use of CDBG funds. These issues serve to underscore the need for coordination and alignment between related City efforts. See OCA-11-027, June 29, 2011.

Proposed Economic
Development Strategic
Plan Should Include
Outward Linkages

At a general level, the City's economic development efforts are part of the broader regional economic development environment. Other economic development entities (such as the San Diego Regional Economic Development Corporation, the San Diego Regional Chamber of Commerce, and the San Diego Association of Governments), industry associations, academic institutions, non-profit organizations, and individual businesses are among the City's key external partners in economic development. Accordingly, the City's Economic Development Strategic Plan should identify points of intersection with those groups' goals and actions. By so doing, the City could better delineate stakeholder roles and responsibilities for interrelated economic development efforts. It is noteworthy that many of the officials from stakeholder organizations that we interviewed were unaware of any economic development strategic planning effort on the part of the City. Additionally, several of the officials indicated that the region's overall economic development would be improved by a greater coordination and stronger linkages between stakeholders' program efforts.

Several types of benefits would accrue to the region's economic development by establishing alignment between the various actors' plans, goals, and actions. Firstly, the process of identifying and describing other groups' efforts, is, in and of itself, a mechanism for improving coordination—not only for the City, but for all involved groups as well. For example, meetings with external stakeholders to catalog, describe, and categorize the various groups' efforts would be a *de facto* coordinating process. Secondly, establishing linkages provides an opportunity to determine each groups' comparative advantage with regard to furthering economic development, and provides an opportunity for each group to benefit from the others' expertise. Thirdly, aligned efforts can deter potentially duplicative, uncoordinated efforts and promote a more mutually beneficial use of resources.

Each of the other cities' economic development strategic plans that we reviewed contained sections that explicitly described the efforts of external partners and specifically delineated

partner groups' roles and responsibilities in relation to the cities' efforts. In each case, the plans enumerated the importance and benefit of aligning the cities' efforts with those of the external partners. In general, most of the plans we reviewed described mechanisms for outreach to partner groups, and the partner groups were often part of a formal process for developing and vetting the cities' strategic plans.

City Should Better
Leverage its Central
Coordinating Role

Effective economic development results from a collaborative process involving local government, other economic development entities, and private industry. Some economic development experts note that local governments occupy a unique position within the broader economic development landscape. Specifically, experts and research emphasize that local governments' greatest comparative advantage with regard to economic development is the central role the government can play as a convener and facilitator. Improved strategic planning will better enable the City to maximize the value of its economic development efforts. However, it is also important that the City take steps to improve and further develop processes and mechanisms to operationalize its coordinating role.

Several of the cities' plans that we reviewed described specific internal and external coordinating mechanisms and highlighted their importance in helping the city and region carry out the actions and achieve the goals set forth in the strategic plans. In these cases, the plans noted the importance of clearly delineating the role of the various stakeholders in meeting the strategic objectives. Exhibit 7 summarizes the types of coordinating efforts employed in several of the cities we reviewed.

Exhibit 7

Selected Cities' Economic Development Strategic Stakeholder Collaboration and Coordinating Mechanisms

City (State)	Strategic Stakeholder Collaboration Key Features	Coordinating Mechanism
Atlanta (GA)	Strategic input from several City of Atlanta departments, economic development organizations, community and civic groups, and public school system	Action plan with process owners assigned, launch dates, and completion dates
Denver (CO)	Strategic input via residential surveys and public meetings	Annual action plans; multi-agency Development Council
Dallas (TX)	Focus on partnerships to improve the flow of information and leverage resources	Defines role of the City and multidisciplinary teams; lists specific stakeholders accountable for each goal; individual workplans
Los Angeles County (CA)	Strategic input via extensive private, public, and non-profit surveys and numerous public input forums	Identifies "Champions" within government departments, education institutions, industry, and other stakeholders to guide implementation of actions within each strategic goal
Portland (OR)	Strategic coordination between Portland Development Commission, Mayor's Office, and numerous private and public sector committees	Each action step includes a list or responsible parties who will collaborate on its implementation
San Antonio (TX)	Strategic collaboration with regional council of governments	Implementation Groups designated for each goal
San Francisco (CA)	Strategic input via community surveys; development of strategic plan confirmed via ballot initiative	Mayor's Office of Economic and Workforce Development charged with ensuring that City departments continue to act in a coordinated manner and advance the priorities and goals of the strategy
San Jose (CA)	Strategic plan developed by senior City executives in collaboration with private sector researchers and consultants	Action plan for each economic development objective with process owners assigned
Seattle (WA)	Strategic coalition between government, private sector, non-profits, and labor	Regular tracking of key indicators; coordination and alignment through the Mayor's Office by Executive Order

Source: OCA analysis of selected cities' economic development strategic plans.

As currently structured, the City's economic development efforts are primarily narrowly defined as the programs administered by EGS and EDD. However, as noted above, economic development is a much broader endeavor, and should be more properly defined as the sum of interrelated efforts and programs that cut across several City departments. We identified two areas that the City should consider addressing in order to better leverage its central, coordinating role.

First, the City needs to establish a mechanism or process to better coordinate across other departments that have an economic development component or engage in activities that could improve economic development efforts. The lack of alignment between departments' interrelated efforts is exemplified by the gaps in the proposed strategic plan. The City Management Program and Citywide strategic planning process provide potentially valuable mechanisms for facilitating interdepartmental coordination on economic development. In addition to improving the strategic planning process through greater alignment across programs, an on-going formal process or mechanism for coordination among departments will result in a more cohesive, thorough economic development effort.

Second, and perhaps most importantly, the City needs to improve and further develop processes and mechanisms for strategically coordinating with external partners on economic development issues. The City currently oversees a number of advisory boards, initiatives, workshops, and roundtables related to specific economic development efforts. For example, the Mayor holds Economic Roundtables with private sector business managers to focus on regional economic issues, and EDD oversees efforts such as the Small Business Advisory Council and the City's Business Improvement District Council. Additionally EGS and EDD staff meet with over 50 outside organizations engaged in some form of activity with a bearing on economic development. Further, the City is represented in the memberships, boards, and committees of multiple external stakeholder groups. While these efforts are valuable components of the City's economic development program, the City needs to clearly identify and convey how these programs

relate to and support an overall strategy. Several experts, industry representatives, and other external groups' staff cited the need for the City to employ more systematic, regularized coordination with external partners and other stakeholders. Many interviewees noted a high degree of satisfaction with EGS and EDD staff expertise and responsiveness on day-to-day issues. However, many of the same interviewees indicated that the City's efforts would benefit from a clearer delineation of roles and responsibilities. Further, several interviewees noted that City Council's recently established Economic Development and Strategies Committee provides a potentially valuable forum for this type of collaboration and indicated that the City should leverage that venue for outreach and input solicitation purposes.¹⁸

Finally, it is important to note that EGS and EDD are municipal departments whose core missions relate specifically to the City of San Diego. Nevertheless, San Diego is a key municipality within the broader regional economic development landscape. Accordingly, the City's economic development efforts will necessarily have both direct and indirect effects on the region. The City can and should continue to develop and improve its network of external partners, and should do so in a strategic way that establishes clear divisions of labor, augments value-added reciprocity with partners, and maximizes taxpayer value.

Recommendation #2 The City should immediately undertake an effort to engage in an internal and external coordination process to develop a clear and comprehensive statement of economic development mission and associated goals, objectives, actions, and measures. The City should ensure that the revised strategy addresses the elements set forth in City Council policies, and General Plan guidance, including those elements described in this report. This effort can and should build upon the department-level goals and measures that the City included in its Fiscal Year 2013 Proposed Budget but should be expanded to encompass other City efforts related to economic development. This effort should include regular reporting to City Council's Economic Development

¹⁸ We provide a suggested road map of recommended next steps for the Economic Development and Strategies Committee in Appendix D.

and Strategies Committee. (Priority 2)

Recommendation #3 As part of an ongoing strategic planning process, the City should determine necessary points of alignment with the General Plan and other relevant comprehensive city plans to determine how and to what extent those efforts should be formulated in the next version of the economic development strategic plan. (Priority 2)

Recommendation #4 The City should establish and further develop formal and ongoing internal and external coordinating mechanisms specifically related to the City's economic development strategy. This effort should occur in consultation with City Council's Economic Development and Strategies Committee to take advantage of the Committee's oversight and coordinating role with regard to economic development. (Priority 2)

Conclusion

The City's economic development efforts are a direct investment in the economic prosperity of the city and the region. It is important to note that there are numerous factors that affect economic development, and there are limits to what the City can do on its own. As noted throughout this report, effective economic development is contingent on the coordinated efforts of the City, other economic development entities, and private industry. Nevertheless, the City is uniquely positioned to have positive direct and indirect impacts on the direction of economic development in San Diego and the broader region. Importantly, the recent organizational restructuring of the City's core economic development departments and the upcoming mayoral election underscore both the need and the opportune timing for the City to further develop and improve its economic development strategy. A sound and stable economic development strategy is essential, particularly given the inevitability of changes in leadership, organizational structure, and policy focus.

In order to leverage its unique position within the broader economic development landscape, the City needs to take several steps to safeguard its investment in the economic well-being of the San Diego region. First, the City needs a clear articulation of its intended outcome for economic development and needs to explicitly lay out the path to achieve that outcome. Further developing and improving the City's economic development strategic plan is an effort that will likely take several years, but it is a process that needs to begin immediately.

Second, in addition to the strategic planning process, the City must necessarily take steps to better coordinate its economic development efforts internally and externally. As currently conceived, the limited scope of the City's economic development definition inhibits the City's capacity to fully realize the benefits of its investment in the region's economic well-being. Aligning and coordinating the City's economic

development efforts will enable the City to better deploy its limited resources to targeted efforts related to economic development.

Recommendations

- Recommendation #1 The City Council's Economic Development and Strategies Committee should review existing City Council policies to 1) clarify when and how frequently the City should submit the Economic Development Strategic Plan to the City Council and the timing for any interim reviews; and 2) establish guidelines for the content of the Economic Development Strategic Plan that requires inclusion of the elements necessary for a robust and comprehensive economic development effort. (Priority2)
- Recommendation #2 The City should immediately undertake an effort to engage in an internal and external coordination process to develop a clear and comprehensive statement of economic development mission and associated goals, objectives, actions, and measures. The City should ensure that the revised strategy addresses the elements set forth in City Council policies, and General Plan guidance, including those elements described in this report. This effort can and should build upon the department-level goals and measures that the City included in its Fiscal Year 2013 Proposed Budget but should be expanded to encompass other City efforts related to economic development. This effort should include regular reporting to City Council's Economic Development and Strategies Committee. (Priority2)
- Recommendation #3 As part of an ongoing strategic planning process, the City should determine necessary points of alignment with the General Plan and other relevant comprehensive city plans to determine how and to what extent those efforts should be formulated in the next version of the economic development strategic plan. (Priority2)
- Recommendation #4 The City should establish and further develop formal and ongoing internal and external coordinating mechanisms specifically related to the City's economic development strategy. This effort should occur in consultation with City Council's Economic Development and Strategies Committee to take advantage of the Committee's oversight and coordinating role with regard to economic development. (Priority2)

Appendix A: Definition of Audit Recommendation Priorities

DEFINITIONS OF PRIORITY 1, 2, AND 3 AUDIT RECOMMENDATIONS

The Office of the City Auditor maintains a classification scheme applicable to audit recommendations and the appropriate corrective actions as follows:

Priority Class ¹⁹	Description ²⁰	Implementation Action ²¹
1	Fraud or serious violations are being committed, significant fiscal or equivalent non-fiscal losses are occurring.	Immediate
2	A potential for incurring significant or equivalent fiscal and/or non-fiscal losses exist.	Six months
3	Operation or administrative process will be improved.	Six months to one year

¹⁹ The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number.

²⁰ For an audit recommendation to be considered related to a significant fiscal loss, it will usually be necessary for an actual loss of \$50,000 or more to be involved or for a potential loss (including unrealized revenue increases) of \$100,000 to be involved. Equivalent non-fiscal losses would include, but not be limited to, omission or commission of acts by or on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its residents.

²¹ The implementation time frame indicated for each priority class is intended as a guideline for establishing implementation target dates. While prioritizing recommendations is the responsibility of the City Auditor, determining implementation dates is the responsibility of the City Administration.

Appendix B: Audit Objectives, Scope, and Methodology

In accordance with the City Auditor's Fiscal Year 2012 Audit Work Plan, we conducted a performance audit of the City's economic development programs. Specifically, our objectives were to:

1. Evaluate the City's overall economic development strategy; and
2. Assess the extent to which the City's economic development strategy was coordinated and aligned with other relevant internal and external efforts.

To answer these objectives, we reviewed legal and policy documents relating to the City's economic development programs, including relevant sections of the San Diego Municipal Code, the General Plan, and City Council policies. To gain further understanding of the City's specific economic development programs, we reviewed department budget submissions, organizational charts, department policies, relevant documents submitted for City Council committee meetings, economic development program descriptions, and, where applicable, legal documents that govern the operations of certain programs. Further, we reviewed existing and proposed versions of the City Economic Development Strategic Plan.

To gain additional understanding of various components of economic development external to the City's efforts, we met with representatives from the San Diego Regional Economic Corporation, the San Diego Regional Chamber of Commerce, and several other key industry group representatives. Additionally, we conducted extensive interviews with a range of economic development experts, including representatives from academic institutions, non-profit organizations, and former City officials who had been involved with economic development during their tenure with the City.

Finally, we reviewed economic development strategic plans from nine selected US cities and conducted follow-up interviews with representatives from three of those cities.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix C: Program Funds Administered by the Economic Development Division and Economic Growth Services, Fiscal Years 2010-2012

Division/ Department	Program	Funding Source	FY10 Budget	FY11 Budget	FY12 Budget	Source Notes
Economic Development Division	Community Development Block Grant (CDBG) - Community and Economic Development, Public Facilities and Improvements, Housing Rehabilitation, Public Services, Fair Housing Services, CDBG Administration	HUD Annual Entitlement Grant	\$15,207,728	\$16,324,037	\$13,602,765	Represents funding allocations awarded to Microenterprise Assistance Projects and Community Development Projects, CIP (construction, rehabilitation) projects, public service projects, CDBG administration, HUD 108 loan payments
Economic Development Division	Maintenance Assessment Districts (MADs)	PropertyAssessments	\$3,638,706	\$3,819,084	\$3,107,038	FY 10, FY11, FY12 adopted budget; does not include MADs administered by Department of Parks and Recreation
Economic Development Division	Downtown Propertyand Business Improvement District (PBID)	PropertyAssessments	\$7,427,546	\$7,018,551	\$6,713,112	FY 10 Budget - FY12 Engineer's Report; FY11 and FY12 budgets derived from SAP Budget Reports
Economic Development Division	San Diego Tourism Marketing District	Hotel Assessments	\$24,902,329	\$22,762,359	\$26,077,202	Annual reports from SAP showing assessment revenue
Economic Development Division	Small Business Enhancement Program (SBEP) - Per Council Policy 900-15	Appropriation that equals \$20 (out of the \$34 business tax license) up to 80,000 of small businesses registered with the City	\$1,600,000	\$1,600,000	\$1,600,000	Council Policy 900-15

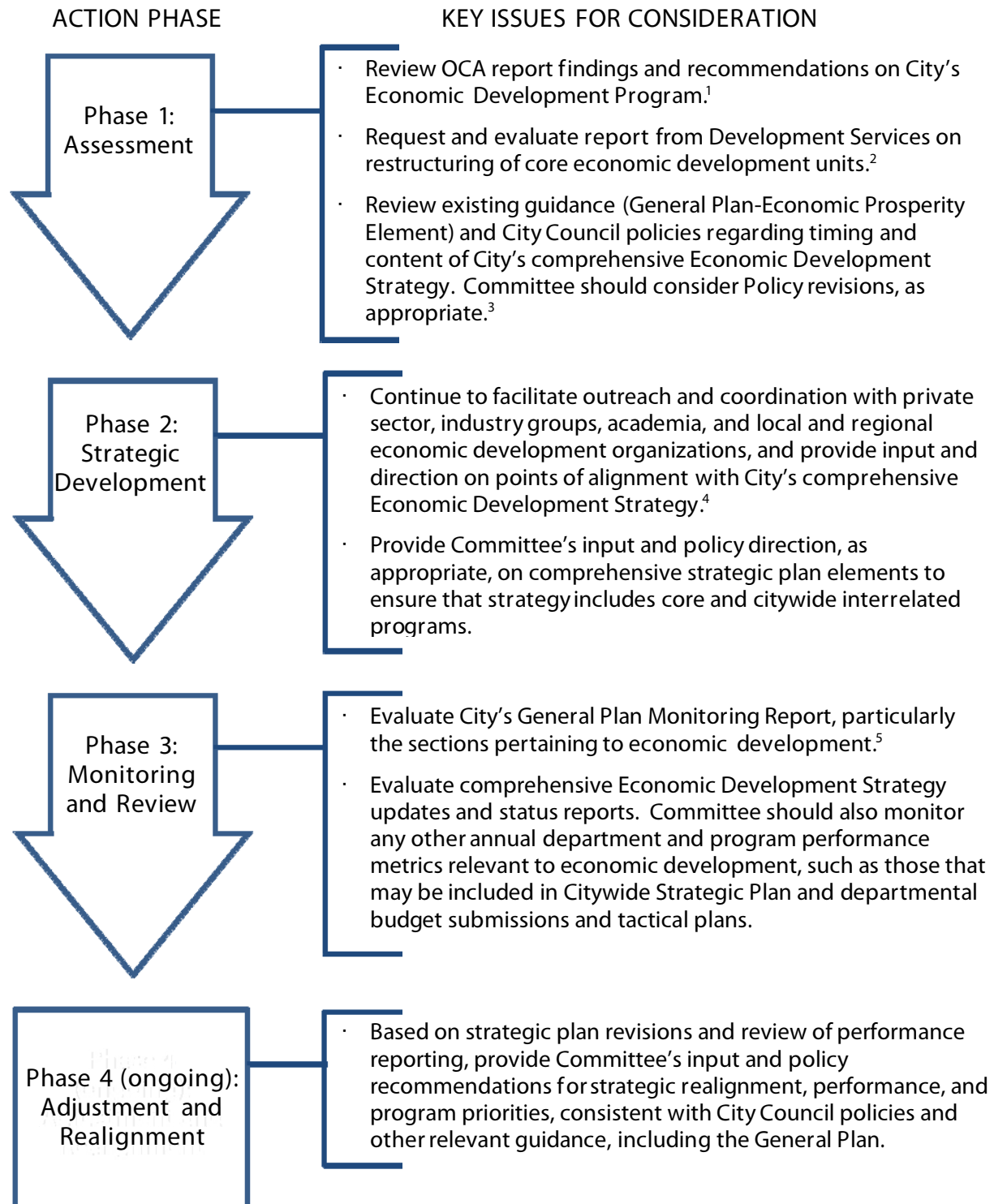
Performance Audit of the Economic Development Program

Division/ Department	Program	Funding Source	FY10 Budget	FY11 Budget	FY12 Budget	Source Notes
Economic Development Division	Business Finance - San Diego Regional Revolving Loan Fund -EmTekFund -Metro Revolving Loan	Federal - Economic Development Administration (EDA)	\$3,680,833	\$3,097,175	\$3,225,816	Reflects total capital base listed in semi-annual reports to U. S. Department of Commerce, Economic Development Administration
Economic Development Division	Business Improvement District	Business Assessments	\$1,524,005	\$1,647,200	\$1,757,944	Reflects appropriations amount listed in FY10, FY11, FY12 BID budget narratives
Economic Development Division	Economic Development Tourism Support (EDTS) Grants	TOT - \$540,000	\$540,000	\$540,000	\$540,000	FY10, FY11, FY12 adopted budgets
Economic Development Division	Business Resource Center	Federal grant	N/A	N/A	\$95,000	A-10 Budget Worksheet for Small Business Resource Center
Economic Growth Services	EGS Staff and Programs	EZ application fee, FTZ administration, and TOT	\$1,571,268	\$1,374,127	\$1,169,327	FY10 and FY 11 - Included in Community and Legislative Services Budget FY12 - Office of the Mayor's Budget
Total			\$59,912,435	\$58,182,533	\$57,888,204	

Source: OCA.

Note: City officials noted that not all of the monies included in these program funding totals are considered community and economic development funds under the City's current definition. We include the total program funding amount in order to better convey the overall size of the programs that the departments administer and to more accurately convey the scope of the departments' activities.

Appendix D: Roadmap of Recommended Next Steps and Key Issues for City Council’s Economic Development and Strategies Committee



Source: OCA.

¹ See p. xx for summary of recommendations included in this report.

² See p. 5 for a summary of the reorganization of the City's core economic development units. The effects of this reorganization will need to be evaluated on a prospective basis. In a June 1, 2012 budget priorities memorandum to the Independent Budget Analyst, the Chair of the Economic Development and Strategies Committee included a request for the City to submit a report on the economic development programs and functions resulting from the reorganization.

³ As noted in this report, City Council Policy 900-01 pertains most specifically to the timing and content of a economic development strategic plan. Several other City Council policies pertain to specific elements of the City's economic development efforts, and the Committee may wish to consider revisions to those policies, as needed.

⁴ Finding 2 of this report pertains specifically to the City's coordination with external stakeholders. See report section beginning on p. 23.

⁵ The General Plan Monitoring Report has been prepared to measure progress in implementing the City of San Diego General Plan. The General Plan was comprehensively updated in 2008, and the General Plan Action Plan, which lays out the implementation program for the General Plan, was adopted in 2009. The Action Plan describes the Key Implementation Actions for the General Plan, and includes a matrix that identifies over 300 implementation actions with at least one action associated with every General Plan policy, including the Economic Prosperity Element.

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Appendix E: Management's Response

CITY OF SAN DIEGO M E M O R A N D U M

DATE: September 24, 2012

TO: Eduardo Luna, City Auditor

FROM: Kelly Broughton, Development Services Director

SUBJECT: Performance Audit of the Economic Development Program

Thank you for giving us the opportunity to review and comment on your "Performance Audit of the Economic Development Program," dated September 2012, (the "Audit"). We feel that the Audit is well written, and is generally based on an examination of the City's adopted Council Policies, budget documents, the existing and proposed economic development strategy documents, the policies and strategies of other jurisdictions, and interviews with business advocates and economic development practitioners inside and outside the City. We appreciate the efforts of the Office of the City Auditor to provide both the Mayor and Council with an evaluation of the City's economic development efforts, and more specifically the Economic Development Strategy, since we believe that economic development must continue to be a high priority of the City. Much of the information provided in the Audit can be used to stimulate new discussions at the highest levels regarding overall City policies and City commitments to its residents in terms of finding new ways to create more job opportunities and tax revenues by expanding the City's tax base. The City can and possibly should use the proposed Economic Development Strategy (EDS) as a foundation upon which a more robust and powerful policy and marketing document can be built in order to improve the City's overall effectiveness in terms of economic development.

However, the Audit still suffers from some errors of fact, some omissions, and some misunderstandings about the City's current economic development efforts. We feel it is essential to remedy these errors of fact, to include more information and discussion on areas which were omitted, and to clarify what we regard as misunderstandings regarding specific issue areas, operational activities, goals, responsibilities, and methods.

Under the section heading "Results in Brief" the Audit states "Nevertheless, given the scope, magnitude, and importance of these programs, the City needs to take steps to improve its strategic planning for economic development. Specifically, the City should:

- (1) *"Update the economic development strategy and include key strategic planning elements"*
- (2) *"Strategically align core economic development programs with other interrelated City efforts"*
- (3) *"Leverage its central coordinating role with key internal and external stakeholders"*

Appendix E: Management's Response

Page 2

Eduardo Luna

September 24, 2012

We agree that a more comprehensive economic planning process could be beneficial to the City. However, recommendation one and two fail to recognize that the proposed Economic Development Strategy is an additive document to help provide further detail and add specificity to the economic development elements outlined in the the City's Strategic Plan and Economic Recovery section of the budget. With proper resources, the City intends to use the Economic Development Strategy to further identify and specify economic development efforts of the City within the framework of the City's Strategic Plan, City's Management Program, and the City's Budget. Regarding activity three which is based on what we regard as an erroneous premise – the idea that the City, acting by and through its economic development units, has (or should take on) a central coordinating role for the entire region with respect to “external stakeholders.” The City has a key role in coordinating with regional organizations and the trade organizations, but is not the sole central coordinator for organizations that must be responsive to their members, the other cities in the region, and their respective constituencies. The discussion below explains why.

Sources and Uses of Funds

The Audit plainly states that *“Prior to July 2012, the City of San Diego operated its core economic development programs through two separate divisions – the Mayor's Office of Economic Growth Services (EGS) and the Economic Development Division. These two City divisions administered 27 programs with funding of over \$35 million each year since 2010 to both directly and indirectly support economic development.”* [Emphasis added]

The City's CDBG budget allocation of approximately \$17.5 million is mostly spent on social services in predominantly residential areas, such as for emergency shelters and other services to homeless persons in accordance with Federal guidelines for the use of such funds. Only approximately \$1.2 million was spent in FY12 for economic development purposes. Accordingly, the City's annual expenditures for economic development are closer to approximately \$19 million. Of this amount only approximately \$870,000 is budgeted for industrial development.

The City's Economic Development Strategy

The proposed Economic Development Strategy (EDS) was completed using existing staff resources based upon input from the Rules Committee and meetings with individual council members. As explained to the Economic Development & Strategies Committee, the document was deliberately short and concise, to present an attractive justification for new commercial and industrial investment in San Diego. The EDS was never intended as a pure policy document, or as the written result of a comprehensive economic policy planning process. The EDS was drafted to do essentially two things: (1) give business investors outside San Diego a clear picture of the City's current local economy, its mix of businesses and industries, its potential investment and business opportunities; and (2) to describe the City's business development programs and other business support structures which would further justify new private commercial and industrial development within the City.

Appendix E: Management's Response

Page 3
Eduardo Luna
September 24, 2012

We feel the content of the document illustrates that City staff already understands the City's selling points and is proceeding accordingly. At the most recent Economic Development & Strategies Committee meeting when the EDS was presented, staff indicated a willingness and ability to augment the base document if sufficient resources could be identified. Subsequently two new positions were added to the FY13 EGS budget in order to increase overall organizational effectiveness including additional outreach and administration.

The stated goals, objectives, and performance measures of the City's economic development units have been included in the "Department Detail" sections of the City's annual Budget Document, each and every year since FY09, consistent with the same practice for other departments and work units throughout the City. Additional information on current conditions and economic development efforts have been similarly provided in the "Economic Recovery" sections for those same years, and more recently economic policy objectives were included in the "City Management Program" section.

We agree that if the Council intends for the EDS to fulfill the role of an "action plan" and/or to more comprehensively set forth guiding principles and policy's for the City as a whole (including its bilateral relationships with external partners) that such a document could provide value and lead to greater efficiency and effectiveness in the achievement of traditional economic objectives. As stated above, much of the information already exists in other City documents and is well within the institutional knowledge base of the City's economic development units.

However, City staff still needs to get input from the City Council and stakeholders, presumably through one or more of its standing committees (e.g. Economic Development & Strategies) in order to develop a scope of work to build upon the existing EDS and transform it into a more comprehensive document. Further, we caution that an accelerated due date and/or a very broad scope of work could lead to a short term loss of economic opportunities as expert staff would be diverted from business development to plan development. In the event the Council chooses to proceed towards the development of a more robust and comprehensive EDS, we also still recommend that the EDS refine its scope to goals, objectives, and policies which are reasonably within the purview of the Mayoral departments as they are currently funded. A focused scope of work and an adequate time frame would best ensure no disruption to ongoing job creating and revenue generating activities. If the input provided leads to a scope of work that includes complex technical data and statistics which is not readily available it may be necessary to identify additional financial resources (NPE) in order to contract for that portion of the work.

The Role of Municipal Economic Development Agencies

The Audit makes repeated references to the City as having a "**central coordinating role**" (p.2, 28, 31-33) with respect to "external stakeholders," and "external partners." The City already regularly networks with over 50 outside organizations such as other jurisdictions (Port of SD, Chula Vista, National City) regional and sub-regional economic development corporations, trade associations, chambers of commerce, and other business, academic and educational organizations, and federal agencies in order to coordinate certain policy objectives, market and administer its multi-jurisdictional Enterprise Zone, maximize economic development project opportunities, gain new information, etc. In many instances City staffers are voting members of

Appendix E: Management's Response

Page 4

Eduardo Luna

September 24, 2012

formal organizations or attend meetings on an as-needed basis. We added one new staff position (CDS IV) in FY 13 specifically to increase outreach and coordinate with our economic development partners and trade organizations on issues, initiatives, and regional efforts.

The City coordinates the marketing and promotion of its own regional initiatives such as the Cleantech Initiative and the San Diego Regional Enterprise Zone. The Enterprise Zone (EZ) includes the cities of Chula Vista and National City and is effectively marketed by all three cities and by external partner organizations such as the Otay Mesa Chamber of Commerce, San Ysidro Chamber of Commerce and the South County Economic Development Council. The EZ adds tremendous cash value to businesses located within the designated area, providing all three cities with a powerful economic development tool. During the last 5 years EZ businesses have hired over 31,000 workers, including 7,310 new jobs created and filled by local residents. The EZ was recently expanded to include southern and eastern Chula Vista as well as 5 new commercial/industrial areas in the central and northern parts of San Diego. Nine non-profit external partner organizations have agreed to assist in the marketing of the expanded EZ including: BIOCUM, CleanTech San Diego, CommNexus, CONNECT, the Industrial Environmental Association, the San Diego Brewers Guild, the San Diego North Chamber of Commerce, the San Diego Regional Chamber of Commerce and the San Diego Regional Economic Development Corp. Initiatives like these provide a focused approach to working with the various economic development organizations which allows the City to leverage its role as a significant coordinating body, rather than the "central coordinating" economic development body for the entire region.

The 55 organizations with which the City regularly networks, represent a very broad and disparate strata of mostly private-sector groups which have generally membership-driven agendas and frequently compete among each other for new members and contributions (and accordingly) compete for "credit" for certain accomplishments. Any "central coordinating role" properly belongs with a regional organization such as the Greater San Diego Chamber of Commerce, the San Diego Regional Economic Development Corp. (EDC), or the San Diego Association of Governments (SANDAG). The City's involvement with those organizations and its approach to serving as a significant coordinating body, is the appropriate role given the activities of the various economic development organizations and the needs of the other cities in the region.

In order for the city to maintain and grow successful economic development relationships it is important to recognize the differences between municipal economic development agencies such as those contained within the structures of cities and counties, and those in the private sector. Private sector economic development organizations are typically non-profit organizations which promote broad goals and policy objectives, or market specific geographic areas to potential business investors. These organizations answer to a board of directors and obtain funding from grants, by hosting events, or through member contributions.

Municipal economic development agencies, by contrast, are staffed by civil servants who answer to elected officials and administer specific economic development programs enacted by those elected officials. Generally speaking, these programs are designed to not only create new job opportunities for City residents through increased private sector investment, but also to

Appendix E: Management's Response

Page 5

Eduardo Luna

September 24, 2012

revitalize older historical commercial corridors, and to generate new General Fund tax revenues by broadening and strengthening the tax base. They are complex programs which derive their funding from special assessments on businesses, fees for services, grants from state and federal agencies, interest on loans, and voluntary tax contributions. These programs provide high value-added services, subsidies, and other incentives, as necessary and appropriate, to directly or indirectly stimulate new capital investments and new hiring by private businesses. Importantly, the administration of these special programs generates new General Fund revenues, well above and beyond program administration costs, directly from commercial and industrial projects and special assessment districts. Thus municipal economic development agencies are, by their nature, zone, district, and project oriented.

Construction and new capital investments from expanding businesses creates contracting and procurement opportunities throughout the region. Similarly, the hiring of new employees by these private sector businesses, and the resultant payroll expenditures, also creates other jobs and economic opportunities throughout the region. However, California's tax structure allocates property, sales, use, license, and other taxes and franchise fees to the jurisdiction where the business or capital investment is physically located. Thus there is always competition between jurisdictions for business investment.

While a comprehensive planning process could lead to an improvement in the bilateral relationships the City enjoys with its external partners, (e.g. better divisions of labor, clearer agreements as to roles and responsibilities to eliminate duplicative efforts) any expectation that the City has the authority or any mandate to coordinate the activities of private organizations or other competing jurisdictions is predicated only on the weak evidence of some individuals interviewed by the Office of the City Auditor (p. 31). The idea that the City should seek to gain such a mandate and take on such a role implies an unrealistic understanding of not only the behavior of external stakeholders and partners, but also a misunderstanding of conflicting interests which would likely militate against any such role for the City. The Audit's lack of detail concerning the roles and responsibilities of municipal economic development agencies in California generally, and in the City of San Diego specifically, further underscores our contention that though the City has a significant role in the region as a coordinator and convener, it is not appropriate to take on the "*central coordinating role*" in an absolute context. It is a concept that is frankly, infeasible and could result in the misappropriation of City resources.

The Auditor's Concluding Recommendations

The Audit provides four (4) concluding "Recommendations." "Recommendation #1" is directed to the City Council's Economic Development and Strategies Committee. Therefore we defer to that Committee to respond to that recommendation. We generally agree with "Recommendations #2, #3, and #4" with the proviso that the "external coordinating process/mechanisms" should be focused on the implementation of City-sponsored initiatives and in furtherance of the best interests of the City.

Appendix E: Management's Response

Page 6
Eduardo Luna
September 24, 2012

Conclusion

We appreciate the focus and attention which the Office of the City Auditor has placed on the City's economic development efforts and find that the Audit was well written. City staff's evaluation of the Audit has stimulated internal discussion and that can build upon our efforts to achieve greater efficiency and effectiveness.

We agree that pending further Council direction, the EDS could be expanded into a more comprehensive document, at a minimum by pulling in existing goals, objectives, and performance measures from the various segments of the City Strategic Plan, City Management Plan, and City Budget Document. As was communicated during the development of the EDS, a more comprehensive document will require a scope of work that can be developed in collaboration with stakeholders and the Council. Such a scope would need to identify a reasonable timeframe for completion of that work and any necessary resources to ensure that existing efforts are not disrupted, potentially resulting in lost opportunities to create jobs for City residents and tax revenues for the City's General Fund.

We hope that this response will help the Office of the City Auditor to understand in greater detail how the City's economic development units function, their goals and objectives, and in particular that our own economic development efforts, by necessity, are structured similarly to other jurisdictions throughout the state. We do believe that the City serves a significant coordinating role with our external partners that we constantly strive to expand and improve. However, a "central coordinating role" with respect to external partners or other neighboring jurisdictions, beyond the general scope of the existing bilateral relationship structure, is likely infeasible and would result in the disruption and diversion of existing efforts, efforts which we believe are working and providing great value to City residents and taxpayers.

Kelly Broughton
Development Services Director

cc: Jay Goldstone, Chief Operating Officer
Wally Hill, Assistant Chief Operating Officer
David Graham, Deputy Chief of Staff
Tom Tomlinson, Deputy Director, Economic Development & Project Mgt. Division
Lydia Moreno, Government Incentives Program Manager, EGS
Russ Gibbon, Business Development Manager, EGS

Appendix F: Management's Comments and Our Evaluation

City officials provided us oral and written comments on a draft of this report (Management's written response is presented in Appendix E). City departments also provided technical comments, which we have incorporated throughout the report, as appropriate. Overall, the City agreed with our recommendations to improve the content, scope, alignment, and coordination issues related to the City's economic development strategy, and supported our recommendation for the City Council to consider relevant City Council Policy clarifications. The City's written response outlines a few areas of conceptual disagreement, including specific findings related to the scope of the economic development strategy document, the City's coordinating role, and our description of program funding.

First, the City's response indicates the proposed economic development strategy was not intended to be the written result of a comprehensive economic development planning process. The response outlines the need for additional City Council input and, potentially, additional resources in order to transform the proposed strategy into a more robust document. We agree that additional City Council guidance would be beneficial on the specific areas we describe in the report. However, we maintain that existing City Council policies, guidance set forth in the General Plan's Economic Prosperity Element, and the strategic planning elements outlined in our report provide a reasonable rationale, direction, and framework for developing a more comprehensive economic development strategy. As noted in our report and in the City's response, some specific performance measures and planning elements are reflected in City budget and other documents. We note in the report that these efforts provide an important starting point to improve the strategy. Importantly, the City's response generally agrees with our assessment of the potential benefits to the City of developing a more comprehensive plan.

Second, the City's response outlines an area of disagreement with our report relating to the City's central coordinating role with external stakeholders. The response seems to mischaracterize our use of the word "central" and infers that we recommend that the City establish itself as a type of centralized coordinating authority. We make no direct or implied assertion in the report that the City expand its jurisdiction, and the report fully acknowledges the municipal mandate and focus of the City's efforts. Nor does the report suggest that the City's strategic planning efforts replace those of the City's partners. On the contrary, the report acknowledges and describes the City's coordination with external stakeholders, but also articulates the need for those efforts to be further developed in support of the City's economic development strategy. Our assessment is based on economic principles, accepted concepts of strategic planning, external reviews of other municipalities' efforts, and input of many of the City's economic development partners. Finally, we maintain that the City's key

role within the broader regional economy will benefit from improved, focused, and strategic bilateral and multilateral coordination with its partners.

Last, the City's response disagrees with our description of the total funds administered by EGS and EDD. As noted in the body of the report, in footnotes, and in Appendix C, we present the total amount of funds administered by the programs to better convey the units' work activity. Further, we include the data sources and specific rationale for including total funding throughout the report, and also include specific reference to the portion of those funds that the City considers to be economic development expenditures, under its current definition.

CITY OF SAN DIEGO, CALIFORNIA
COUNCIL POLICY

CURRENT

SUBJECT: ECONOMIC DEVELOPMENT
POLICY NO.: 900-01
EFFECTIVE DATE: November 28, 2012

BACKGROUND:

Economic development refers to activities undertaken by the public and private sector to promote job creation and retention and insure a strong diversified economy. Since the 1950s, the City has planned and implemented a variety of economic development programs. Areas of economic development activity include business attraction, business retention and expansion, commercial and neighborhood revitalization, redevelopment, small business assistance, tourism promotion, international trade and development projects involving city-owned land. Success in these activities is dependent upon complementary efforts to provide for public infrastructure, affordable housing, employment and training and environmental quality as well actions in the legislative and regulatory arenas.

In January 2012, the City Council amended the Permanent Rules of Council to establish the Council Committee on Economic Development and Strategies responsible for reviewing, holding hearings, and making recommendations to the City Council concerning the City's economic development programs and strategies.

PURPOSE:

To provide the framework for a comprehensive economic development program and a focused economic development strategy which promotes and encourages healthy, sustainable, and diversified economic prosperity throughout San Diego.

POLICY:

It is the policy of the City Council to support a focused Economic Development Strategy and a comprehensive Economic Development Program which promote and sustain a healthy diversified economy throughout San Diego. It is further the policy of the City Council that the focused Economic Development Strategy be prepared consistent with this Policy and updated every three years. The focused Economic Development Strategy, and its respective updates, will be presented to the Council Committee on Economic Development and Strategies for review and recommendation prior to City Council consideration.

CITY OF SAN DIEGO, CALIFORNIA
COUNCIL POLICY

CURRENT

1. Focused Economic Development Strategy

- a) The Economic Development Strategy will include each of the following elements: mission, goals and objectives, actions, economic indicators, and performance measures.
- b) The Economic Development Strategy will be aligned with goals and objectives found in other City strategic and operational documents, including the General Plan Economic Prosperity Element, the City Strategic Plan, the Annual Budget, and this Policy.

An annual progress report of the adopted Strategy will be presented to the Council Committee on Economic Development and Strategies.

2. Comprehensive Economic Development Program

The Economic Development Program will be coordinated with City departments and external stakeholders to address the following goals and activities:

- a) Business Development and Retention. Support business retention, expansion and attraction, as follows:
 - i. Assist in the retention and expansion of existing San Diego businesses and the attraction of new businesses through focused outreach, ombudsman and public and private incentive programs.
 - ii. Focus on the attraction, expansion, and retention of businesses which provide employment opportunities for San Diego residents, diversify and strengthen the economic base and/or generate new City revenues by augmenting the City's tax base.
 - iii. Encourage public-private partnerships which increase communication and collaboration between business and government.
 - iv. Provide for a positive business climate which enhances and promotes the competitiveness of San Diego firms.

CITY OF SAN DIEGO, CALIFORNIA
COUNCIL POLICY

CURRENT

- v. Promote the growth and formation of San Diego small businesses, with an emphasis on emerging businesses, through comprehensive technical and financial assistance and entrepreneurship and technology transfer programs.
- b) Workforce Development and Education. Support workforce development and educational partnerships, as follows:
 - i. Aggressively pursue efforts to create new jobs and support targeted industries which meet the needs of local residents.
 - ii. Work closely with a variety of organizations including institutions of higher learning in San Diego to encourage support and collaboration in the City's economic development activities.
 - iii. Support programs which improve the quality of San Diego's labor force through education and training and coordinate these efforts with economic development activities to ensure that unemployed, underemployed, and disadvantaged San Diegans find employment.
- c) Managed Growth. Promote well-managed growth which is environmentally sensitive and maintains San Diego's exceptional quality of life, as follows:
 - i. Facilitate the revitalization of San Diego's older neighborhoods through formation and support of business and community organizations, public improvement design and construction, stimulation of private investment and related efforts within older commercial and residential areas.
 - ii. Develop City-owned industrial land to provide new job opportunities and revenue generation through industrial development.
 - iii. Encourage the development of affordable housing.
- d) Manufacturing. Support the growth of manufacturing jobs by ensuring the development of a regulatory process which is timely, user-friendly, predictable and cost-effective, and which provides a balanced approach to environmental issues by:

CITY OF SAN DIEGO, CALIFORNIA
COUNCIL POLICY

CURRENT

- i. Advocating for legislative and regulatory change, including periodic meetings with State and Federal representatives, to ensure support for the City's economic development efforts.
 - ii. Providing an opportunity for the public and economic development staff to submit suggestions and comments on regulatory relief at the Committee on Economic Development and Strategies.
- e) International Trade. Support international trade and cooperation, as follows:
- i. Take a pro-active leadership role in binational economic development which includes building a strong cooperative relationship with Mexico to address our mutual economic challenges and opportunities.
 - ii. Increase the global competitiveness of San Diego businesses through promotion of international trade and foreign investment and development of partnerships with Mexico (focusing especially on shared infrastructure), and other countries.
 - iii. Enhance San Diego's economic climate and provide access to national and international markets through the planning, development and maintenance of transportation, sewer, water and other key infrastructure systems.
- f) Tourism. Promote, in coordination with local tourism industry, San Diego as a tourist destination through events and activities, including the arts and culture, which attract tourists to San Diego.
- g) Military. Support San Diego's military installations with advocacy to retain and protect military assets and the defense industry, and coordinate with the military to address future growth and development through comprehensive land use planning.

REFERENCES:

Council Policy 000-19, Legislative Policy Guidelines

CITY OF SAN DIEGO, CALIFORNIA
COUNCIL POLICY

CURRENT

Council Policy 900-03, Management and Marketing of City-Owned Industrial Property
Council Policy 900-04, Industrial Development
Council Policy 900-07, Business Improvement Districts
Council Policy 900-12, Business and Industry Incentive Program
Council Policy 900-15, Small Business Enhancement Program (SBEP)
Council Policy 900-17, Storefront Improvement Program

HISTORY:

Adopted by Resolution R-213611 - 06/19/1975
Amended by Resolution R-223090 - 03/19/1979
Amended by Resolution R-251992 - 06/09/1980
Amended by Resolution R-258414 - 05/09/1983
Amended by Resolution R-260765 - 05/22/1984
Amended by Resolution R-261080 - 07/03/1984
Amended by Resolution R-280134 - 06/15/1992
Amended by Resolution R-307888 – 11/28/2012

Attachment 4

**City of San Diego
Economic Development Strategy**

2014-2016

Table of Contents

Executive Summary

- 1. Introduction**
- 2. Mission, Goals, Strategic Objectives, and Performance Measures**
- 3. The San Diego Economy**
- 4. San Diego’s Economic Base Sectors**
 - 4-1. Manufacturing and Innovation**
 - 4-2. International Trade & Logistics**
 - 4-3. Military Installations**
 - 4-4. Tourism**
- 5. San Diego’s Neighborhood Businesses**
- 6. Efforts to Support Economic Development**
 - 6-1. City Tax Structure**
 - 6-2. City Services and Operations**
 - 6-3. Workforce Development & Education**
 - 6-4. City Relationships to External Organizations**

Appendix A: Base Sector Economic Engines

- Military Installations
- Tourism
- Manufacturing
 - Biotech & Medical Devices*
 - Cleantech & Energy Efficiency*
 - Defense & Security Systems*
 - Electronics & Telecommunications*
 - Food & Beverages*
- International Trade & Logistics
- Other Base Sector Industry Clusters and Business Establishments

Appendix B: Community Investment & Revitalization

Appendix C: Fiscal Impacts by Land Use

Appendix D: Internal Operational Guidance & Coordination

Appendix E: Education & Workforce Development

Appendix F: List of External Business Organizations

Appendix G: Economic Development Programs and Business Districts

- Business & Industry Incentive
- Business Cooperation
- Guaranteed Water for Industry
- Foreign Trade Zone
- Business Finance Program
- Economic Development & Tourism Support
- Tourism Marketing District
- Business Improvement Districts
- Small Business Enhancement Program
- Storefront Improvement Program
- Community Parking District Program
- Small Local Business Enterprise Program

Appendix H: List of Available Industrial Properties

Appendix I: Summary of Findings – Brookings Institution San Diego Export Study

Executive Summary

This Economic Development Strategy lays the foundation for sustained economic recovery and fiscal stability for the City of San Diego.

San Diego's economic base has evolved from a dependence on the military and tourism to a focus on high-technology manufacturing and international trade. The City's highly-skilled labor force, pleasant Mediterranean climate, and unique proximity to Mexico and the Pacific Rim provide comparative advantages for established businesses and businesses considering relocation to San Diego, which are already established in the City as well as those which are considering investment in San Diego.

San Diego's biggest economic problem is the "hourglass economy" in San Diego as middle income jobs are replaced with high-skill, salaried professional, technical, scientific, and managerial white-collar jobs at the top, and low-skill, low-wage retail and service sector jobs at the bottom. Although this same trend is evident at the state and national levels, San Diego's economic stratification is worsening faster.

This Economic Development Strategy lays out a Mission Statement, three Strategic Objectives, and a set of Economic Indicators that will help the City track progress. It also lays out specific Tactical Objectives and Action Steps for four "base industries," for a neighborhood business strategy, and four a set of four other economic development efforts.

Economic Development Mission

The City's Economic Development Mission is as follows:

To create a wide spectrum of job opportunities for San Diego residents by expanding the City's economic base and increasing local economic activity, and to generate new tax revenues for essential public services by expanding the City's tax base.

Strategic Objectives

The City's Economic Development Mission can be translated into three Strategic Objectives.

#1: Economic Base Growth

Attract, retain, and expand businesses in the City's four economic base sectors (innovation/manufacturing, international trade & logistics, military, and tourism), focusing especially on emerging sectors such as Cleantech & Energy Efficiency and the Food & Beverage industry clusters.

#2: Middle-Income Jobs

Increase the number of middle-income jobs, especially in economic base sectors.

#3: Neighborhood Businesses

Increase the amount of neighborhood business activity, especially in underserved neighborhoods

Economic Indicators

Progress toward the goals of this Economic Development Strategy can be tracked through the use of seven relevant economic indicators. These are:

1. Increase the Gross Regional Product (GRP) of the San Diego Region
2. Increase the percentage of the workforce which earns middle-wage incomes
3. Decrease the rate of local unemployment
4. Increase the local median income
5. Decrease the number of people living in poverty
6. Increase General Fund tax revenues as a percentage of GRP
7. Increase the business activity in the City's neighborhood business districts.

Economic Base Industries

Most of this Economic Development Strategy is devoted to a discussion of San Diego's four "economic base" industries and laying out Tactical Objectives and Action Steps for these four industries.

"Economic base" industries are industries that produce goods and/or services that are sold outside the region, thus bringing money and wealth into the region. Unlike local businesses, which serve local customers but do not increase the region's overall economy, "economic base" industries create the foundation of jobs and wealth for the entire region, bringing money in from the outside that circulates again and again within San Diego to boost the economy. San Diego's four economic base industries are:

1. Manufacturing and Innovation
2. International Trade & Logistics
3. Military Installations
4. Tourism

This Economic Development Strategy lays out Tactical Objectives and Action Steps for each of these four base industries that, if achieved, will help San Diego make progress toward the first two of the three Strategic Objectives and the seven Economic Indicators.

Neighborhood Business Districts

This Economic Development Strategy also calls out the importance of nurturing small, locally owned neighborhood businesses, especially in older neighborhood business districts with an emphasis on historically underserved neighborhoods. Focusing effort on such businesses has two major benefits. First, in contrast to corporate chain retail stores, locally owned businesses retain money in the local economy to be re-circulated again and again. Second, the success of such businesses -- especially when concentrated in business districts -- can serve to revitalize San Diego's older neighborhoods, achieving many other goals in the process. This Economic Development Strategy lays out Tactical Goals and Action Steps for locally owned small businesses and neighborhood business districts as well.

Other Economic Development Efforts

This Economic Development Strategy also lays out four other areas of City activity that should be used to support economic development efforts. These are:

- The City's tax structure, which tends to penalize base industries that provide the economic foundation of the region.
- City services and operations, which can impede business growth.
- Workforce development and education, which -- though not directly the City's responsibility -- is vital to provide businesses with the workforce they need.
- City relationships to external economic development organizations, whose efforts must be coordinated with the City's for maximum economic benefit.

This Economic Development Strategy also lays out Tactical Objectives and Action Steps for each one of these four additional economic development efforts.

1. Introduction

This economic development strategy is intended to guide the City of San Diego's economic development efforts for the next three years. In doing so, this strategy serves several purposes:

First, it is designed to *inform local policymakers and investors about the nature of the City's economic base*, specifically by describing *the driving industries that form the basis for future economic prosperity*.

Second, it *describes the City's strengths and weaknesses* as well as the *City's existing efforts* through various programs and initiatives, and *examines various threats* to fiscal, social, and economic stability.

Finally, and most importantly *it lays out an economic development action plan* designed ensure fiscal and economic prosperity well into the future.

The term "economic development" refers to activities undertaken by the public sector to promote job creation and retention, to ensure a strong, growing and diversified economy, and to increase the size of the local tax base.

Since the 1950s, the City of San Diego has engaged in a wide variety of economic development activities, including programs that have focused on:

- Business attraction
- Business retention and expansion
- Commercial and neighborhood revitalization
- Redevelopment
- Small business assistance
- Tourism promotion
- International trade promotion, and
- Development of City-owned industrial land.

Economic development success depends not only on these business-oriented programs, but also on complementary efforts provide public infrastructure, affordable housing, education and workforce training, and a cost-effective and predictable regulatory framework.

A successful economic development strategy focuses on growing the *economic base*, which is that segment of the economy that brings money in San Diego by exporting goods and services to the rest of the nation and the world. Some of these earnings are spent to import goods and services from outside the metropolitan area – typically goods and services which can't be cost-effectively produced or provided internally. But some of it is circulated and re-circulated through the local economy. Local ownership and local consumption of goods produced locally

(“internal spending”) can provide additional economic benefits even beyond those provided by the earnings of the economic base.

This Economic Development Strategy first discusses how San Diego earns money through the exportation of goods and services, and then examines how to augment those economic benefits through support of locally owned establishments.

An effective economic development strategy should contain all of the following three elements¹:

- (1) Mission,
- (2) Goals and Actions,
- (3) Economic Indicators and Performance Measures.

Accordingly, these three elements are included in this Economic Development Strategy. Proposed specific actions are listed following the discussion section for each segment of the economic base and for neighborhood-based businesses.

¹ These three elements are derived from research and guidance provided by Council Policy 900-01 “Economic Development,” the City Auditor’s Office, and expert outside organizations such as the Government Finance Officers Association (GFOA), the National Performance Management Advisory Commission, the U.S. Government Accountability Office (GAO), the U.S. Office of Management and Budget (OMB), and the international City/County Management Association (ICMA)

2. Mission, Strategic Objectives, and Performance Measures²

The City's Economic Development Mission is:

To create a wide spectrum of job opportunities for San Diego residents by expanding the City's economic base and increasing local economic activity, and to generate new tax revenues for essential public services by expanding the City's tax base.

2-1. Strategic Objectives

The City's Economic Development Mission can be translated into three Strategic Objectives.**#1: Economic Base Growth**

Attract, retain, and expand businesses in the City's four economic base sectors (innovation/manufacturing, international trade & logistics, military, and tourism), focusing especially on emerging sectors such as Cleantech & Energy Efficiency and the Food & Beverage industry clusters.

#2: Middle-Income Jobs

Increase the number of middle-income jobs, especially in economic base sectors.

#3: Neighborhood Businesses

Increase the amount of neighborhood business activity, especially in underserved neighborhoods.

The first two Strategic Objectives will be pursued through the Action Steps in Section 4 in connection with each of the four economic base sectors. The third Strategic Objective will be pursued through the Action Steps in Section 4 in connection with neighborhood. Section 6 contains discussion of four other supportive efforts, each of which can play a role in supporting the Strategic Objectives. In each case, these Strategic Objectives are translated into Tactical Objectives. Action Steps are then listed and possible Metrics are proposed.

² Editor's Note: The Mission Statement, Strategic Objectives, and Performance Measures listed here are similar to those listed in the annual budget documents for the City's internal economic development units, but are much broader and intended to provide goals and objective standards for the City as a whole, including all of the departments and offices whose activities have some bearing on the City's overall economic development efforts.

2-2. Economic Indicators And Performance Indicators

Progress toward the City’s Strategic Goals can be measured using readily available data. The following seven Performance Measures are directly linked to the three Strategic Objectives:

1. Increase the Gross Regional Product (GRP) of the San Diego Region
2. Increase the percentage of the workforce which earns middle-wage incomes
3. Decrease the rate of local unemployment
4. Increase the local median income
5. Decrease the number of people living in poverty
6. Increase General Fund tax revenues as a percentage of GRP
7. Increase the business activity in the City’s neighborhood business districts.

All of these performances measures can be tracked with readily available empirical data and can be used to a “report card” to track the City’s progress. Taking the Action Steps in order to accomplish the Tactical Objectives and make progress toward the Strategic Objectives should “move the needle” on these economic indicators. If San Diego does not make progress toward these economic indicators, the City should revisit all facets of this strategy – the Strategic Objectives, the Tactical Objectives, and the Action Steps – to determine whether they need to be re-tooled.

Figure 1: Overall Performance Measures and Economic Indicators

Economic Indicator	2013 San Diego	2017 San Die- go	2013 California	2013 United States
1. Gross (Regional) Product (GRP) ³	\$186 billion	TBD	\$2 trillion	\$15.610 trillion
2. Residents Earning Middle Income Wages ⁴	28%	TBD	27%	53%
3. Unemployment Rate ⁵	7.4%	TBD	8.9%	7.3%
4. Median Household Income ⁶	\$60,330	TBD	\$58,328	\$51,371
5. Number of Persons Below Poverty Line ⁷	15%	TBD	16.6%	15.9%
6. General Fund Tax Revenue as a Percentage of GRP ⁸	\$.006392	TBD	n/a	n/a
7. Total Sales in Neighborhood Business Districts.				

³ National University System Institute for Policy Research (NUSIPR), Wikipedia, and International Monetary Fund, figures are for end of 2012. Figures for California and the United States are the Gross State Product (GSP), and Gross Domestic Product (GDP) respectively.

⁴ Ibid.

⁵ U.S. Census Bureau, figure is for August 2013.

⁶ Ibid., figure is for end of 2012.

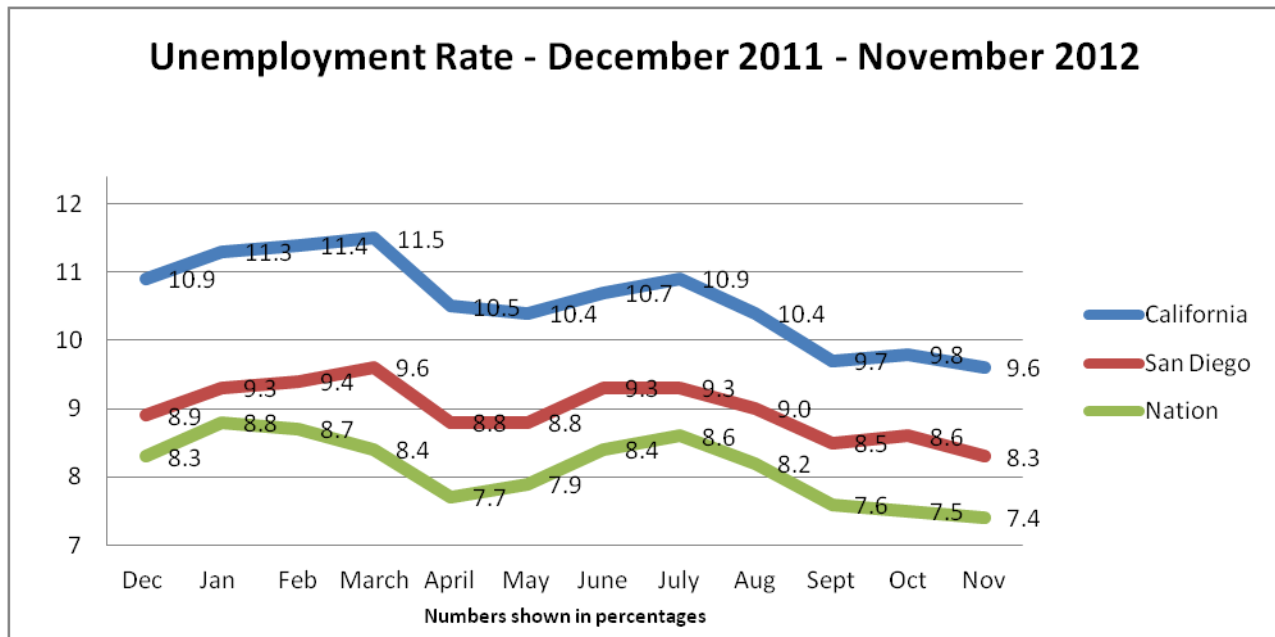
⁷ Ibid., figure is for end of 2012

⁸ Financial Management Department and NUSIPR, FY2012 General Fund budget actual receipts divided by 2012 GRP.

3. The San Diego Economy

The recent economic recession that our nation has experienced for the last several years has not left San Diego untouched. Despite recent improvements, San Diego still suffers from a persistently high local unemployment rate (8.3% as of November 2012, 7.4% as of August of 2013). Though this about the same as the national average and below the statewide rate of approximately 9.6%, it is one of the reasons why the need for job creation dominates the public conversation. Spending in the construction, manufacturing, finance, and real estate sectors is recovering gradually. But the short-term economic recovery still masks a long-term problem.

Figure 2: San Diego’s Regional Unemployment Rate

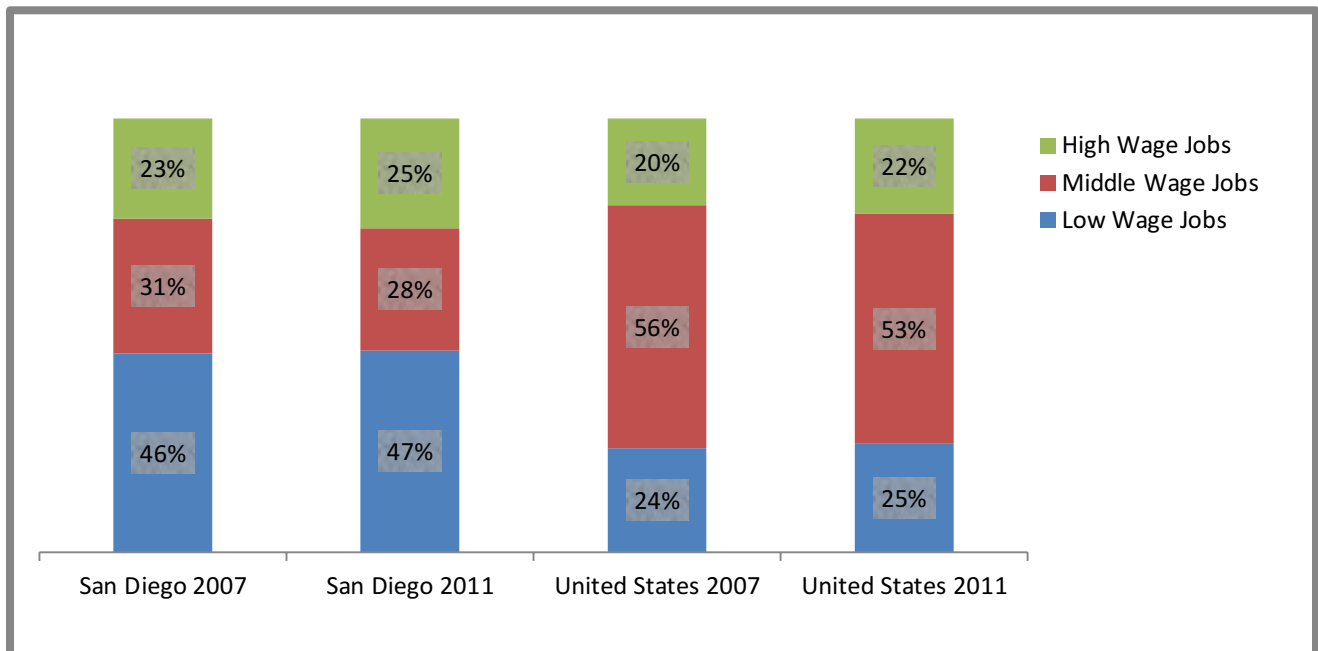


Source: San Diego Workforce Partnership, Unemployment Report, November 2012

3-1. The Hourglass Economy

Despite the improvement in the unemployment rate, San Diego still suffers from an “hourglass economy”. Most job creation is either in low-wage service sector industries – retail and tourism – or high-wage jobs for highly educated scientists, engineers, and managers across many industries. The result is an economy that looks like an “hourglass”: A small number of employees making high wages at the top and a large number of employees making low wages at the bottom, with relatively few middle-income jobs in between.

A recent report from the National University System Institute for Policy Research (“NUSIPR”) illustrates the continued trend toward the hourglass economy in San Diego, showing that the trend accelerated between 2007 and 2011:

Figure 3: Loss of Middle Wage Jobs Accelerates in San Diego as Compared to the Nation.

“High Wage” jobs are those that provide compensation 25% or more above the overall average (mean) wage, “Middle Wage” jobs are those paying +/- 25% of the average overall wage, and “Low Wage” jobs are those paying 25% or less than the average overall wage for San Diego County

Average Wage = \$24/hour or \$50,000 annually

High Wage = More than \$30/hour or \$62,500+/annually

Middle Wage = \$18 - \$30/hour or \$37,500 - \$62,500/annually

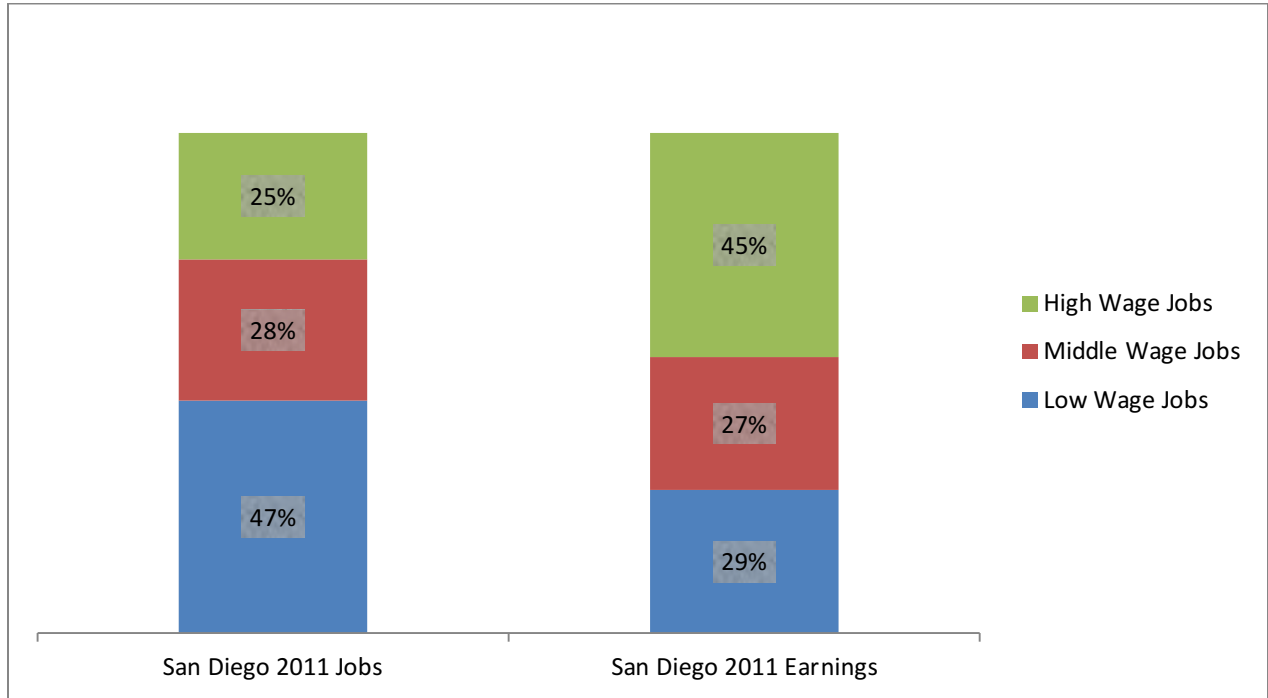
Low Wage = Less than \$18/hour or \$37,700 annually

After evaluating economic data for the period 2007 – 2011, Kelly Cunningham, Chief Economist for NUSIPR reported in December of 2012 that:

*“While San Diego’s low-wage jobs declined in both number and total wages, the decreases were not nearly as deep as among middle-wage jobs. **It becomes clear from this examination of occupations and wages that middle-wage jobs are disappearing and San Diego’s employment base is increasingly stratified towards technically skilled, high-wage jobs on one side, and relatively low-skilled, low paid positions on the other.**” [Emphasis Added]*

And as Figure 4 shows, the “Hourglass Economy” is far more pronounced in San Diego than in the nation as a whole, though it is similar to the statewide trend in California.

Figure 4: San Diego's Income Distribution



4. San Diego's Economic Base Sectors

Although economic development debates often discuss business growth as if all businesses are the same, in fact different business sectors have vastly different effects on the City's economy. Most important is the difference between "base sector" and a "non-base sector". Both are extremely important to the City's economy, but they play different roles.

An *economic base sector* is a sector of the local economy that produces goods and services locally but then sells them outside the region to customers around the nation and the world, bringing money and wealth into the region. Businesses which produce goods, energy, and services which otherwise would be imported from outside the local area, for domestic consumption, also contribute to the economic base. This money and wealth is then circulated and re-circulated in the local economy as local businesses sell goods and services to local customers. A region's economic base is its economic engine because it increases the amount of money and wealth in a region.

San Diego's four most important *base sectors* are:

1. Manufacturing and Innovation
2. International Trade & Logistics
3. Military Installations
4. Tourism

San Diego is unusual among U.S. metro areas because manufacturing is closely related to what is often known as the "innovation economy". Unlike many metropolitan areas, San Diego economy provides a research & development "backbone" that helps create new products, which are then manufactured in the region, especially in biotech and high-tech. For this reason, San Diego's "export" economy – while not enormous by national standards – consists largely of high-value goods and services, such as the wireless telecommunications goods and services produced by Qualcomm, Motorola, Nokia, Broadcom, and other high-technology manufacturers.

Base sectors businesses tend to be medium-sized or large businesses that have many choices about where to locate. San Diego is extremely dependent on these industries for economic success. Therefore, an effective economic development effort will understand the competitive advantages and disadvantages the region has for these businesses and seek to help these businesses stay in the region and grow.

A *non-base sector* is a sector of the local economy that produces goods and services primarily to local customers. The *non-base* economy includes such sectors as retail and wholesale trade, government, schools, medical offices, churches, and nonprofit organizations that cater to the local population. As Figure 5 suggests, non-base businesses can primarily serve *people* – that is, individual customers – or they can serve *businesses*.

These businesses are important to a region, but they do not grow the regional economy the way a *base sector* business does. These businesses *can* help grow a region’s economy, however, if they are part of a base industry’s “supply chain” – that is, the chain of suppliers – thus permitting a base industry to spend dollars locally rather than outside the region. The two columns below illustrate the relationship between base and non-base industries who may be in their supply chain.

Economic Base

Mines
 Manufacturing Plants
 Petroleum Refineries
 Commercial Fishing Fleets
 Meat Packing
 Corporate Headquarters Office
 Amusement Parks
 Production Studios
 Regional Distribution Centers
 Government Research Laboratory
 Book and Magazine Publishing
 Software Development and Web Hosting
 Farms
 Medical Research Institute
 Major State/Federal Government Offices
 National Political Organization Offices

Non-Base

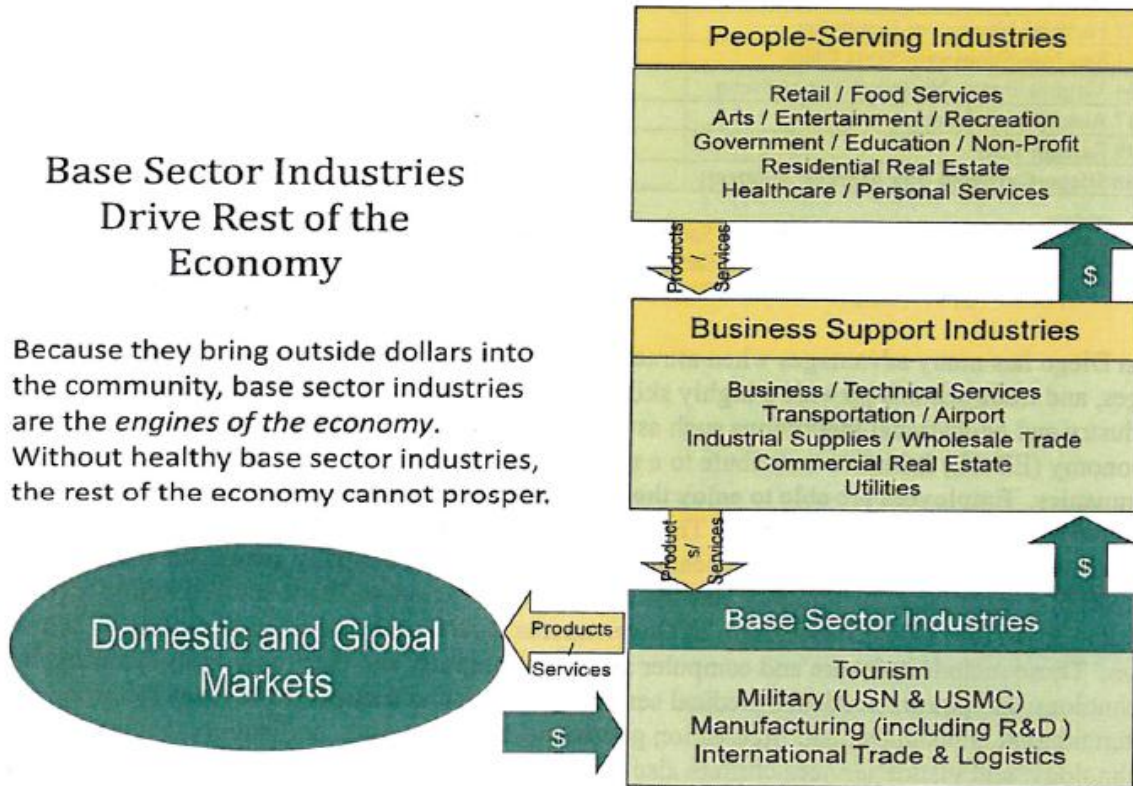
Rock Quarries
 Construction Companies
 Gasoline Service Stations
 Fish Markets
 Meat Markets
 Auto Insurance Offices
 Neighborhood Parks
 Movie Theaters
 Retail Stores
 Reference (testing) Laboratory
 Book Stores
 Computer Repair and IT Service Firms
 Local Produce Delivery Services
 Medical Offices and Hospitals
 Local Government Offices
 Consulting Firms

The circulation and recirculation of money and wealth in a region is called the *multiplier effect*. Different businesses and industries have different multiplier effects – that is, the money may re-circulate within the region to a greater or lesser degree depending on the needs of that particular business or industry.

Not surprisingly, therefore, regional economic development strategies typically focus on growing a region’s *economic base sectors*, to ensure that more money and wealth flows into the region. Local or neighborhood economic development strategies often focus on ensuring that residents and businesses purchase goods and services from local vendors rather than from vendors outside the region or the neighborhood.

While important to the residents of the City, local non-base businesses and institutions rarely need to be “retained” through economic development efforts as their mobility is extremely limited. However, smaller businesses are vulnerable to large corporate chains which have the financial ability to “crowd-out” smaller “Main Street” or “Mom and Pop” businesses; and they can benefit greatly if local customers choose to buy goods and services from them rather than from corporate chains.

Figure 5: Understanding the Importance of the Economic Base



San Diego’s Competitive Situation

San Diego’s competition situation is best represented in relation to 15 other metropolitan areas in the United States as represented in Figure 2. These are the metro areas that compete with San Diego directly in at least two of the four base industries. All 15 have highly educated workforces. Nine are located in or near bay/harbor areas. Four are direct competitors in all four base industries. Of these four, two are in California and a third is elsewhere on the West Coast.

Figure 6: Metropolitan Statistical Areas Which Compete with San Diego for Economic Activity

15 Competing Metropolitan Statistical Areas ≥ 1 Million Population (# = MSA size ranking)	Competes With San Diego Based on Attractiveness to:			
	Managers of International Trade/Logistics Businesses	Managers of Manufacturing Businesses and Research Firms	Tourists and Convention Planners	Military Officers and DoD Civilians
#02 Los Angeles-Long Beach-Santa Ana	√	√	√	
#04 Dallas-Fort Worth-Arlington	√	√		
#07 Miami-Fort Lauderdale-Pompano Beach	√	√	√	
#08 Washington-Arlington-Alexandria		√		√
#10 Boston-Cambridge-Quincy		√		
#12 San Francisco-Oakland-Fremont	√	√	√	
#13 Phoenix-Mesa-Scottsdale		√		
#14 Riverside-San Bernardino-Ontario	√			
#15 Seattle-Tacoma-Bellevue	√	√	√	
#21 Denver-Aurora		√		
#23 Portland-Vancouver-Beaverton		√		
#31 San Jose-Sunnyvale-Santa Clara		√		
#34 Virginia Beach-Norfolk-Newport News		√		√
#37 Austin-Round Rock		√		
#49 Raleigh-Cary		√		
#17 San Diego-Carlsbad-San Marcos	√	√	√	√

Red Type = Competes in three of San Diego's four primary economic base segments

Blue Type = Competes in two of San Diego's four primary economic base segments

Black Type = Competes in one of San Diego's four primary economic base segments

Comparative Advantages

San Diego has many advantages when attracting and retaining companies. These include the following:

- Local universities, colleges, and trade schools provide a highly skilled and educated workforce.
- Collaboration between industry and educational institutions contribute to an environment where businesses can source a productive workforce.
- Employees are able to enjoy the moderate coastal (“Mediterranean”) climate of the region, making it an attractive place to live, work, and play.
- The City is also home to established business clusters with strong support networks. Trade organizations, labor organizations, chambers of commerce, and other non-profit organizations provide training, networking, advocacy, and bulk purchasing services to member companies. Unions and other employee organizations help to create labor force stability and re-employment networks.
- The City is a gateway to Asia, Latin America and, most particularly Baja California, Mexico. With an active port, airport, and land ports of entry, San Diego is well situated for domestic and international trade.

Comparative Disadvantages

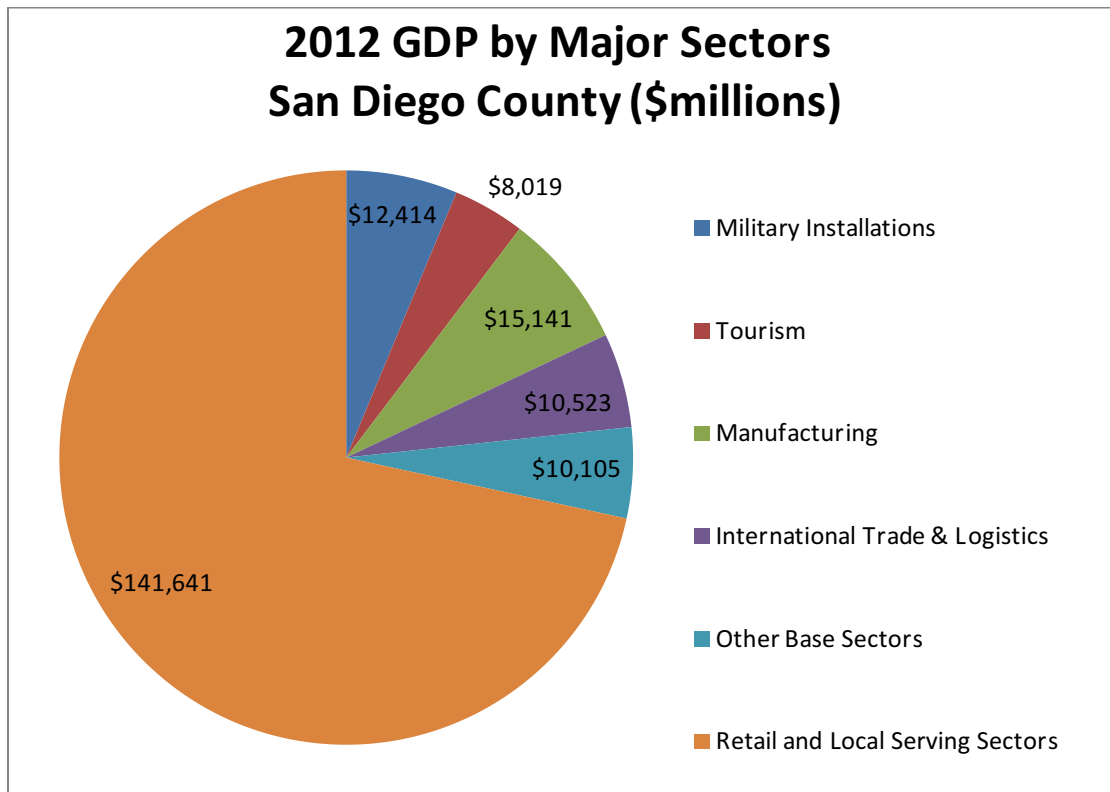
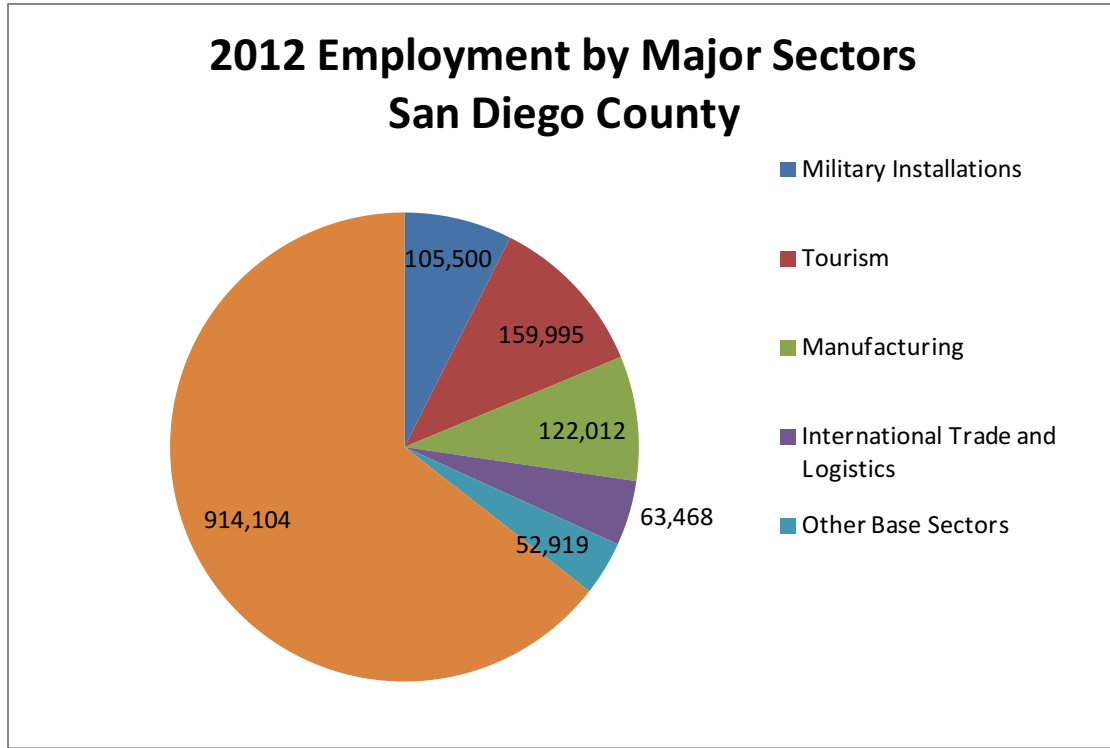
Despite these competitive advantages, San Diego also must deal with a number of competitive disadvantages that can make it difficult to attract and retain important businesses. Some of these are related to local market conditions and some are related to the business climate in California. These include:

- The high cost of living and especially the highest cost of land. This cost manifests itself not only in high housing cost, which can be a burden to employees, but also in high prices for industrial land as well.
- High electricity and water costs relative to the other parts of the nation. This is due in part to the fact that San Diego imports approximately 80% of both.
- A more significant regulatory burden than can be found in other states.

These competitive disadvantages are not unique to San Diego. In fact, they are shared by most California cities. Hence, San Diego's competitive disadvantages are relative to the rest of the nation. San Diego is highly competitive within California, though the City has not always been as aggressive in business recruitment and retention as some other California cities.

Many of the competitive advantages that San Diego does have – such as, for example, an educated labor force and high-level labor skills – do not necessarily help the city or the region overcome the “hourglass economy” problem. These advantages are most important in industries and operations that operate at the top of the value chain, such as research and development functions, management. Industries that middle-income “blue collar” jobs aren't as dependent on these factors, and therefore are thus much less likely to expand or retain operations in California.

Figure 7: Employment and Gross Regional Product By Economic Sector



4-1. Manufacturing and Innovation

San Diego has one of the largest manufacturing economies in the nation, and – in large part because of its connection to the region’s innovation economy – manufacturing is well-positioned to grow in the future.

According to the National University System Institute for Policy Research (NUSIPR), the manufacturing sector is the largest single driver of the San Diego economy, contributing approximately \$15 billion annually to the Gross Regional Product (GRP). Manufacturers News reports that more than 70,000 San Diegans are employed in manufacturing plants, making it the 10th-largest manufacturing center in the nation. In addition, the Brookings Institution recently found that San Diego has the highest-value export products of any U.S. city, in large part because of the export of high-end manufactured products such as wireless telecommunications equipment.

Manufacturing is especially important to San Diego for two reasons: compensation and the multiplier effect. Manufacturing jobs typically pay middle-income wage and include fringe benefits such as medical insurance. They are more likely than other jobs to be filled by local residents. In addition, manufacturing’s multiplier effect is extremely high – often between 3 and 7, compared with 1.5 to 2 for other industries. This means that every manufacturing job created results, indirectly, in the creation of 2 to 6 additional jobs in the other sectors of the local economy. Manufacturing also generates higher tax revenues than other industries because capital equipment is taxable – manufacturing is a heavily user of capital equipment – and because many manufacturers sell taxable goods to other businesses and institutions in California.

San Diego’s manufacturing economy is unusually diverse, and it is tied to the region’s robust innovation (research and development) economy, closely related to UC San Diego, which often provides research and commercialization breakthroughs that can then be translated into new manufacturing opportunities. This is part of the reason why the Brookings Institution recently found that San Diego’s exported goods are the highest-value in the nation. Major manufacturing industries include biotech and medical, cleantech, defense and security, food and beverage manufacturing, and telecommunications. However, San Diego’s manufacturers are engaged not only engaged in research and development (R&D) and manufacturing, but also in sales, distribution, product servicing, and repair activities in a wide range of industries.

Although the local manufacturing sector has seen declines in recent years, San Diego continues to have a comparative advantage in attracting and retaining new investment in this sector for several reasons:

- Very high labor quality including ex-military personnel with security clearances,
- The continued presence of major primary research institutes and universities such as Sanford-Burnham, Salk, Scripps, UCSD, SDSU and related support organizations, and
- A business culture of innovation, collaboration, and entrepreneurship which fosters the growth of smaller manufacturing businesses which produce goods for local, state, and west coast markets.



Industrial gas turbines manufactured at Solar Turbines in Centre City and Kearny Mesa

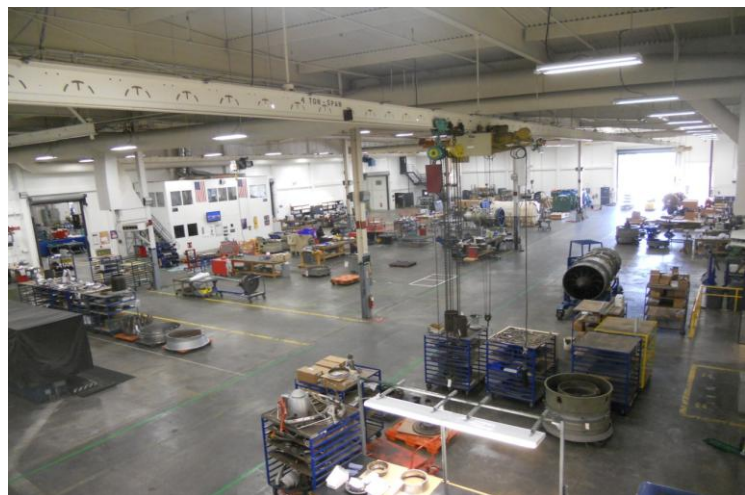
San Diego's traditional innovation and manufacturing strengths include wireless telecommunications equipment as well as biotech and precision medical devices, which are centered around Torrey Pines/La Jolla and Kearny Mesa and Mira Mesa. Emerging strengths include the "cleantech" industry, principally biofuels, solar energy systems, and clean gas turbines; food and beverage (especially craft brewing); and software and high-tech industries which are located in North City communities and to some extent in the downtown area.

Specific Challenges to Increasing Manufacturing & Innovation Employment

As stated above, San Diego as a whole has both competitive advantages and competitive disadvantages in attracting and retaining business overall. However, San Diego is at a disadvantage in the manufacturing and innovation sectors in particular because the City is running out of raw land and because the cost, supply and availability of water is a concern. As with other competitive disadvantages, these are not unique within California to San Diego; they are shared by other big California metropolitan areas, especially in coastal areas. Nevertheless, they are important concerns that must be addressed.

The City first identified a shortage of land for manufacturing in the 1970s. The 2008 General Plan identified and mapped Prime Industrial Land and adopted policy language calling for protection of such land.

As for water, manufacturing and related R&D activities consume large volumes of water for a variety of industrial processing functions such as cooling, rinsing, cleaning, and steam boiler make-up. In addition, the emerging food and beverage industry is water-intensive. But the cost of potable water has risen dramatically in recent years – greatly exceeding normal inflation adjustments – and is now significantly higher than in competing cities such as San Jose, Phoenix, and Portland.



Aircraft Engines rebuilt at Chromalloy San Diego in Mira Mesa

DRAFT

The City's reclaimed water production plants provide an important source of relief from rising potable water prices for many manufacturers located in northern part of the City.

Likewise, the City has adopted specific policies and statutes that encourage potable water conservation. SDMC 67.3804(f) provides a specific exemption from certain mandatory potable water conservation requirements for manufacturers and contract research organizations which conserve potable water and use reclaimed water for industrial use.



Johnson & Johnson's La Jolla R&D laboratory is cooled using reclaimed water

Tactical Objectives

1. Increase the number of factory (production) jobs in San Diego
2. Increase the number of manufacturing sector jobs in San Diego
3. Increase the number of manufacturing sector jobs that are linked to local research and development operations
4. Increase taxable sales the number of manufacturing plants in San Diego which have a taxable point of sale
5. Increase employment among startup tech companies, especially downtown.

Actions

1. Track all conversion of Prime Industrial Lands for non-industrial uses and provide a report on such conversions to the City Council every year.
2. Review the Municipal Code to identify any code changes required to implement General Plan Policies EP-A.1 and EP-A12, related to Prime Industrial Land.
3. Amend the Municipal Code to exempt manufacturing from imposition of the Housing Impact Fee.
4. Review the Municipal Code to identify any code changes to improve the viability and feasibility of manufacturing in the City's industrial zones.
5. Make excess City-owned industrial property available for sale to manufacturing companies in accordance with Council Policy 900-03.
6. Assign Economic Development Division staff to work with Planning and Development Services to ensure consist and rapid review/approval of manufacturing and warehouse projects.
7. Create a "Buy San Diego" campaign aimed at increasing local demand for products made in San Diego – not only among consumers but among local businesses as well.
8. Initiate a collaborative process with manufacturers to ensure that they have a sustainable, long-term, cost-effective source of reclaimed water for industrial cooling and processing
9. Develop a holistic Cleantech Industry Program that focuses on stimulating local demand for locally produced cleantech products, including biofuels, solar equipment, and electric vehicles that use locally produced products.
10. Develop a holistic Food & Beverage Program that focuses on nurturing this sector so that it becomes a larger part of the economic base.
11. Actively support federal defense appropriations for the purchase and repair of military hardware that are or can be manufactured within the City.
12. Assemble a Manufacturing task force to include industry and labor representatives to implement the proposed Actions listed above as well as other reforms and initiatives.

Metrics

1. An increase in the number of factory (production) jobs in the City.
2. An increase in the amount of sales and use tax received by the City from manufacturing plants.

4-2: International Trade & Logistics

As noted in the City’s 2008 General Plan, international trade is the fastest-growing component of the nation’s Gross Domestic Product (“GDP”), accounting for up to half of the nation’s annual GDP growth in recent years. As a gateway to both Asia and Latin America, San Diego is unusually well-suited to capture a significant part of this economic growth.

San Diego is home to an important airport near downtown, an international airport just across the border in Tijuana, the 8th-largest port on the West Coast, and two major international ports of entry – San Ysidro and Otay Mesa. San Ysidro is the busiest border crossing in the world, with some 40 million people and 17 million vehicles crossing northbound on an annual basis. At Otay Mesa, more than \$20 billion a year in freight alone crosses the border. A 2013 analysis by the Brookings Institution concluded that the region’s export values economy total close to \$160 billion per year.

International Trade & Logistics is an industry group that encompasses a wide variety of related service-sector industries, business establishments, and governmental agencies such as the Port of San Diego and the San Diego Airport Authority, all of which facilitate the shipment of goods to and from the City. Businesses in this industry group include trucking companies, freight forwarders, customs brokers, air-freight operators, third-party logistics companies (“3PLs”), maquiladora servicing companies, translators, security firms, banks, international law firms, and government agencies which inspect and authorize shipments.

Many of these businesses are located in Otay Mesa industrial parks near the port-of-entry at the terminus of the 905 Freeway, where the vast majority of ground freight crosses the border from Mexico. Both ports of entry are being upgraded on both sides of the border. Any reduction in border crossing delays should result in increased economic benefits to San Diego. A 2007 study by the San Diego Association of Governments (“SANDAG”) showed that the San Diego region lost approximately \$539 million in gross revenues from reduced freight activity.

Others clusters are located in and around the downtown area in order to have close proximity to the Port of San Diego and the San Diego International Airport. These businesses and government agencies create thousands of middle-income jobs, which frequently do not require advanced college degrees or skill sets, thus making these jobs potentially available to most City residents.

As with Manufacturing, opportunities in International Trade & Logistics are closely related to other sectors of the economy. For example, as labor costs in Asia have risen, manufacturing in Mexico has become competitive again. The cost differential between Mexican and Asian labor has narrowed substantially while the quality of Mexican manufacturing and its proximity to the United States often makes “near-sourcing” of manufacturing back to Mexico worthwhile for American companies. This is especially beneficial to San Diego, which has traditionally had a close link between R&D and manufacturing. San Diego companies can take advantage of lower Mexican labor costs without sacrificing quality or access to the factory floor. As a result, in the last two years, several new distribution centers representing over one million square feet have been constructed in San Diego, mostly in Otay Mesa.

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Bananas being off-loaded at the Port's 10th Avenue Marine Terminal

The Port of San Diego also facilitates international trade activity through its 10th Avenue Marine Terminal, which provides for the importation of a wide variety of bulk products and large pieces of equipment. These products include cement from China and Thailand; sand from Mexico; fertilizer from Norway; fresh fruit from Guatemala, Costa Rica, Peru, Ecuador, and Australia; steel products from Europe, Korea, and China; and wind turbines from the Great Lakes region.

The Port of San Diego is the West Coast's 8th largest port based on total tonnage shipped -6.5 million tons. Combined with National City Marine Terminal, these ports generate an economic impact estimated at \$1.7 billion. The 96-acre 10th Avenue Marine Terminal provides 822 jobs at average wages totaling \$54,032 annually, 28% greater than the countywide average for all jobs.⁹

Tactical Objectives

1. Increase the number of distribution jobs in San Diego
2. Increase the utilization of the 10th Avenue Marine Terminal
3. Aggressively market the Foreign Trade Zone Program to all potential new users

⁹ NUSIPR, San Diego's Maritime Trade: A Critical Economic Engine, 2008, p.3

Actions

1. Maintain and staff a bi-national affairs office in Tijuana in order to more effectively facilitate cross-border commerce and logistics in accordance with General Plan Policy EP-J.1
2. Amend the Municipal Code to exempt wholesale distribution from imposition of the Housing Impact Fee.
3. Prioritize transportation Capital Improvement Program funds to improve truck circulation to and from the Otay Mesa Port of Entry facilities.
4. Continue to seek state and federal funding for improvements to border-related infrastructure such as completion of the 905 Freeway and important collector streets that facilitate the movement of goods.
5. Pursue enhancements to the commercial cross-border trade facilities in accordance with General Plan Policy EP-J.4 and EP-J.6
6. Continue to collaborate with General Services Administration, the City of Tijuana, and SANDAG to expand and improve the ports of entry.
7. Protect and preserve the Prime Industrial Lands identified in the City's General Plan pursuant to General Plan Policies EP-A.1, EP-A.12, EP-J.9
8. Pursue funding to expand and provide better connections to the 10th Avenue Marine Terminal.
9. Work collaboratively with the Port of San Diego to ensure that the 50-year Port Master Plan protects and enhances opportunities to expand the trade economy on port land.
10. Assemble an International Trade & Logistics task force to include industry and labor representatives to implement the proposed Actions listed above as well as other reforms and initiatives.

Metrics

1. An increase in the tonnage of goods shipped through the Otay Mesa Port-of-Entry.
2. An increase in the number of logistics and distribution jobs in San Diego.
3. A decrease in the conversion of Prime Industrial Land to other uses.

4-3. Military Installations

The military has always played an important role in the San Diego economy, and over the past 50 years its presence has stimulated not only direct economic activity but important spinoff benefits in research and development. The military still plays an important role. The repair and maintenance of naval vessels provides thousands of jobs in Barrio Logan and Kearny Mesa at employers such as General Dynamics-NASSCO, BAE Systems, Northrop Grumman, and Pacific Ship Repair & Fabrication. Similarly, other defense contractors such as Lockheed Martin in Scripps Ranch are also dependent on the presence of the Pacific Fleet for its contract opportunities.

San Diego must always be aware of both new initiatives and possible cutbacks at the Pentagon. Any increase or decrease in military activity – the number of ships, aircraft, military and civilian personnel – will affect these defense contractors and the local service economies.

Any increase or decrease in the number of ships, aircraft, or military and federal civilian personnel will have a direct impact on local defense contractors and on retail and service sector businesses that cater to these personnel.

New procurement opportunities may also arise from more recent non-traditional military initiatives. One such example of a military priority that is well suited for San Diego is the Great Green Fleet initiative. Launched by the Department of the Navy in 2009, this initiative seeks to replace half of the Navy's fossil-fuel procurement with renewable biofuels by 2020. Several demonstration projects have been undertaken and local biofuel companies may be well positioned to supply the Navy.

Goals

San Diego's military installations can best contribute to the fulfillment of this Strategy's **Goal #1: Increase the Gross Regional Product (GRP) of the San Diego Region** by continuing to inject payroll and procurement money into the local economy by maintaining or ideally, increasing, the utilization of the local installations.

Tactical Objectives

1. Increase the number of ships, aircraft, and personnel at each of the City's military installations
2. Increase the procurement of locally produced goods and services by the military at San Diego businesses, especially from the cleantech sector.

Actions

1. Work collaboratively with local military commanders and with congressional delegates to ensure that San Diego's military installations are retained and expanded; and that San Diego businesses are opportunities to provide goods and services to the commands at these installations in accordance with General Plan Policy EP-H-2
2. Encourage the Navy to bring "Green Fleet" demonstration projects to San Diego and especially to procure biofuel developed or produced in the City.
3. Ensure that San Diego is always represented at the SANDAG Military Working Group Meetings to ensure that City of San Diego and Department of the Navy are able to proactively address issues affecting both parties.

Metrics

1. An increase in the level of military spending at local military installations.
2. An increase in the number of civilian jobs in the local military economy.
3. An increase in the amount of military purchasing in the local economy, especially in the Cleantech sector.

4-4. Tourism

In part because of its warm coastal climate, San Diego is the 5th-ranked leisure tourism destination and the 10th-ranked business destination in the United States, competing with similar cities such as Los Angeles, San Francisco, Seattle, and Miami. The San Diego Convention Center hosts more than 200 events per year now and will increase the city's ability to compete when the pending expansion is completed.

The economic impact statistics are impressive. San Diego reportedly attracts 31 million visitors a year spending billions annually in the local economy. Tourism employs 160,000 San Diegans, and generates \$8 billion of GRP, making it the third-largest economic sector in the region after manufacturing and the military.

Because the U.S. tourism economy is so competitive, however, San Diego faces constant challenges in retaining its position. Cities across the country are continually improving both their marketing efforts and their visitor facilities, meaning San Diego must do the same. San Diego is taking many steps to keep up. The Tourism Marketing District provides funds to promote San Diego to outside visitors. The expansion of the Convention Center will help San Diego remain competitive in drawing business travelers, attracting new events, and retaining large events like ComiCon.

Still, San Diego faces significant challenges. Many long-valued tourism facilities are aging, especially in Mission Valley. In addition, tourism pays much lower wages than the other three large economic sectors, meaning that tourism workers cannot maintain the level of economic stability that workers in other industries enjoy, nor contribute to regional prosperity in the same way.

Tactical Objectives

1. Increase the overall economic activity of the tourism industry cluster – that is, increase the number of dollars spent in the local economy by visitors from outside the region.
2. Ensure that Transient Occupancy Tax (TOT) funding and Tourism Marketing District (TMD) funding provide the most “bang for the buck”.
3. Complete the Convention Center expansion and upgrade aging private visitor facilities.
4. Increase the average wage of tourism industry workers.

Actions

1. Build, expand, and maintain important publicly-owned attractions and facilities such as the Convention Center, Cruise Ship Terminal, City beaches, and similar assets in accordance with General Plan Policies EP-I.2 and EP-I.3
2. Establish a ranking system to evaluate Citywide TOT grants and Economic Development & Tourism Support (“EDTS”) grants to ensure that the City receives the maximum value for these funds in accordance with the guidance of General Plan Policy EP-I.1
3. Establish a system for measuring successful investment of Tourism Marketing District (TMD) funds.
4. Work collaboratively with the tourism industry cluster to find ways to increase the wages of tourism industry workers.

Metrics

1. An increase in the number of room nights sold at San Diego hotels and motels.
2. An increase in the amount of TOT revenue received by the City
3. An increase in the utilization of the Convention Center
4. An increase in the amount of sales tax received by the City from eating and drinking establishments
5. An increase in the average wage of workers in the tourism industry cluster.

5. San Diego's Neighborhood Businesses

San Diego is well-situated to encourage small local businesses and startup companies, especially in the city's many distinctive older commercial corridors and districts. Although most of these businesses serve local customers and are not part of the "economic base," they can play a powerful role in both strengthening the local economy and creating renewed vitality in the city's older neighborhood-based business districts.

Neighborhood retail businesses provide significant economic benefits to the city and its residents. Not only do they provide goods and services conveniently on a neighborhood scale, but they can help retain money in the local economy that flows into the region through base industries.

A large corporate retailer typically exports wealth out of the region -- undercutting the economic benefit of base industries, which import wealth into the region from other places. Small retail firms can protect against this outflow of wealth. The owners of small retail stores typically live in the local community and frequently spend their revenue and profits buying goods and services locally – both for their business and for themselves. Some estimates indicate that profits expended locally by a locally owned small business are re-circulated within the local economy 4-7 times before the money leaves the local economy through capital accumulation.

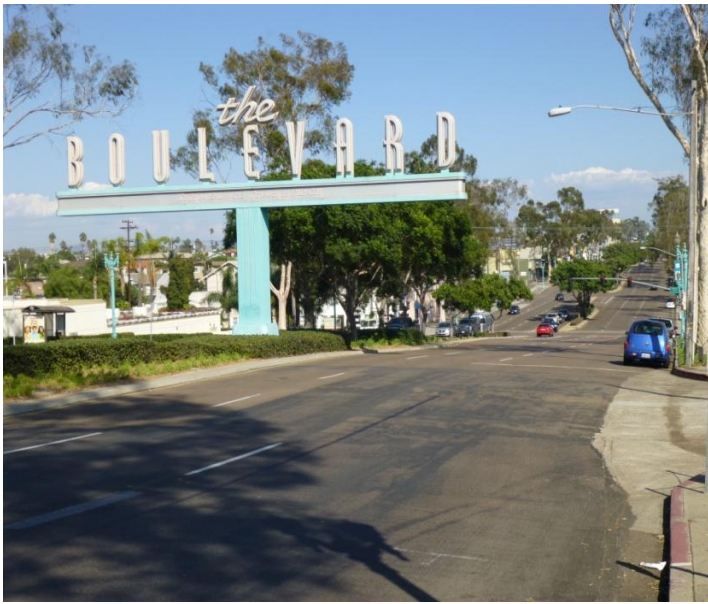


Imperial Avenue in the Diamond BID

San Diego is also blessed with a wide range of older commercial corridors and districts that provide a distinctive character and have the potential to anchor revitalization of the surrounding neighborhoods.

These operations tend to occupy older structures in "Main Street" corridors located throughout the City, with the majority found between Adams Avenue in the north to Imperial Avenue in the south.

These older commercial corridors offer a richer shopping experience which often includes authentic and diverse dining and entertainment experiences. Special events such as street fairs, restaurant walks, and farmers markets offer residents and shoppers opportunities to experience the individual characteristics of the commercial neighborhoods.



El Cajon Boulevard in North Park

In some neighborhoods – such as Downtown, Hillcrest, and North Park – neighborhood small businesses have already helped to bring these neighborhoods back. In other neighborhoods, the potential has not been realized as strongly.

By creating opportunities for entrepreneurship and encouraging small businesses to succeed, not only are new jobs created but commercial corridors are revitalized and surrounding neighborhoods are stabilized, which facilitates further economic development in accordance with General Plan Policy EP-B.2.

Another key element in developing the small business economy is encouraging micro-businesses such as home-based businesses. Such businesses may be the predecessors of larger businesses which relocate into office or retail space or they may remain small but provide employment which supports the City’s General Plan Policy EP-B.8. A strong neighborhood-based business sector has significant fiscal benefits to the City as well. Successful neighborhood business districts yield increased sales-tax receipts from tourist shopping and also increased property tax revenue from the business districts themselves and from the surrounding residential neighborhoods.

The City’s business license tax structure already recognizes the importance of small businesses. Approximately 93% of the 90,000 licensed businesses in the City has 12 or fewer employees. These businesses pay a business license tax of only \$34 per year, compared to \$125 plus \$5 per additional employee for businesses with 13 or more employees. A significant portion of these funds are used to support the City’s Office of Small Business, which provides technical assistance to small and startup businesses and also runs many programs intended to benefit retailers in the city’s older commercial corridors and commercial districts.



South Park’s 30th St./Fern St. commercial corridor

In addition, the City works closely to oversee and support 17 business improvement districts, or BIDs, which assist neighborhood businesses in working together to strengthen their business districts. The City also helps these BIDs manage and operate assessment districts and parking districts, which provide additional sources of revenue to promote neighborhood businesses and neighborhood revitalization. Assessment Districts generate funding for promotion of tourism, development of economic opportunities, and for clean and safe programs which benefit more than 12,000 businesses and 17,600 property owners in 20 neighborhoods. Unfortunately, the formation and operation of Assessment Districts has been impacted by recent case law which has created uncertainty in this area. The Community Parking District program facilitates development of local solutions to mitigate parking-related impacts which may be dampening economic activity.

The City also provides a wide variety of other business and housing programs aimed at revitalizing older neighborhoods in need of investment. Many of these programs, such as the Community Development Block Grant program, are funded by the U.S. Department of Housing & Urban Development. However, neighborhood revitalization in San Diego suffered a significant blow in 2012 when California eliminated redevelopment, which provided tax-increment financing as a source of funding for investment in such neighborhoods. The CDBG program is scheduled to receive \$78 million in payments from the former redevelopment program to further strengthen neighborhood revitalization efforts, though these payments are currently being challenged by the state Department of Finance.

Tactical Objectives

1. Increase the number of locally owned small businesses in San Diego
2. Strengthen the business base of existing older business districts
3. Target city investment in older business districts and adjacent neighborhoods, especially those in traditionally underserved neighborhoods.
4. Maximize the effectiveness of city's neighborhood and small business programs.

Actions

1. Develop a replacement program for redevelopment by partnering with private corporations, philanthropies institutions, and lending institutions.
2. Work to protect the \$78 million repayment from redevelopment to the CDBG program and target those funds to older neighborhoods, especially in underserved communities.
3. Convert the City's BIDs (business improvement districts) to PBIDS (property-based improvement districts) in order to strengthen management of business districts.

4. Support state legislative efforts to clarify and strengthen the legal role of BIDs, PBIDs, and Maintenance Assessment Districts.
5. Continue to lobby at the Federal level against further cuts in CDBG funding.
6. Retool the City's existing small business programs to target assistance to locally owned small businesses in the city's older neighborhoods, especially underserved neighborhoods.
7. Evaluate relevant Land Development Code regulations to lessen the regulatory burden on locally owned small businesses and home-based businesses that are compatible with residential surroundings.

Metrics

1. Increase in the number of small businesses in the City, especially in underserved neighborhoods.
2. Number of BIDs converted to PBIDs.
3. Number of new BIDs, PBIDs, and other neighborhood business district management entities created.
4. Percentage of City's infrastructure investment targeted to older neighborhoods with business districts, especially in historically underserved neighborhoods.

6. Efforts to Support Economic Development

In order to implement the economic development efforts described above, the City can and should undertake renewed and re-focused efforts in four areas that affect business growth and prosperity. These are:

1. The City's tax structure
2. City Policies, Procedures, and Operations
3. Workforce Development & Education
4. City Relationships to External Organizations

6-1. City Tax Structure

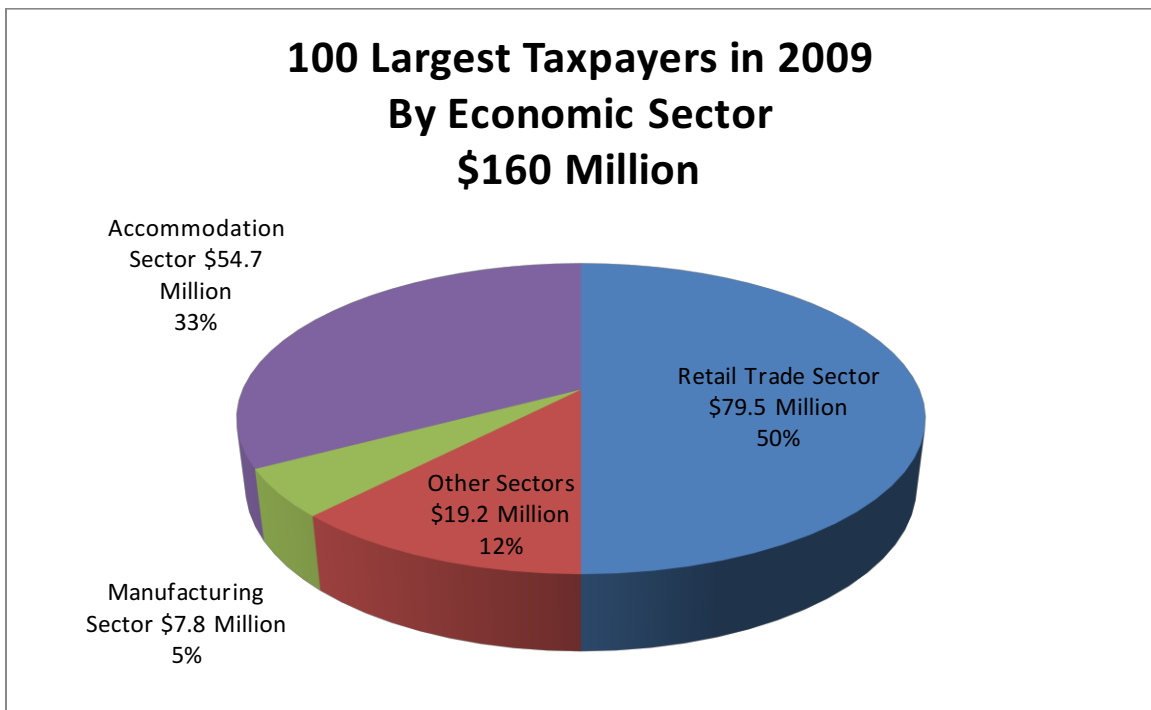
A disconnect exists between the city's economic development priorities and the distribution of the tax burden among different economic sectors. To some extent, this disconnect is created by California's tax structure, which virtually prohibits property tax increases under Proposition 13 and encourages cities to seek businesses that engage in retail transactions in order to obtain sales tax. In part, however, it is the result of the economic base structure described above.

San Diego is disproportionately dependent on sales tax and transient occupancy tax compared to other California cities. Under the current tax structure, the City's own solvency depends in large part on a healthy tourism industry, but also on a healthy manufacturing sector, because manufacturing – especially medical device manufacturing -- generates a significant amount of sales tax.

Yet as the figure below shows, there is virtually no relationship between (1) wages/salaries; (2) the tax burden; and (3) whether an economic sector is part of the economic base. So, for example, manufacturing – which pays good wages and is part of the economic base – also has a high tax burden.

Figure 8: Wages & Tax Burdens by Economic Sector

Sector	Wages/Salaries	Tax Burden	Economic Base
Accommodation	Low	High	Yes
Manufacturing	Middle-High	High	Yes
Retail	Low	High	No
Services	Middle-High	Low	No



The City's business tax structure is inequitable, imposing the greatest tax burdens on the retail, food service, accommodation, and manufacturing sectors, and allowing service sector establishments to bear a much lower burden. The City's business license tax is \$5 per employee, but the cost of city services is approximately \$300 per employee. Therefore, the tax structure favors businesses – such as the service sector – that pay only the business license tax but not sales, use or transient occupancy taxes, and punishes businesses – such as manufacturing, retailing, and accommodations – that must pay those other taxes.

By paying high wages on base-sector jobs and also paying sales and use tax on expensive machinery, manufacturing is paying a disproportionate share of the local tax burden. In the accommodation sector, hoteliers (such as Hilton), which pay union-scale wages and employee benefits on base sector jobs, plus sales and transient occupancy taxes, are also similarly bearing a disproportionate share of local taxes.

Historically, the City's fiscal and economic development policies and programs have been significantly disconnected from its land use, utility, and other policies. One exception has been the General Plan and many of its associated community plans, which have emphasized the importance of manufacturing and wholesale trade. The City used to require a fiscal impact analysis for major development projects. This requirement has been removed from the code, although the city still requires a fiscal and market study for discretionary approval of certain large retail establishments and occasionally requests fiscal impact analyses for other large discretionary projects.

Tax equity could be achieved by gradually restructuring the local burden – especially the business license tax -- away from base sector industries such as accommodation and manufacturing, and towards the service sector, which is not as mobile and has a much lighter tax burden.

Tactical Objectives

1. Shift the tax burden away from base industries so that economic development objectives and fiscal policy are aligned.
2. Create a better understanding of the fiscal consequences of land use decisions.

Actions

1. Restructure the business license tax to lessen the burden on manufacturing and tourism, which support the city with other taxes.
2. Reinstate the requirement for fiscal impact analysis not just for large development projects but also for Community Plan Updates and for the establishment of regulations on base industries.
3. Assemble a Retailers task force, to include the Regional Chamber of Commerce, to implement these Actions as well as other reforms and initiatives which can increase the City's tax base.

Metrics

TBD

6-2. City, Policies, Procedures & Operations

The key economic sectors described above rely on a wide variety of City services and operations to succeed. To name just a few City activities that are vital to economic development, these include:

- Transportation, including streets and freeways, rail and bus transit, airports, and ports.
- City telecommunications facilities,
- Citywide water, sewer, and stormwater system
- Emergency facilities
- Police and fire services
- Sanitation and recycling
- Parks and open space
- Zoning and code compliance
- City capital improvement projects
- City contracting and procurement
- Management of city-owned real estate
- Issuing permits and licenses
- Creation and management of special districts

The chart and descriptions below provide some examples of how these departments interact with businesses in ways which can influence private business investment decisions and can impact overall economic prosperity.

Key City Departments Affecting Economic Development Efforts

Key City Department	Building Permit Approvals	Licensing	Infrastructure and Tourist Attractions	Business Use of City Property	Procurement and Financial Services to Businesses	Management of Assessment Districts
Development Services	√	√				√
Public Utilities	√	√	√	√		
Real Estate Assets				√		√
Fire Rescue	√	√				
Police		√				
Purchasing & Contracting				√	√	√
Transportation & Storm Water	√	√				
Environmental Services				√		
Engineering & Capital Projects			√			
City Treasurer		√			√	√
Parks & Recreation			√	√		√
Debt Management					√	√

These departments and functions affecting economic development efforts are described in more detail in Appendix X.

Tactical Objectives

1. Alignment of key city services and operations with the City's economic development goals.

Actions

1. Initiate a top-down assessment of key city services and operations by the Chief Operating Officer to determine where and how those services and operations do and do not align with the City's economic development goals.

Metrics

1. TBD

6-3. Workforce Development & Education

It is almost impossible to overstate the importance of having a highly skilled workforce to meet staff business operations. As technology transforms the way products are developed, manufactured, delivered and sold in a global marketplace, the ability of businesses to access qualified human resources is paramount.

The key to expanding, retaining and attracting these base-sector companies is to have local talent that meets industry needs. And the key to increasing City residents' standard of living is to equip the future workforce with the tools to meet the talent needs of these industries in order to succeed.

Figure 8: Projected Employment Growth Within San Diego County (By Industry Cluster/Sector)

Sector/Cluster	2012 Jobs	2015 Jobs	2018 Jobs	Additional Jobs by 2018	% Change	2012 Establishments	2012 Avg. Annual Wage
<i>Largest Growth</i>							
Construction	137,738	148,546	158,019	20,281	15%	8,536	\$95,635
Health Care	137,915	148,477	156,347	18,432	13%	7,520	\$61,825
Entertainment and Hospitality (Tourism)*	162,516	172,262	180,579	18,063	11%	6,737	\$26,080
<i>Rapidly Growing</i>							
Life Sciences (Biotech & Medical Devices)*	50,574	56,635	60,239	9,665	19%	1,059	\$145,060
Info & Communication Tech (Electronics & Telecommunications, Software & Web Development)*	81,836	85,334	89,117	7,281	9%	3,138	\$124,539
Aerospace, Navigation & Maritime Tech (Defense & Security Systems)*	26,603	28,688	30,115	3,512	13%	456	\$106,772
<i>Emerging</i>							
Advanced Precision Manufacturing (Manufacturing)*	4,591	4,856	5,193	602	13%	278	\$56,036
Specialty Foods & Microbreweries (Food & Beverage Production)*	1,690	1,857	1,986	296	18%	40	\$60,443
Total Additional Jobs by 2018				60,069			

*Sector/clusternames that correlate with City of San Diego Economic Development Strategy.

Source: QCEW Employees, Non-QCEW Employees & Self-Employed - EMSI 2013.1 Class of Worker

Data compiled by the San Diego Workforce Partnership, March 2013

The City does not directly provide either education or job training. However, the City has strong relationships with educational institutions and entities such as the San Diego Workforce Partnership and it is well positioned to work with public and private organizations

Tactical Objectives

1. Increase in the employment of local residents by local businesses.

Actions

1. Maintain a direct role on the San Diego Consortium Policy Board (SDWP) to determine, review and approve of funding initiatives, policy, and program focus areas for SDWP to ensure that federal funds are spent efficiently and that San Diegans are afforded the best opportunities to train or re-train for specific industries and occupations
2. Work with SDWP, academic researchers, and others to ensure that workforce development professionals have a clear picture of the changing nature of local employment needs.
3. Use tools such as Economic Development Incentive Agreements to encourage local businesses to give first preference for new job opportunities to San Diego residents rather than residents.
4. Continue to support workforce development programs or other efforts that target under-represented groups, provide training for veterans, help low-wage earners to move up career ladders, prepare youth for the workforce, place long term unemployed individuals, and establish entry level professional classifications for recent college graduates (to gain full-time professional experience) using the City of San Diego's Management Trainee model.
4. Encourage expansion in training and mentorship programs such as CONNECT2Careers San Diego, which call for a commitment from employers to such programs.

6-4. City Relationships with External Organizations

San Diego's businesses are served by numerous non-profit organizations, including membership-focused trade organizations, chambers of commerce, economic development organizations, and unique service providers. Most of these organizations cater to businesses in a single economic sector, such as accommodation or manufacturing, or to a single or related group of industries such as biotechnology or cleantech. These organizations are delineated in Appendix X. The City's relationship with some of these organizations, especially with regard to industrial development, is delineated in Council Policy 900-04.

The City's relationship with these external organizations is very important. The City exchanges information with these organizations on a regular basis and can also play an important convening and coordinating role to maximize the effectiveness of these organizations and the value of the relationships with them.

Tactical Objectives

1. Clarify the purpose and nature of the relationships between the City and other economic development entities.
2. Ensure that contracts with economic development entities have a clear purpose with clear goals and deliverables.

Actions

1. Evaluate all existing relationships with external organizations to determine the strategic purpose for each relationship and, where appropriate, define those relationships in formal documents, including Council Policy 900-04.
2. Use competitive bidding when procuring economic development services such as marketing and promotion from outside entities.
3. Include clear and quantifiable performance measures and deliverables in contracts.
4. Preclude the use City funds by any economic development contractor in any political or lobbying activities which are contrary to the goals and objectives of this Economic Development Strategy.

Metrics

TBD

Appendix A: Base Sector Economic Engines

Military Installations

The City has a long history of working with the Department of the Navy, including the Pacific Fleet, the United States Marine Corps (USMC), the Space and Naval Warfare Systems Command (SPAWAR), along with several other commands.

United States Navy (USN)

The U.S. Navy continues to operate a number of major installations in San Diego. These include: the Naval Station San Diego located in Barrio Logan stretching into National City; the Space and Naval Warfare Systems Command (SPAWAR) in the Midway area; and smaller facilities located in downtown, Point Loma, and Kearny Mesa. Installations in nearby cities of Coronado and Imperial Beach provide additional payroll spending and local contracting opportunities. The Navy has stationed well over 100,000 military and civilian personnel throughout the County, most of these in the City of San Diego.

Naval Base San Diego

The Naval Base San Diego (aka “32nd St. Naval Station”) is located in Barrio Logan and in the harbor area of neighboring National City. It is the principal harbor for the Pacific Fleet and includes berths for over 46 U.S. Navy cruisers, destroyer, frigates and support vessels, as well as 12 additional U.S. Coast Guard and Military Sealift Command ships. 30,000 military personnel and contractors are stationed or employed here, thus providing significant payroll expenditures to support local retailers and service sector businesses. Ship repair, fueling, and procurement activities create many civilian jobs within military service contractor businesses in nearby areas of the City.¹⁰



¹⁰ Naval Base San Diego (photo credit United States Navy, CNIC Naval Base San Diego website)

Space and Naval Warfare Systems Command (SPAWAR)

The SPAWAR installation has over 4,500 military and civilian employees many of them highly paid engineers. SPAWAR's overall economic impact is even greater since it contracts with many local defense contractors for additional goods and services.

The Department of the Navy has announced its intention to expand and construct new facilities throughout the County ensuring a long-term presence. The U.S. Navy has continued to move additional warships to its San Diego and Coronado port facilities which not only increases local payroll expenditures but provides significant new ship repair/maintenance contracts for local businesses.

The Department of the Navy has indicated to local contractors that it intends to continue to have a large physical presence in San Diego County and to retain those existing San Diego installations that are currently operating. This large physical presence means that these military installations will remain a pillar of stability for the local economy.



Aerial view of the main SPAWAR facility on Pacific Highway

United States Marine Corps. (USMC)

The U.S. Marine Corps. continues to operate the Marine Corps. Recruit Depot adjacent to San Diego Bay, one of only two such training facilities in the nation, and the Marine Corps. Air Station (MCAS) Miramar. Payroll spending from a larger contingent of Marines stationed at nearby Camp Pendelton in Oceanside also contributes to the regional economy which benefits San Diego retailers and service sector businesses. The USMC has stationed over 56,000 Marines primarily in these three locations.

Marine Corps Recruit Depot (MCRD)

The Marine Corps Recruit Depot is located between the communities of Point Loma and Midway-Pacific Highway on 388 acres of reclaimed tidelands. One of only two such facilities in the nation, MCRD provides training to USMC recruits in a “boot camp” environment. MCRD provides economic stimulus through payroll and procurement plus the positive fiscal and economic impacts resulting from visiting families at graduation times. Known for its unique Spanish colonial revival style appearance, the overall site and specific building plans were developed by renowned architect, Bertram Goodhue, who also designed the buildings built in San Diego’s Balboa Park for the 1915 Panama-California Exposition. Twenty-five of the Depot’s buildings are on the National Register of Historic Places.



Marine recruits marching during promotion ceremony at Marine Corps Recruit Depot – San Diego (“MCRD”)

Marine Corps Air Station Miramar (MCAS Miramar)

Marine Corps Air Station Miramar (“MCAS Miramar”) is located on 23,116 acres between the communities of Mira Mesa and Kearny Mesa in the northern part of the City. This airbase is home to the USMC’s 3rd Marine Aircraft Wing and its 15,000 military and civilian personnel.



Aerial view of Marine Corps Air Station Miramar (MCAS Miramar)



MCAS Miramar

Additional Information

Additional information about the impact of the Department of the Navy can be found at:

<http://www.sdmac.org/2010SDMACMilitaryEconomicImpactStudy.aspx>

Tourism

In a national survey by the U.S. News and World Report ranking the best vacation spots in the U.S. and the world for 2011, San Diego ranked third in the nation and 18th in the world. San Diego ranked high in vacation destinations due to its weather, beautiful beaches, and its ability to retain its small City feel making it a popular destination for families looking for a relaxing vacation.

Unfortunately, wages in the tourism industries such as hospitality, food services, and various retail industries are among the lowest nationwide. Since the City's economic base is still disproportionately dependent on these industries the City must cope with negative fiscal and economic impacts associated with these low wage rates. The City seeks to provide "affordable housing" opportunities for low-wage workers. However, affordable housing comes at a price. Rent restricted housing projects and/or "inclusionary housing" units are often built on re-zoned industrial land which, in turn decreases the supply of industrial land and increases occupancy costs for middle and high wage manufacturers.



As a result, manufacturers are forced to consider relocating some or all operations outside the City resulting in negative fiscal and economic impacts. Indigent medical services and emergency room costs result from the lack of medical insurance provided to tourism industry workers. Equalization of these costs through higher "living" wages or higher taxes may become necessary to accommodate future growth in the tourism industry.

Major Attractions

Although tourism in San Diego has seen declines due to the recent recession, visitor related industries will continue to be a major driver of the local economy. Significant attractions include the San Diego Zoo, Sea World, Seaport Village, the Gaslamp Quarter, Old Town, Mission Bay, Petco Park, Qualcomm Stadium, La Jolla Cove, Convention Center, and of course the City's world-renowned beaches.



Cultural Tourism

San Diego is the oldest City in California, claimed for Spain in 1542 by explorer Juan Cabrillo with the first settlements established in 1769 at the Fort Presidio and San Diego Mission de Alcalá. San Diego became part of Mexico as a result of that nation's independence in 1821 and later became part of the United States in 1850. Both Fort Presidio and Mission San Diego de Alcalá are listed as National Historic Landmarks as are many of the older structures in Old Town and Balboa Park. San Diego's Spanish heritage as seen through these historic structures and the grounds surrounding them are cornerstones of the City's cultural tourism. The 19th century buildings in Old Town have been painstakingly restored and most are operated today as restaurants and gift shops. Balboa Park, reportedly boasts the largest complex of museums other than the Smithsonian in Washington DC.

The adjacent City of Tijuana is still part of Mexico and is a short drive or train ride away. Mission San Diego de Alcalá in Mission Valley



Visitors can easily tour and enjoy these facilities as well as visit the pedestrian-oriented City of Tijuana in a single day.

Promotions

Marketing of major events and facilities is funded in part through the Tourism Marketing District ("TMD"), a property-based assessment district which levies a fee on hotel room nights for this purpose. Funding is also provided from the City's Transient Occupancy Tax ("TOT") Fund through the Economic Development & Tourism Support Program ("EDTS").

Public Benefits

In addition to the economic impacts described above, tourism related business establishments such as hotels, motels, restaurants and boutique retail outlets generate significant tax revenues for the City's General Fund. The City receives a share of property tax paid by these businesses, a 1% local sales tax, and most significantly, all of the 10.5% Transient Occupancy Tax (TOT) levied on visitors staying at local hotels and motels. The City received \$150 million in TOT revenue in FY2012.

Additional Information

Additional information about the economic impact of the tourism industries can be at: <http://www.sandiego.org/nav/Media/ResearchAndReports>

Manufacturing

Biotech & Medical Devices



Medical test kits being packaged in a clean room at Gen-Probe Corp.

Biotech industries have existed in San Diego since the late 1960's, but did not experience much growth outside of medical devices until the 1980's. The biotechnology industry cluster is mainly comprised of three basic industries: drugs, diagnostics, and devices. Companies such as Alere, CareFusion, Gen-Probe, Illumina, and Shire operate major manufacturing plants. Drug manufacturers Amylin Pharmaceuticals, Johnson & Johnson, Novartis, and Pfizer continue to operate major research laboratories in the University Community area.

Additionally, a significant number of “toolbox” companies which produce drug screening and discovery devices, reagents, and other bio-chemicals provide a complementary and supportive business environment. The drug industry has been characterized by a high degree of risk, reward, and volatility. This environment is manifest through a massive number of start-ups, spin-offs, and mergers & acquisitions resulting in some degree of employment fluctuation. In contrast, the diagnostic, device, and “toolbox” industries are characterized by stability and steady growth. These industries contain the majority of actual biotech manufacturing jobs. In addition, devices and diagnostic products are subject to sales tax, which also has the added benefit of generating substantial tax revenues for the General Fund.

Economic Development Opportunities

Despite the high costs of doing business in California, the biotechnology industry still finds San Diego an attractive location for R&D and some types of manufacturing. Manufacturing creates middle income jobs opportunities and in many instances creates sales, use, and property tax revenue for the City's General Fund. Despite the volatility described above, this industry cluster has remained a significant economic engine within the City and by almost any measure is ranked as the nation's third largest biotechnology cluster.

Cleantech

The cleantech industry cluster in San Diego is comprised of a number of industries which are engaged in the development, manufacturing, distribution, and installation of products which produce renewable energy, clean energy, energy efficiency, energy storage, biofuels, or other products which reduce pollution and/or natural resource depletion worldwide. Many of these businesses also provide a range of closely related services to governments, other businesses, or individual consumers.



New Leaf Biofuel in Barrio Logan produces biodiesel from used cooking oil collected from restaurants throughout San Diego County.



Solar tracker assembly line at Soitec Solar Industries in Rancho Bernardo

The market is driven by state and national mandates, such as AB 32, and by state and national subsidies for the manufacturing or consumption of cleantech products such as solar panels and biofuels.

San Diego's cleantech businesses include primarily solar energy, biofuel, water purification, and energy efficiency systems manufacturers. San Diego's solar industry includes two major manufacturers, Soitec Solar Industries and Kyocera Solar, plus dozens of related businesses engaged in the financing, operating, and installation of solar energy systems used by homeowners, businesses, gov-

ernments, and investor owned utilities such as SDG&E. The biofuel industry includes one small manufacturer, New Leaf Biofuel, which is already producing on a commercial scale in the Barrio Logan community. Additionally, others such as; Menem International, Sapphire Energy, Synthetic Genomics, and General Atomics are developing a new generation of biofuels from certain strains of algae or cellulosic materials. In 2009, the University of California at San Diego established the San Diego Center for Algae Biotechnology (SD-CAB) to further the development of innovative research solutions for the commercialization of fuel production from algae.

Much like biotech and other high-tech industries, cleantech businesses are attracted to San Diego because of its highly skilled and highly educated workforce, and because of its culture of entrepreneurship, innovation, and collaboration. San Diego's abundant sunshine creates a natural market for the solar industry. Collaboration between government and industry on cleantech initiatives and the success of CleanTECH San Diego (a local trade organization), has spurred growth in this industry cluster.

Economic Development Opportunities

In the near term, the Cleantech industry cluster will continue to be driven by a combination of federal, state, and local mandates for renewable energy and energy conservation; procurement of cleantech products by government agencies; and the provision of ratepayer and taxpayer subsidies. In the long term, consumers may increasingly seek cleantech products as they become more cost-effective as compared to fossil-based alternatives. Most cleantech products require a highly skilled and highly educated labor force to develop and produce, and San Diego clearly has such a labor force.



Employee checking biofuel tanks at Menom International in Rancho Bernardo

Defense & Security Systems

Four of the City's 10 largest employers are in the Defense & Security Systems industry cluster and operate as defense contractors: General Atomics, General Dynamics, Northrop Grumman, and Science Applications International Corp. ("SAIC"). Dozens of smaller and medium-sized defense contractors and sub-contractors contribute to a cluster of related industries, such as manufacturing unmanned aerial vehicles (UAV's), aerospace components, avionics, "C4ISR" systems, and other products sold to the U.S. Departments of Defense, Homeland Security, and foreign governments.

During the early 1990's the end of the cold war resulted in a fairly massive and rapid reduction of the number of defense contracts let by the U.S government. Rising energy and insurance costs in California squeezed margins to the point that major aerospace contractors like General Dynamics decided to close or downsize operations which had been in existence for decades. This resulted in a shock to the local economy due to the loss of tens of thousands of jobs.

While the talk of defense conversion was a way for some impacted companies to convert to new markets, many San Diego defense contractors adapted by developing more sophisticated products with greater profit margins consistent with advancements in military science and military intelligence. As such, San Diego's defense contractors remain strong.



Parts for the Predator unmanned aerial vehicle (UAV) are manufactured by General Atomics Aeronautical Systems at factories in Rancho Bernardo and Sabre Springs.

In 2011 they employed tens of thousands of San Diegans in fulfillment of contract values exceeding \$11 billion, a figure that according to NUSIPR represents 14% of Gross Regional Product ("GRP"). The fastest growth has occurred in the manufacturing of aerospace systems and components which increased in local contract value from \$56 million in 2001 to over \$2.9 billion in 2011. Most of this astounding growth has occurred within one industry – the manufacturing of unmanned aerial vehicles (UAV's) and related systems. This industry currently amounts to almost half of local aerospace contract value and nearly 12% of the total defense contract values fulfilled in San Diego. San Diego has emerged as a global leader in UAV development and production, and is probably the epicenter of this rapidly growing industry. General Atomics is now San Diego's largest defense contractor and second largest manufacturer with almost 7,400 employees. Northrop Grumman, which operates

several UAV R&D facilities in Rancho Bernardo employs almost 5,000 locally in several divisions. Other San Diego defense plants and labs operated by L-3, BAE Systems, and SAIC supply components and major sub-systems for UAV and other defense systems as well. NUSIPR estimates that the development and manufacturing of UAV's in San Diego results in total employment of over 7,000 people and total economic impacts of approximately \$2.3 billion.¹¹ Raytheon, Lockheed-Martin, and ATK also operate major plants and labs employing hundreds more San Diegans at each location.



San Diego has the only major shipbuilding operation on the west coast of the United States. This operation has been located in Barrio Logan since 1960 and is operated by General Dynamics NASSCO as a result of General Dynamics acquisition of the former National Steel And Shipbuilding Company.

This major manufacturing operation employs over 3,600- mostly unionized blue collar workers. While General Dynamics NASSCO produces some commercial ships, the majority are warships and support vessels built for the U.S. Navy. General Dynamics NASSCO also performs repair work for commercial and naval ships. It is a unique, important and very special asset for the City. “Cyber security” firms (discussed below) often get contracts to supply software/IT solutions to the Department of Defense.

Economic Development Opportunities

San Diego is still competitive in the attraction of defense contractors. The shipyards of Barrio Logan are the only major waterfront shipbuilding operations on the West Coast. The unmanned aircraft industry has most of its R&D and manufacturing operations in or near San Diego. The presence of the military installations provides numerous contract fulfillment opportunities and defense contractors have unparalleled access to military veterans who are not only highly skilled in the use of military equipment, but also frequently possess expensive Secret and Top Secret security clearances upon discharge.

¹¹ NUSIPR, Unmanned Aerial Vehicles – An Assessment of their Impact on San Diego’s Defense Company, prepared for San Diego North Chamber of Commerce, 2012, p.11

Electronics & Telecommunications

Electronics and telecommunications businesses have been a major part of San Diego's economy since National Cash Register (NCR) built its massive 113-acre computer manufacturing plant in Rancho Bernardo in 1968. In the early 1970's Kyocera, Sony Electronics, and Hewlett-Packard soon followed, creating a wave of new investments in semiconductors, circuit boards, computer peripherals, and a wide variety of electronic components, integrated systems, and other products throughout the 1980's. All of these industry leaders still have major headquarters (HQ), research & development (R&D), and manufacturing operations in the San Diego communities of Rancho Bernardo and Kearny Mesa.

During the 1990s several companies, which had developed advanced wireless communications technologies for military or security applications, launched commercial endeavors, such as the manufacturing and commercialization of cellular telephones, data storage and encryption products, and technologies. These endeavors, along with the development and manufacturing of other products, ushered in a new wave of investment in these and related industries such as software and web development.



Large printers assembled at Hewlett-Packard Co. in Rancho Bernardo

By 2000, the “tech wreck” combined with energy deregulation, and rapidly escalating California Workmen's Compensation insurance costs, led to a series of devastating plant closures in the local semiconductor, circuit board, and television industries. Between 2000 and 2005 over 10,000 job losses occurred in Rancho Bernardo, Mira Mesa, and Kearny Mesa, San Diego's traditional hubs for these and related industries. Plans for large new industrial complexes by Intel and Sun Microsystems were cancelled and the City's cellular phone manufacturers began to relocate manufacturing and later R&D operations to off-shore locations.

Economic Development Opportunities

Much like the defense adaptation which took place in the 1995-2005 period, San Diego electronics and telecommunications companies began to focus on government and business-to-business markets, offering enterprise class systems and solutions which tended to have higher margins, and were sold with long-term service contracts. San Diego's electronics and telecommunication cluster is smaller than its peak in 2000, but appears to have stabilized at current levels.

Food & Beverage Production

The food and beverage industry has quietly emerged as a viable source of job growth during the last ten years. Like many of the other San Diego industry clusters, this industry cluster thrives on the value-added by skilled labor, the support of local consumers and tourists, the business savvy of local entrepreneurs, and the ability to sell products to consumers in other states and foreign countries. San Diego County has a significant number of specialty foods manufacturers and the City has captured its fair share of these businesses. Otay Mesa is emerging as a geographic hub of processed specialty foods due to its relatively low land and labor costs. Several companies in that community are producing significant volumes of specialty foods which are sold at discount retail chains and international membership warehouse stores.

The craft brew and microbrewing industry has recently emerged as a source of job growth. According to the San Diego Brewers Guild and the Brewers Association, craft beer is the fastest growing segment of alcoholic beverage production in the United States. These businesses tend to be located in the northern part of the City and North County cities and several have won international acclaim due to the development of very high quality beers. The close proximity of many of these local breweries facilitates a form of tourism, as aficionados of fine ales, porters, stouts, and barley wines can travel to several locations in an afternoon for brewery tours.



Production vessels at Coronado Brewing Co. in Bay Park



Bottling line at Coronado Brewing Co. in Bay Park

Patrons can sample beers in tasting rooms and purchase bottled beers in the same way as people frequent the wineries of Napa, Sonoma, and Temecula. San Diego is emerging as one of several hubs of craft/microbrewing similar to Denver and Portland.



Tasting room at Ballast Point Brewing in Scripps Ranch

Food and beverage manufacturers create excellent public benefits. Beer manufacturing creates 4.7 additional jobs in the wholesale, retail, and service sectors for each direct brewery job.¹² According to a recent study by the UC Berkley Goldman School of Public Policy, brewery jobs pay annual average wages of \$62,000, close to the top of the middle wage range established by NUSIPR.¹³ Although it is classified within the manufacturing sector, the brewing of high quality “craft beer” creates additional sales and TOT tax revenues as beer tasting tours and major industry events attract visitors from outside San Diego.

Food manufacturing has a multiplier of 4.1 generating three additional jobs for each direct job, well above the average multiplier of 2.0 . Jobs in the food manufacturing industry pay an average of \$41,842 according to South County Economic Development Council.¹⁴ Most of San Diego’s food manufacturers are located in Otay Mesa which has cost-effective real estate options, access to a skilled labor pool in South Bay, and access to two existing cold storage facilities. These 7 manufacturers are producing meat products, tortillas, baked goods, and other specialty foods and reportedly employ approximately 1,000 workers. These employers typically provide health insurance and other benefits.

[Insert picture of Jensen Meat here]

Economic Development Opportunities

The San Diego Brewers Guild, using partial funding from the Tourism Marketing District organizes and annual “Beer Week” to showcase local brewers and artisanal foods and to attract visitors to the San Diego region. The San Diego region has the ability to create a sustainable and secure food supply with its many resources including significant agricultural resources and burgeoning food production in the Otay Mesa area.

¹² California Association of Local Economic Development – “Using Multipliers”

¹³ Richey, David, California Craft Brewing Industry, UC Berkley Goldman School of Public Policy 2012

¹⁴ Regional Food Cluster Profile, South County Economic Development Council, 2009

International Trade & Logistics

The International Border with Mexico

San Diego's proximity to Tijuana, Baja California, Mexico provides the City with an important comparative advantage in terms of capturing international trade activity. The United States is Mexico's largest export market consuming over 80% of Mexico's goods, equating to approximately \$230 billion. Conversely, the United States exports approximately \$163 billion worth of goods to Mexico. San Diego's direct physical connection to the international border and its cultural connection to City of Tijuana's population of 1.3 million people is by far the largest of any U.S. city bordering Mexico. This juxtaposition gives San Diego a unique and special position with Mexico as a gateway city and a critical economic engine for the San Diego-Tijuana region.

The U.S./Mexico International Port of Entry at San Ysidro is reportedly the busiest in the Western Hemisphere, due in part to the sheer size of the

San Diego-Tijuana metropolitan area which has a combined population estimated at over 6 million people. Thousands of workers and tourists purchase goods and services on both sides of the border every day. According to the U.S. General Services Administration (GSA), 50,000 northbound vehicles are processed and 25,000 northbound pedestrians cross each day. A study conducted by the San Diego Association of Governments (SANDAG) projects an 87% increase in vehicle traffic in San Ysidro by the year 2030. In order to accommodate that growth in traffic and better meet the changing needs of the tenant agencies and the general public, in 2004, the GSA began to work with local,



state and federal government and community representatives from U.S. and Mexico to discuss the reconfiguration and expansion of the Port of Entry in Tijuana and San Ysidro. The result is a \$732 million "Port of the Future" for the San Ysidro Port of Entry that features a sustainable design as well as technology to improve processing of northbound vehicular and pedestrian traffic. Phase I of this expansion project is complete and Phase II is under construction. The 2014 fiscal year President's budget features a \$226 million request to fund Phase 3 of the project. Upon completion, the San Ysidro Port of Entry will be a facility that is sustainable, operationally scalable, and will dramatically reduce the Port's carbon footprint, while at the same time enhancing U.S. Customs and Border Protection's (CBP) ability to conduct their mission to guard the Nation's borders while fostering economic security through lawful international trade and travel.

The Otay Mesa Port-of-Entry at the border accommodates approximately 775,000 tractor-trailer trucks annually, carrying goods valued at approximately \$27 billion. 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. In 1988 the city received the authority to administer the federal Foreign-Trade Zone (FTZ) Program throughout the entire county of San Diego. In 2011, the City reorganized the FTZ program to a new format, the "alternative site framework" or ASF. This new structure allows companies to obtain approval to activate as an FTZ facility quickly. In Otay Mesa the recent and proposed construction of several modern distribution centers, comparatively low lease rates, tax and duty advantages, and the completion of the 905 Freeway will enable the City to position itself as an attractive location for trade-servicing and logistics companies. In addition, the proposed new State Route 11 and new Otay Mesa East Port of Entry will improve the movement of goods and people between the United States and Mexico. The construction contract for segment 1 of the SR 11/Otay Mesa East Port of Entry project is expected to be awarded in late 2013. The estimated completion date is 2015. Subsequent segments will be built as funding becomes available (expected to begin in 2016).

Additional Information

Additional information about international trade with Mexico can be found at: <http://www.census.gov/foreign-trade/balance/c2010.html>

The Port of San Diego

The Port of San Diego facilitates international trade activity through its 10th Avenue Marine Terminal, in the City of San Diego and 24th Street Marine Terminal in the City of National City. The Port of San Diego is ranked as the West Coast's 8th largest port based on total tonnage shipped -6.5 million tons. Combined with the National City Marine Terminal, these ports generate an economic impact estimated at \$1.7 billion. The 96-acre 10th Avenue Marine Terminal is utilized mainly for the importation of a wide variety of bulk products and large pieces of equipment. These products include cement from China and Thailand; sand from Mexico; fertilizer from Norway; fresh fruit from Guatemala, Costa Rica, Peru, Ecuador, and Australia; steel products from Europe, Korea, and China; and wind turbines from the Great Lakes region. It is also home companies that provide for 822 jobs at average wages totally \$54,032 annually, 28% greater than the countywide average for all jobs.¹⁵ The National City Marine Terminal's inbound cargoes consists of largely automobiles and lumber.

Additional Information

More information about maritime trade at the Port of San Diego can be found here: <http://www.portofsandiego.org/about-us/view-financial-information/447-economic-and-fiscal-impact-of-port-tidelands.html>



¹⁵ NUSIPR, San Diego's Maritime Trade: A Critical Economic Engine, 2008, p.3

Logistics

The globalization of the world economy is a result of a great variety of factors including; competition between multinational corporations, increased labor skill levels in “low labor cost” producer nations, the rising power and influence of major general merchandise retailers, and technological innovations which have made it possible to construct longer, larger, and more complex global supply-chain management systems. A supply-chain is a system or organizations, activities, technologies and resources that help move a product or service from supplier to customer. This trend towards globalization has resulted in the movement of manufacturing jobs to cheap-labor countries at an alarming rate.

However, California cities have successfully replaced some of these lost manufacturing jobs with new jobs created in large warehouse operations called distribution centers (DC’s). As global supply chain systems shift manufacturing to off-shore locations the distribution functions are reorganized creating new job opportunities for supply chain related employment. Many distribution functions are still performed by manufacturers and retailers, but are now frequently provided by third party logistics companies (3PL’s). Advanced supply chain technologies are used by manufacturers and 3PL’s to operate these large DC’s resulting in a very competitive industry where efficiency, flexibility, and speed are of paramount importance. Retailers, wholesale merchants and manufacturers are constantly modifying their merchandise orders to respond to fluctuating consumer demand and requiring “just in time” delivery. Many of the packaging, labeling, and re-packaging functions formerly performed internally by manufacturers and retailers at one end of the supply chain system are increasingly now performed in the middle of the supply chain system at the DC’s. These value-added functions require higher labor quality and frequently pay wages and benefits in the middle income range, much like the traditional manufacturing jobs. California employers posted approximately 50,400 job openings in 2012 for logistics and supply chain occupations. The median 2012 hourly wages ranged from \$14 to \$28. In the next three years, the demand for a workforce skilled in the various fields of supply chain technology and logistics is expected to have nearly 55,000 jobs.¹⁶ Community College Districts in San Diego region have established curriculum and certification programs to help meet the new occupational demands of the logistics and supply chain employers.

West coast cities with ports-of-entry are now aggressively competing to be selected for the sites of new distribution centers. These regional DC’s provide cities with an important means of expanding their economic base and providing local residents with these choice blue collar job opportunities. Most of the city’s distribution centers are located in Carmel Mountain Ranch, Kearny Mesa, Mira Mesa, Otay Mesa, and Navajo.

[insert photo of Mission Trails Industrial Park here]

¹⁶ California Community Colleges Economic & Workforce Development, Sector Profile - Supply Chain & International Trade, 2013, p.1 & 4

Economic Development Opportunities



The Port of San Diego's 10th Avenue Marine Terminal cannot accommodate the massive modern off-loading cranes and other critical infrastructure for large container ships. The Terminal is bordered relatively constrained by existing commercial, residential, and governmental development and facilities, limiting the Port's ability to add significant infrastructure to support contemporary container ship operations. However, is well suited for certain Pacific Rim niche market opportunities. To better utilize the acreage available at the Port, a plan to make improvements and to renovate this facility could create thousands of middle income quality jobs for San Diego residents.

The Panama Canal expansion is scheduled to open in Spring 2015. The city should work closely with the Port to explore new opportunities that will result from this expanded trade route. As the gateway to North America, San Diego's port can offer fast, easy access free from the congestion of larger ports. Currently the Port imports more goods than exports. This trade imbalance should be reduced by filling the ships that now leave empty with San Diego products. A plan to achieve this goal should be developed and implemented with the Port and addressed in the San Diego Metropolitan Export Initiative.

According to NUSIPR, *"Development scenarios for the Port of San Diego have very large positive new benefits from expanding terminal operations to accommodating greater cargo demands. The highest overall economic impact comes from developing a new containerized banana operation as well as a break bulk banana operation. The total cost for this project is about \$64.8 million, including \$24 million to relocate the current CEMEX operation, according to the Port's analysis. Nearly 5,000 direct, induced, and indirect jobs would be created primarily by the operation of the containerized banana tenant."*¹⁷

¹⁷ Ibid, p 16-17

Other Base Sector Industry Clusters **and Business Establishments**

There are a variety of other industries and large business establishments which are outside the Manufacturing Sector and do not provide services to tourists or within the realm of International Trade & Logistics. These businesses range from very small high-tech web development companies to very large national corporate headquarters establishments. They are also part of the economic base because, despite being located within the retail and service sectors, they are generally providing such services to people outside San Diego – throughout the nation, and in many instances, worldwide.

Major Corporate Headquarters Establishments

San Diego is home to a number of significant corporate headquarters, large administrative offices, and primary research institutions which employ thousands of San Diegans and help to establish the City as a well-renowned location for business. These corporate headquarters establishments provide administrative services to businesses which are either very large or geographically widespread. In the retail sector Charlotte Russe, Jack in the Box, Petco, and Cricket Communications are all household names. Less well known businesses like LPL, AMN Healthcare, and HD Supply, are more likely to serve business and institutional customers. Although technically categorized within the Manufacturing sector, Sony Electronics and ResMed have no actual manufacturing operations in San Diego but chose to construct large world headquarters offices here. These establishments have beneficial economic impacts that approach those of similar sized manufacturing plants since they constitute part of the economic base and also create middle-income jobs.



Cricket Communications has its national corporate headquarters in Kearny Mesa



LPL Corp. will consolidate its corporate headquarters functions into this 415,000 square foot building in 2013

Software & Web Development

San Diego has had a significant number of important software development businesses, on-line retailers, and analytics services businesses, which complement the City's high-tech manufacturers and research institutions. Several firms in San Diego have developed encryption and other cyber security technologies which are increasingly sought after by government agencies and large corporations. Included in this category are other "information technology" businesses like Science Applications International ("SAIC"). However, while they may manufacture some tangible products, their principal function is to provide services such as "systems integration" or "digital compression" technologies, which are then sold or licensed to government agencies and other businesses. These businesses, like Intuit, and Mitchell International also employ many thousands of local residents providing very high-paying salaries and many also generate sales tax revenues for the City's General Fund.



Intuit's 465,000 square foot software development campus in Torrey Highlands

Economic Development Opportunities

San Diego's corporate headquarters and information technology businesses are located in the City due to the residential preferences of owners, and the ability to access highly educated, professional, technical, and managerial employees. The economic development opportunities in these areas lie in concerted business attraction and retention activity. Attracting and retaining major corporate headquarters is well served by engagement from leaders in the public and private sectors. The Office of the Mayor, City Council, local trade organizations such as the San Diego Regional Chamber of Commerce and the San Diego Regional Economic Development Corporation are influential in attraction and retention efforts. Aggressive competition from cities in other states, and economic pressure can prevent a company from locating in San Diego. Proactive engagement by local leaders helps to reduce the uncertainty of locating in San Diego, which in turn makes San Diego an enticing location to headquarter their business. The City has been successful in helping companies navigate local permitting and land use regulations. Future City efforts should focus on collaborating on marketing the region, developing strong bonds with existing companies, and improving local regulations that may be a barrier to business attraction.

Appendix B. Community Investment & Revitalization

Community investment and revitalization is another key element of the City's Economic Development Strategy. Community investment and revitalization traditionally focuses on older urban neighborhoods that are densely populated and have experienced disinvestment or limited investment and/or have public infrastructure/facility deficiencies. The economic health and well being of these older communities is vital to the larger economic well being of the entire City. A myriad of strategies and tools are used by the City of San Diego to address community investment and revitalization. Furthermore, opportunities exist to expand existing tools and develop new approaches. These are discussed below.

Infrastructure Investment

There is an estimated \$800+ million backlog in deferred capital and infrastructure spending within the City. These deficiencies are located Citywide but predominately impact the older more densely populated communities that have not experienced widespread infrastructure investment. Sustainable and strategic investments in public infrastructure and facilities will likely increase property values, decrease crime, spur new private investment, and create new construction jobs. One tool that has been used and is still available is Special Assessment Districts. This is discussed later in this section.

Post Redevelopment Era

Redevelopment Agencies throughout California were dissolved on February 1, 2012, including the City of San Diego's Redevelopment Agency, pursuant to state law. Redevelopment served as a key economic development tool for almost 400 communities statewide for approximately 60 years by financing infrastructure and public facilities, facilitating new development and reconstruction/rehabilitation of older, often historically significant structures, remediating brown field sites, financing affordable housing and implementing the re-use of former military bases. The City's former Redevelopment Agency afforded San Diego with a variety of financing and development tools to remove physical and economic blight, provide for affordable housing and improve older neighborhoods, commercial and industrial districts.

The City of San Diego elected to serve as the Successor Agency to implement the wind down of the former Redevelopment Agency. In addition, Civic San Diego was formed as a City-owned non-profit organization to serve as a consultant to the City and to replace Centre City Development Corporation (CCDC) and Southeastern Economic Development Corporation (SEDC). Its main charge is to the wind down the activities of the former Redevelopment Agency and to perform economic development and planning functions within certain designated areas of the City. Civic San Diego is developing an Economic Development Strategy for the areas under its stewardship. In 2012, Civic San Diego formed the Civic San Diego Economic Growth and Neighborhood Investment Fund, a Community Development Entity (CDE) and a subsidiary of Civic San Diego for the purpose of applying for New Markets Tax Credit (NMTC) allocations and managing Qualifying Low-Income Community Investment (QLICI). The NMTC program is a federal tax incentive authorized by the

federal government to help spur the investment of capital in small business and commercial real estate located in communities of need.

Public-Private Partnerships

The City of San Diego has successfully supported the efforts of private entities which have been investing in its older communities. The efforts of these private sector entities has led to the development of numerous community projects that might not otherwise have occurred, such as the City Heights Urban Village, Market Creek Plaza in Southeastern San Diego, and the Salvation Army Ray and Joan Kroc Corps Community Center in Rolando/East San Diego. Maintaining and expanding these types of public-private partnerships could provide another mechanism to spur investment in San Diego communities.

Special Assessment Districts

Special Assessments Districts are financing mechanisms that can be used to finance the construction and maintenance of infrastructure. Assessments are collected as direct levies on the property tax bill of all parcels directly benefiting from the provision of services financed by the district. The City has several assessment districts which are formed and governed pursuant to the following state laws.

The Landscaping and Lighting Act of 1972

The 1972 Landscaping and Lighting District Act is a tool available to local government agencies to pay for landscaping, lighting and other improvements and services in public areas. The law allows municipalities to form special benefit districts for the purpose of financing these improvements. Assessments are levied on properties that receive benefits or services in excess of those provided by the City. The City uses this 1972 Act as the basis for forming Maintenance Assessment Districts (MADs). The City current has over fifty MAD's, the majority of which are administered by the City. However, certain MADs operating in urbanized commercial corridors are administered by non-profits. Conceptually, these organizations are affiliated with the community they serve and through this involvement are attuned to the specific needs of that community.

The Mello-Roos Community Facilities Act of 1982

The Act allows any county, city, special district, school district or joint powers authority to establish a Mello-Roos Community Facilities District (a "CFD") which allows for financing of public improvements and services. The services and improvements that Mello-Roos CFDs can finance include streets, sewer systems and other basic infrastructure, police protection, fire protection, ambulance services, schools, parks, libraries, museums and other cultural facilities. In 2012, the City approved a type of CFD to fund the expansion of the convention center, which has direct and significant economic benefit for the City. While there are many benefits to using CFD's as a financing tool, they can be difficult to form in a developed area based on the requirement to obtain a two-thirds voter approval.

Property and Business Improvement District Law of 1994

A Property and Business Improvement District, or “PBID”, is an innovative revitalization tool for commercial neighborhoods. Established by law in the early 1990’s, PBIDs are public/private sector partnerships that perform a variety of services to improve the image of their cities and promote individual business districts. They also carry out economic development services by working to attract, retain and expand businesses. This law enables a city, county, or joint powers authority (made up of cities and/or counties only) to establish a PBID and levy annual assessments on businesses and/or property owners within its boundaries. Improvements which may be financed include parking facilities, parks, fountains, benches, trash receptacles, street lighting, and decorations. Services that may be financed include promotion of public events, furnishing music in public places and promotion of tourism. In addition to the above, this act also allows financing of streets, rehabilitation or removal of existing structures, and security facilities and equipment. The City currently has one PBID which is located within the downtown area. This district was formed first formed in 2000 and renewed in 2005 for a 10-year period. In order to maintain enhanced service levels, the district will need to be renewed again in 2015.

Community Development Block Grant Program

The City can also address the deferred capital backlog through strategic use of Community Development Block Grant (CDBG) funds, which are received annually from the U.S. Department of Housing and Urban Development (HUD). According to HUD, CDBG funding “provides communities with resources to address a wide range of unique community development needs...it works to ensure decent affordable housing, to provide services to the most vulnerable in our communities, and to create jobs through the expansion and retention of businesses. CDBG is an important tool for helping local governments tackle serious challenges facing their communities¹⁸.” Accordingly, the vast majority of CDBG funding must be used to serve low and moderate income households and areas, many of which suffer from under-investment and infrastructure deficiencies as mentioned above.

In addition to Capital Improvement Projects, CDBG funds can also be used for economic development programs such as; business loans, business incubators, façade improvement programs, micro-enterprise assistance, and job readiness training. These programs focus on improving the economic and social well being of low and moderate income communities and provide opportunities to enhance neighborhoods and create jobs.

The City’s CDBG allocation has been dwindling over the past three years FY 2011 (\$16.3M), FY 2012 (\$13.6M), FY 2013 (\$10.7M) and it is expected to continue in that trajectory. However, in the early 1990’s CDBG funds were loaned to the former Redevelopment Agency as “seed money” to initiate redevelopment activities in newly created Redevelopment Areas. This investment, totaling over \$78M, is scheduled to be repaid to the CDBG program over ten years (2010-2019). While the

¹⁸ U.S. Department of Housing and Urban Development, Community Development Block Grant website

repayments are restricted to CDBG eligible uses and expenditure deadlines, they serve as a substantial investment resource that can be strategically aligned with identified priority needs.

The City will plan for expenditure of these funds as well as annual CDBG allocations through a five-year Consolidated Plan, which identifies the City's housing and community development needs, priorities, goals, and strategies. The current Consolidated Plan expires at the end of FY 2014. Over the next year, the City will have an opportunity, through development of a new five-year Plan, to allocate resources toward economic development opportunities and priority areas identified in this strategy.

The Sustainable Communities and Climate Protection Act

The Sustainable Communities and Climate Protection Act of 2008, also known as Senate Bill (SB) 375, is a state law targeting greenhouse gas emissions and the Global Warming Solutions Act of 2006, also known as Assembly Bill (AB) 32 sets goals for the reduction of statewide greenhouse gas emissions. The City of San Diego has developed policies and has been coordinating with other local and regional planning agencies in addressing these laws. Opportunities exist to identify funding and partner with local agencies and private parties to develop projects such as transit oriented development projects and smart growth projects to implement the statutes.

Economic Development Opportunities

CDBG funding can be used for capital infrastructure investment as well as economic development functions such as workforce development and job creation. The \$78M Redevelopment repayments provide a unique opportunity to strategically invest a funding stream that is both predictable and reliable. The City should take advantage of this opportunity during the development of the next Consolidated Plan and allocate resources according to goals that are aligned with this strategy.

Appendix C: Fiscal Impacts by Land Use

The following sections detail the sources of revenue typically received by the City according to land use:

Non-Profit Establishments

Non-profit establishments include hospitals, churches, schools, and various charity organizations which provide a wide array of medical and social services desired by the community. However, state and local tax codes provide blanket property tax exemptions in lieu of the presumed societal benefits resulting from the provision of these services. Some non-profit organizations provide “in-lieu” payments to reimburse local governments for the costs of municipal services provided to these organizations (such as police, fire, paramedic, street repair, etc.) however most do not.

Residential Units

The City of San Diego receives only 17% of the local 1% property tax, about \$550 for the median priced single family home (approximately \$325,000 currently) plus state subventions amounting to approximately \$150/unit for a total of about \$700/unit, or about \$5,000/acre. Revenues from most multifamily units are much lower, except for very high-end luxury apartments and condos whose property tax remittances may actually exceed service delivery costs. The City receives no other revenue from residential units.

Business Offices

Although some office spaces are occupied by corporate sales teams which generate sales tax from business-to-business sales, or franchise fees in the case of a public utility, this land use typically generates a combination of property tax and business license tax.

Vehicle Dealerships

Vehicle dealerships on the other hand generate significant sales tax revenues based on the 1% local sales tax on the purchase price of each vehicle sold. A typical auto dealership can easily generate \$50,000 - \$100,000/acre in sales tax. San Diego has, in many instances, assisted with building and development permits in order to facilitate the modernization and improved efficiency of its dealerships in order to increase taxable sales. State law prohibits local jurisdictions from offering sales tax rebates, providing land at below-market prices, or funding required public improvements specifically to “poach” vehicle dealerships from neighboring jurisdictions. However, jurisdictions are free to provide staff assistance throughout the permitting process, to approve discretionary permits and rezoning ordinances, and to enact land use and other broad-based policies in order to attract these businesses or induce them to expand within a city. Dealerships typically have few employees on a per acre basis, about 20 per acre, resulting in low business license tax generation, but very low service delivery costs.

Large Retailers

Regional shopping malls, so-called “power centers,” “lifestyle centers,” “outlet centers,” and freestanding large format retail stores (aka “big box” stores) can also generate significant sales tax revenues for the City by reducing sales “leakage” to other jurisdictions or by inducing shoppers from other jurisdictions to purchase taxable goods from retailers within the City.



Westfield Corp. recently spent \$180 million to upgrade University Town Center shopping mall. At full build-out UTC is expected to generate an additional 3 million annually to the General Fund

San Diego has four regional malls:

Fashion Valley Center
Horton Plaza
Mission Valley Center
University Towne Center

San Diego has four power centers:

Carmel Mountain Ranch Center
College Grove Center
Mira Mesa Market Center
Palm Promenade

San Diego also has a wide variety of smaller shopping centers evenly spaced throughout the City. The location and size of shopping centers is typically driven by demographics and in part because the City is essentially built-out, with scarce land availability. As such, the City has little ability to influence the locations of any new major shopping centers. California law also prevents the provision of tax rebates to “poach” large retailers from other California cities. However, much like the case with vehicle dealerships, the City is still free to use its land use authority to improve conditions that influence the willingness and ability of large shopping center developers and large retailers to improve and expand existing centers within the City.

R&D Laboratories

R&D laboratories are the dominant land use in the “Golden Triangle” area north of the UTC shopping center (“Torrey Pines,” “Sorrento Valley,” and “Sorrento Mesa”) and are also commonly established in Carmel Valley, Carmel Mountain Ranch, Scripps Ranch, Rancho Bernardo, and Torrey Highlands. Ranging from small single-story “wet-labs” to 12-story telecommunications towers, these facilities form an increasingly large segment of the City’s industrial capacity. Base sector employers in the biotech and telecommunications industry clusters use these facilities to develop prod-

ucts which are mostly produced in offshore locations. These highly improved facilities tend to generate property tax and use tax revenues which tend to exceed municipal service delivery costs, however the lack of product sales typically means that no sales tax will be generated for the City.

Manufacturing Plants

Manufacturing plants are often large tax revenue generators for the City in addition to sources of middle-income job opportunities. As discussed above, the local 1% sales tax is typically allocated to the point of sale. Corporate sales offices are frequently located in or very near to the manufacturing plant where the product is produced. Although many products are exempt from tax due to resale or because the customer is the federal government, many are not. Products sold to end-users such as other businesses are frequently subject to sales tax. Medical devices and business equipment are the most obvious examples. Manufacturing equipment used in California is also subject to sales or use tax. Unsecured tangible personal property such as machinery is also subject to property tax, and the largest and heaviest plants often use millions of dollars worth of such equipment, thus providing revenues to the City throughout the useful service life of such equipment. Finally, manufacturers often consume large amounts of natural gas which is subject to the City's 3% gas franchise fee collected by San Diego Gas & Electric Co.

Hotels & Motels

Hotels and motels are also significant generators of local tax revenues. The largest source of revenue from these businesses comes from the City's 10.5% Transient Occupancy Tax levied on the sale of room nights to customers. In 2012 the City received \$150 million in TOT revenues and expects to receive \$170 million in FY2014. Since the larger hotels offer room service and incorporate large restaurants and sell prepared food mainly to non-City residents, these businesses also generate significant sales tax revenues. Hotels also have very high real property tax assessments providing a third source of General Fund revenue.

Determination of Fiscal Impacts

Figure B-1 below summarizes the fiscal impacts of the most common land use types found in San Diego. This chart shows that there is a fairly wide range of fiscal impacts associated with various common land uses. The net fiscal impact is determined by calculating the reasonably foreseeable tax revenue to be generated by a project or land use, then subtracting the service delivery costs (municipal services provided to residents and businesses) of the same project or land use. In order to accurately compare the fiscal impacts of various land uses it is helpful to analyze each of them on a per acre basis. Tax revenue is General Fund taxes not special assessments, property-based fees, charges, or commodity sales)

Figure C-1: Fiscal Impact Analysis Chart

Land Use	Employees/EDU per Acre ¹⁹	Service Delivery Costs @ \$1,200/EDU or @ \$200/employee ²⁰	Tax Revenue Source(s) ²¹	Tax Revenue/Acre	Net Fiscal Impact
Non-Profit Establishments	73	-\$14,600	Use Sales		-\$14,600
SF Residential Units	7 EDU	-\$8,400	Property	+\$4,900	-\$3,500
Business Offices	87	-\$17,400	Property Business License	+\$20,000 +\$435 =\$20,435	-\$3,035
MF Residential Units	18 EDU	-\$22,560	Property	+30,000	+\$7,440
R&D Laboratories	65	-\$13,000	Property Business License Use	+25,000 +220 +10,000 =\$35,220	+\$22,220
Manufacturing Plants	44	-\$8,800	Property Business License Use Sales	+25,000 +\$220 +\$10,000 +\$10,000 =\$45,220	+\$36,420
Large Retailers	62	-\$12,400	Property Business License Sales	+18,000 +\$310 +\$43,000 =\$61,310	+\$48,910
Vehicle Dealerships	18	-\$3,600	Property Business License Sales	+30,000 +\$90 +\$75,000 =\$105,090	+\$101,490
Hotels & Motels	44	-\$8,800	Property Rental Use Sales Transient Occupancy	+11,000 +\$220 +\$100 +\$500 +\$100,000 =\$111,820	+\$103,020

Green type = Base Sector Land Uses

Blue Type = May be Base Sector Land Uses Depending on Size and Function

¹⁹ Non-residential employment intensity figures from San Diego Jobs Housing Nexus Study, KMA/SDHC, 2010 p.34, CoStar, Inc., Mayor's Office of Economic Growth Services

²⁰ Various fiscal impacts studies and San Diego 2014 Budget

²¹ SD County Assessor, CA Board of Equalization, Office of the City Treasurer

Appendix D. Internal Operational Guidance & Coordination

The business and industries described above rely on well maintained infrastructure to produce, ship, and receive goods, to dispose of waste products, and for protection from fire and theft. Existing businesses can rely on the infrastructure not only to accommodate their existing business needs, but it can act as a catalyst for them to expand and to also attract outside business to the region. Various City departments are tasked with the responsibility to ensure that the proper infrastructure is in place and well functioning. Such infrastructure includes, but is not limited to, a transportation network in good working repair, including streets and freeways, airports, land ports, seaports, City telecommunications facilities, water and sewer treatment and distribution facilities, storm water management systems, and emergency facilities. Other departments are tasked with ensuring public safety and quality of life concerns such as fire and police protection, emergency medical response, sanitation, recycling, zoning, parks and open space management, and code compliance. Still other City departments provide services to the “front line” departments. These services include contracting and procurement services, management of City real estate, financial management, and construction of capital improvement projects (CIP).

Several of the City’s departments directly impact businesses and interact with them through the issuance of permits and licenses; the establishment and management of special districts; granting access or use of City property for business operations; or by contracting with businesses for goods and services. It is essential that the City’s departments be coordinated in terms of points of alignment with economic development goals and objectives.

The chart and descriptions below provide some examples of how these departments interact with businesses in ways which can influence private business investment decisions and can impact overall economic prosperity.

Figure D-1: Key City Departments Affecting Economic Development Efforts

Key City Department	Building Permit Approvals	Licensing	Infrastructure and Tourist Attractions	Business Use of City Property	Procurement and Financial Services to Businesses	Management of Assessment Districts
Development Services	√	√				√
Public Utilities	√	√	√	√		
Real Estate Assets				√		√
Fire Rescue	√	√				
Police		√				
Purchasing & Contracting				√	√	√
Transportation & Storm Water	√	√				
Environmental Services				√		
Engineering & Capital Projects			√			
City Treasurer		√			√	√
Parks & Recreation			√	√		√
Debt Management					√	√

Development Services

The Development Services Department (“DSD”) has perhaps the greatest influence on business investment decisions since it issues the vast majority of all permits and land use approvals to businesses. The majority of these are building permits issued to businesses to allow the construction and modification of buildings and related facilities in accordance with adopted State building, fire, mechanical and electrical codes. In addition, DSD issues land use and development permits for facilities in the California Coastal Zone, community overlay zones, and for facilities and properties which require variances from City codes, special use permits, or re-zoning ordinances. The timely and cost-effective issuance of permits and other required approvals has an enormous impact on businesses which must supply goods and services to customers in competitive national and international markets. Delays in the issuance of such approvals, or the imposition of fees which are unforeseen or believed to be unreasonable are most frequently cited as concerns by business managers considering potential investment decisions. Certainty and predictability are factors that have a huge impact on businesses which are operating in volatile and competitive situations.

The Planning Section of DSD develops, monitors and implements the City’s General Plan- a document that guides the City’s economic development policies and goals as they relate to land use. These policies are further implemented through Community Plan Updates, which directly impact neighborhood zoning and land use decisions that have direct impacts on the nature and types of business that locate in an area.

The General Plan also calls for protection and preservation of the City’s industrial lands from encroachment from non-industrial uses. Competition for low-priced industrial land and buildings can also negatively impact (increase) the cost of doing business in the City, as can the costs of mitigating land use conflicts which inevitably arise from the close juxtaposition of sensitive land uses such residences, churches, schools, parks, and similar family-oriented uses.

Public Utilities

The Public Utilities Department (“PUD”) provides potable and recycled (aka “reclaimed”) water to all businesses, and similarly provides for the disposal of wastewater from them. The Public Utilities Department operates two “Enterprise Funds” through two major branches – the Water Utility and the Wastewater Utility - through ten divisions which must be fully self-sustaining enterprises in accordance with the City Charter.

The Water Utility provides potable water to all business customers in the City except those served by Cal America, located in a portion of the Otay Mesa community. This Utility also provides recycled water to businesses in portions of Black Mountain Ranch, Kearny Mesa, Mira Mesa, MCAS Miramar, Miramar Ranch North, Rancho Penasquitos, Scripps Miramar Ranch, Tijuana River Valley, and University. Aside from land, labor, and electricity, water and sewer services are arguably the two of the most important input factors for the production process. High volumes of water are consumed in industrial plants for product make-up, rinsing, steam and energy production, and for facility cooling. The cost and consistent availability of potable and reclaimed water is of utmost im-

portance to manufacturing businesses and contract research organizations. Increased water costs and mandatory conservation measures can negatively impact the City's ability to attract new industrial and especially manufacturing investments. The Water Utility provides certification of businesses which have met all of the requirements for participation in the City's Guaranteed Water for Industry Program.

Similarly, the ability of businesses to efficiently and cost-effectively discharge wastewater at the end of the production process is also extremely important for business investment decisions. The Wastewater Utility regularly assesses and monitors wastewater conveyance and treatment capacity throughout the City to ensure available capacity. A capacity evaluation of impacted wastewater facilities needs to demonstrate that sewer capacity is available to accommodate new development. If capacity is unavailable, upsizing of sewer facilities would be required. For instance, in working with DSD, the department continuously monitors the issuance and transaction of wastewater capacity in the Rancho Bernardo area to ensure the overall capacity in this area does not to exceed the treatment agreement between the City and the City of Escondido. Service rates for industrial discharges and pre-treatment requirements are issued and monitored by the Industrial Wastewater Discharge (IWD) and Food Establishment Wastewater Discharge (FEWD) programs, which can affect the profitability and competitiveness of manufacturing and research businesses.

Real Estate Assets

The City's current Economic Development Division originated in the former "Property Department" which is now called the Real Estate Assets Department ("READ") since this department at one time managed, leased, and sold thousands of acres of the City's industrially-zoned land, most of which was formerly "Pueblo" or "public" lands. Since most of the City's industrial lands have been sold and developed, and the City's economic development units were moved to other operating departments of the City (currently DSD) READ now plays a more indirect role in economic development efforts than it did in the past. However, READ still manages useful industrial properties (or properties with potential for industrial development). The process of making such properties available to industrial businesses is set forth in Council Policy 900-03 "Management & Marketing of City-Owned Industrial Properties" and provides for the sale or lease of such properties in order to create jobs and other economic public benefits. READ also manages city-owned properties that can be used by community organizations to provide services that enhance communities and provide economic development opportunities to residents.

Fire

The Fire-Rescue Department ("SDFD") is responsible for providing fire and life safety services to all communities within the City of San Diego. In addition, it issues a number of permits for special events and activities that promote tourism and generate revenue that can be recycled back into the community.

This department also performs routine inspections of thousands of commercial and industrial sites throughout the City to ensure safety of operations and is tasked with responsibility to oversee businesses using combustible, explosive, and dangerous materials.

Police

Provision of public safety is of critical importance to the well being of neighborhoods, residents as well as tourists, and can impact employment, investment and income as a result. Reduced crime in neighborhoods can contribute to economic growth and stability. Likewise, safe streets make San Diego more attractive for individuals to visit, positively impacting tourism revenue and activity.

The Police Department is responsible for issuing a variety of permits and licenses including special operating permits for police regulated businesses, permits for special events and activities that promote tourism and generate revenue, and participation in the licensing of alcoholic beverage manufacturers.

Purchasing & Contracting

Many of the City's revitalization, real estate, and other economic development efforts require the procurement of goods and services. The Purchasing & Contracting Department ("P&C") is responsible for administering the City's centralized procurement and materials management functions to ensure the availability of material, supplies, equipment (commodities) and services to meet the City's operational needs. In addition, the department provides numerous opportunities for small businesses through the City's Equal Opportunity Contracting Program to grow their operations. The efficient procurement of goods and services from local businesses may help facilitate employment opportunities at these businesses in addition to the traditional function of delivering of services and improvements to the community.

Transportation & Storm Water

The Storm Water Division (SWD) of the Transportation & Storm Water Department is tasked with responsibility for enforcing rules promulgated by the San Diego Regional Water Quality Control Board ("SDRWQCB"). These rules establish land development standards and require routine inspection of commercial and industrial facilities. The SWD must also enforce and illicit discharges into the storm drain system that could have a negative effect on water quality. Additionally, this department is responsible for maintaining storm drains and an extensive system of drainage structures. These structures include underground pipes as well as flood channels throughout the City, including in industrial areas such as Grantville and Sorrento Valley. Flooding in Sorrento Valley has caused impacts to for San Diego biotech companies, and the alleviation of flooding in this area is one of the highest priorities for the local biotech industry.

The Transportation Division of the Transportation & Storm Water Department evaluates and re-stripes streets in commercial and industrial areas in order to provide more on-street parking when its needed to improve business operations when off-street parking may be inadequate for customers.

Environmental Services

The Environmental Services Department (“ESD”) provides solid waste collection and disposal services to the City’s residents and businesses and operates a full-service landfill and composting facility for public use. ESD also manages several recycling programs including: (1) processing of post-consumer paper, plastics, glass, and metal containers that ESD collects from residences; (2) processing of yard waste, tree trimmings, wood waste, and food waste into mulch, compost, and other useful products, putting ESD in a position to provide feed stocks to the manufacturers of recycled products and biomass energy producers; (3) construction and demolition waste; (4) providing recycling technical support to businesses and multifamily residences which typically results in cost savings for them; (5) providing education and outreach for the residential, business, and government sectors; and (6) providing green procurement services internally to City departments which results in savings.

In addition, ESD manages the City’s energy use and programs; explores innovative options to increase energy independence and works to advance more sustainable practices within the City and community. Meeting energy efficiency and renewable energy targets often includes the procurement of products and equipment that are emerging technologies.

Public Works

The Engineering & Capital Projects (“E&CP”) Division of the Public Works Department interacts directly with consulting architectural and engineering consultant and construction contracting businesses in the execution of the City’s Capital Improvement Program (CIP). It provides the planning, design and construction of critical transportation and water/wastewater infrastructure used by businesses to access labor and to ship and receive goods. The projects managed by Engineering & Capital Projects can play an instrumental role in stimulating job growth through maintaining and improving infrastructure and putting individuals to work.

City Treasurer

The City Treasurer administers the Business Tax Certificate Program and collects business taxes from virtually all businesses in the City. Business taxes constitute a small but important source of revenue for the City’s General Fund. Business assessments for the City’s various Business Improvement Districts are also collected with the City’s business tax. The City’s Small Business Enhancement Program is funded based on a minimum number of small businesses registering and paying business taxes to the City. The City Treasurer is also responsible for the collection and reporting of parking meter revenue which is used to fund the Community Parking District program and other eligible activities related to parking management and control within parking meter impacted areas. The timely and accurate collection of these tax revenues, assessments, and fees allows the City to provide important services to businesses and business districts.

Park and Recreation

The Park and Recreation Department is responsible for the daily operations and maintenance of the parks, open space, aquatic areas, and public recreation facilities throughout the City. Parks such as Balboa Park, Mission Bay and the beaches are enjoyed not only by local residents, but County residents and tourists who visit San Diego. Proper recreational programming and maintenance of these areas is vital to attracting tourists and visitors to San Diego as well as attracting and retaining businesses as a health and quality of life issue.

Office of Special Events

The Office of Special Events collaborates with visitor industry partners such as the San Diego Tourism Authority, San Diego Convention Center Corporation, San Diego Sports Commission, and San Diego Tourism Marketing District in the development of bid proposals to secure major special events, conventions and filming that generate tourism in San Diego. Major special events, conventions and filming contribute significantly to San Diego's economy through the generation of Transit Occupancy Tax (TOT), sales tax, and other direct and indirect spending. Long-term branding and economic development benefits are also derived from the significant national and international media exposure brought to the region by these types of activities. The Office of Special Events provides liaison services to key entities such as the event organizer, site manager or meeting planner, host committee, business and residential community and city departments to ensure the success of the activity.

Economic Development Opportunities

The departments listed above implement City policies and provides basic services to both residents and businesses. The effective coordination of the activities of these departments, which may impact the City's ability to conduct its economic development activities, is critical to the achievement of the broad-based performance measures identified in this strategy. The City's overall operating budget is well in excess of \$3 billion annually, its enforcement capabilities are awesome, and the extent to which economic development efforts can be recognized and reasonably accommodated within this context creates opportunities to achieve immediate positive fiscal and economic impacts.

Appendix E: Education & Workforce Development

Long-Term Workforce Development Opportunities

The City has a vested interest in preparing its young adults to compete for the best jobs created by San Diego businesses. Educational initiatives at the K-12 level will take years to bear fruit so the City should continue to encourage its school districts to seek long-term improvements in academic fundamentals. The proper preparation of youth for entrance into colleges and universities will better prepare City residents to compete for middle and high-income jobs opportunities following graduation. Additionally, it is vital for high school teachers to be exposed to San Diego’s industries to provide them with the context, examples, and real world connections that can be used in their classroom curriculum.

The following six (6) K-12 school districts serve residents of San Diego:

Del Mar Union School District	San Ysidro School District
Poway Unified School District	Sweetwater Union High School District
San Diego Unified School District	South Bay Union School District
San Dieguito Union High School District	Solana Beach School District

San Diego’s post secondary education system regularly ranks well nationally because local universities offer a full range of undergraduate majors, master's and Ph.D. programs, and are committed to producing groundbreaking research. These institutions educate and provide workforce training to the region’s diverse economy which enables the City to compete globally to attract new companies and industries generating significant private investment and new jobs for the region. San Diego is served by two major public universities, three smaller private universities, three private law schools, a public medical school, several community colleges, plus trade and vocational schools:

Universities, Colleges, and Law Schools

- Alliant University
- Cal-Western School of Law
- Cuyamaca College
- Mesa College
- Miramar College
- Grossmont College
- Palomar College
- Point Loma Nazarene University
- San Diego City College
- San Diego State University (“SDSU”)
- Southwestern College
- Thomas Jefferson School of Law
- University of California at San Diego (“UCSD”)
- University of California at San Diego School of Medicine
- University of San Diego (“USD”)
- University of San Diego School of Law

Trade and Vocational Schools

Ashford University
Bridgepoint University
Coleman College
Fashion Institute of Design & Merchandising
ITT Technical Institute
National University
University of Phoenix

Short-term Workforce Development Opportunities

In the short term, established training programs can help to match willing workers with willing employers. Typically these programs are offered by training organizations which seek to train or re-train employees for specific trades and industries. In addition, these training providers orient their services to dislocated workers and others who lack the requisite skills to compete for specific jobs. For employers doing business in the Enterprise Zone, hiring from targeted employee groups, such as dislocated workers, veterans, and low-income or unemployed individuals could qualify them for substantial State income tax savings in addition to Federal hiring tax credits available for hiring some of these same targeted groups.

City of San Diego Entry Level Professional Classification

The City of San Diego's Management Trainee job position is the formal entry level classification for professional administrative, budgetary, community development, crime analysis/research, economics, information systems management, organization effectiveness, personnel/human resources, procurement, real estate, and recycling career fields for recent college graduates. Individuals hired in this classification are full-time permanent employees upon passing the required probationary period and are generally under-filling a higher level professional classification. After gaining the requisite experience, Management Trainees may be eligible for career advancement to higher level professional classifications. This classification is different from the City's internship program that enables City departments to hire temporary, part-time students for short periods of time to do specific projects and gain public administration experience.

On-The-Job-Training (OJT)

The SDWP administers the On-the-Job Training program. OJT is designed to help businesses hire and train persons who do not have sufficient experience and knowledge in the jobs for which they are being hired. The employer's training expenses will be paid at a rate not to exceed 50% of the wages the new hire earns during the contracted training period. OJT is a viable training option for participants who perform better with a hands-on training experience rather than traditional classroom setting.

Employment Training Panel (ETP)

The State of California's Employment Training Panel (ETP) provides financial assistance to California businesses to support customized worker training to:

- Attract and retain businesses that contribute to a healthy California economy;
- Provide workers with secure jobs that pay good wages and have opportunities for advancement;
- Assist employers to successfully compete in the global economy; and
- Promote the benefits and ongoing investment of training among employers.

CONNECT2Careers San Diego (C2CSD)

SDWP has developed a sustainable youth employment program through the support of local government, education, private, public and non-profit organizations. The C2CSD will provide youth with meaningful job placements now and in the years to come by providing development, preparation and summer employment services to young people between the ages of 16-21 throughout the City of San Diego. This broad-based summer job effort is the type of program that addresses the need for a highly educated and skilled future workforce, and provides an opportunity for youth to earn money, gain meaningful work experience, and be exposed to various careers through work based learning opportunities. This program also gives businesses an opportunity to give back to the community and play a significant role in recruiting and training future employees especially for new emerging industries such as Cleantech and Food & Beverage Production, as well as established industries such as Biotech & Medical Devices and Electronics & Telecommunications.

Life Sciences Summer Institute

The Life Sciences Summer Institute is one of the SDWP's most exciting youth programs. Students from all over the county spend part of the summer in life sciences "boot camp" learning about how to work in a lab. Then, they are placed in labs for real-life work experience. Perhaps even more impressive, the same program is available for teachers. Groups of science teachers come every summer to learn about how the life sciences industry operates, and return to their classrooms to incorporate into their lessons plans what they have learned.

Appendix F: List of External Business Organizations

BIOCOM

CleanTECH San Diego

CONNECT

Industrial Environmental Association

Otay Mesa Chamber of Commerce

San Diego Brewers Guild

San Diego North Chamber of Commerce

San Diego Regional Chamber of Commerce

San Diego Regional Economic Development Corp.

San Diego Tourism Authority

Security Network & Maritime Alliance

South County Economic Development Council

World Trade Center – San Diego

Appendix G: **Economic Development Programs & Business Districts**

The City of San Diego provides a variety of programs that are focused on the retention, and expansion of local businesses and the attraction of new businesses to the area. These programs form the backbone of the City's economic development strategy. Increasing the promotion of these programs and helping companies avail themselves of the benefits they provide will enhance the local economy.

Business & Industry Incentive Program - Council Policy 900-12

The Business & Industry Incentive Program was created by the San Diego City Council in 1993 to improve the business climate of the City, by providing certain financial incentives, and permit assistance to a variety of business investors citywide. This program serves as the City's primary economic development platform, and its incentives may be combined with those from other City programs such as the *Enterprise Zone Program*, the *Business Finance Program*, the *Business Cooperation Program*, the *Guaranteed Water For Industry Program*, and with other incentives offered through State and Federal programs and incentive zones. Businesses that are consistent with the City's current Community & Economic Development Strategy typically achieve the following:

- Provide significant revenues and/or jobs that contribute to a healthy economy; or
- Promote the stability and growth of City taxes and other revenue; or
- Construct appropriate development in older parts of the City; or
- Are being induced by other jurisdictions to relocate from San Diego;

Such businesses can receive ministerial "off-the-shelf" incentives which are approved at the staff level such as: assistance in determining the density entitlements or development requirements for real property ("due diligence") plus assistance and expedited review for obtaining any necessary permits required for land developments or to modify an existing building or other structure.

These same businesses may also receive other discretionary incentives recommended by staff and approved by the San Diego City Council, such as: a reimbursement of all or a portion of building and/or development related fees on new commercial and industrial development using new tax revenues to be generated by the project as the funding source for the incentive. This incentive is implemented through an Economic Development Agreement between the City and the business.

Business Cooperation Program

The Business Cooperation Program was adopted by the City Council in 1996 and is designed to simultaneously lower the cost of doing business in San Diego while at the same time generating new sales and use tax revenue to fund essential City General Fund services. Businesses and non-profit firms frequently have options regarding how they can report the local 1% sales and use taxes, and certain reporting methods can result in a net increase in the amount of tax allocated to the City by the State Board of Equalization. This program allows City staff to provide sales and use tax rebates to businesses which participate in the program. This program provides tax rebates equal to 50% of any net additional tax revenue received by the City.

Guaranteed Water for Industry Program

The Guaranteed Water for Industry Program was adopted by the San Diego City Council in 1998 to address industry concerns regarding the potential for mandatory water conservation measures in the

event of a future drought. Manufacturing plants, data centers, and research laboratories provide significant fiscal and economic benefits to the City. In order to achieve these benefits, these firms need assurances that they will not be subject to future “cut-backs” or other mandatory conservation measures due to water shortages. However these capital-intensive operations frequently need large volumes of water to operate their production and cooling systems.

This program provides that when such firms use reclaimed water to the extent possible, and implement minor potable water conservation measures, they can be exempted from mandatory Level 2 conservation measures in the event of a drought. This program is designed to benefit San Diego industrial businesses within the Optimized Zone. The Optimized Zone is a designated area within the northern part of San Diego which has reclaimed water infrastructure. The City assists manufacturers and research organizations in obtaining the necessary approvals from the County Health Department and California Department of Health Services to utilize reclaimed water. This program currently has five participating businesses with more certifications expected in the coming years.

Enterprise Zone Program

One of the most robust incentives offered by the City is the Enterprise Zone (EZ) Program. An EZ is a defined geographic area designated by the State of California to stimulate business investment and job creation. Enterprise Zones, were created in California to stimulate business investments in areas that are economically disadvantaged and to spur job growth in areas of high unemployment. .

Businesses that operate in an EZ can claim tax credits for employee wages, manufacturing equipment purchases and accelerated equipment depreciation. Businesses are also offered job referral services, development permit expediting and assistance, tax savings on loans, exemption of the Housing Impacts Fee and access to specialized technical and financial assistance programs. San Diego’s Regional Enterprise Zone (SDREZ) is located throughout the City of San Diego including communities in the South Bay area near the U.S.-Mexico border and the cities of National City and Chula Vista.

A “special enterprise zone” or LAMBRA (State of California Local Agency Military Base Recovery Area) is also located at Liberty Station at the former Naval Training Center near the San Diego International Airport. The business incentives offered by LAMBRAs are similar to the Enterprise Zone program.

In 2013, the California Legislature repealed the Enterprise Zone Act effective January 1, 2014, and approved three new economic incentive programs will be implemented at various time in 2014. The new incentive programs include:

California Competes – A new state-wide program which provides for the allocation of California Income Tax credits, on a case-by-case-basis, to businesses which agree to make specified commercial and industrial investments

Hiring Tax Credit – A new incentive zone program which provides California Income Tax credits to businesses within defined geographical areas of the state, when new employees meeting specified criteria are added to payrolls.

Sales/Use Tax Exemption – A change to the Revenue & Taxation Code which provides a 4.2% sales and use tax exemption from the tax imposed on manufacturing equipment and specified R&D equipment purchases.

While the EZ and LAMBRA Programs will no longer be in effect, qualifying companies have through calendar year 2014 to claim hiring credits and put into service qualifying equipment purchased in 2013.

Foreign Trade Zone Program

Business that import foreign goods into the United States, and in some cases export goods, may realize significant savings. Foreign Trade Zone (FTZ) Program benefits include: U.S. Customs duty deferral, duty exemption, and other benefits.

The San Diego Foreign-Trade Zones No. 153 reorganized its FTZ procedures in 2011 to assist businesses to participate in the program expeditiously. Companies located within San Diego County can now secure FTZ status for warehousing and distribution operations in approximately thirty (30) days from the time an application is accepted. Manufacturing companies may also benefit from additional streamlined procedures.

Business Finance Program

The [San Diego Regional Revolving Loan Fund \(SDRRLF\)](#) and [Small Business Micro Revolving Loan Fund \(SBMRLF\)](#) offer financial assistance for small to mid-size business owners with growing companies that require capital, but are unable to meet the terms of traditional banks. The Revolving Loan funds can supplement private financing of new or rehabilitated buildings, fixed machinery and equipment, working capital and soft costs. This gap financing program ranges from \$25,000 to \$150,000 for the SBMRLF and \$150,000 to \$500,000 for the SDRRLF. The loan program covers businesses in the cities of San Diego and Chula Vista. Through careful screening of loan applicants and creative loan structuring, the program can get business owners closer to their goals working with lenders and other community lending programs.

Economic Development & Tourism Support Program

The City's Economic Development and Tourism Support (EDTS) Program provides Transient Occupancy Tax funds through a competitive merit based application process, to qualified nonprofit, tax-exempt organizations that produce programs and events that improve the City's economy by boosting tourism, attracting new businesses, and increasing jobs in the area.

Tourism Marketing District

The San Diego Tourism Marketing District (TMD) follows the model of Tourism Business Improvement Districts (BIDs) that utilize the efficiencies of private sector operation in the market-based promotion of local and regional business and transient tourism to generate room night stays. Tourism BIDs, such as the SDTMD allow lodging business owners to organize their efforts to increase tourism. In San Diego, lodging business owners within the District are assessed and those funds are used to provide programs and services that specifically benefit the assessed lodging businesses. Beginning in 2008, lodging businesses with 70 or more rooms paid a 2.0% assessment to fund activities to increase room night stays at assessed businesses. A majority of these TMD assessments were directed to the Tourism Authority (formerly ConVis) for specific sales and marketing activities to promote San Diego and increase room night stays at assessed businesses. The TMD was renewed effective January 1, 2013 and the assessment was authorized to be levied on all lodging businesses within the City with those businesses with 30 or more rooms paying 2.0% and those with

fewer rooms paying 0.55%. The programs and activities to be funded include hotel meeting sales, event management and group sales development, tourism development including travel & trade, group meeting direct marketing, consumer direct sales & marketing programs, multi-year tourism development, and destination marketing with specific call to action. Through the initial five-year SDTMD (through 3.31.13), it is estimated that approximately, \$121 million TMD funds will have been deployed through local organizations directly supporting the production of approximately 15 million City of San Diego hotel room nights yielding approximately \$2.25 billion in room night revenue.

Business Improvement Districts

San Diego's Business Improvement Districts (BIDs) are City-designated geographic-based areas where the business owners are assessed annually to fund activities and improvements to promote the business district. The City of San Diego supports BIDs as a tool for strengthening small business communities, creating new jobs, attracting new businesses, and revitalizing older commercial neighborhoods across the city. The City partners with merchants associations, representing the assessed business owners, to implement the BID program.

The Office of Small Business administers the BID program which is the largest tenant-based program in the State of California. The program dates back to 1970 with the creation of the Downtown Improvement Area, California's first metropolitan downtown district. Since that time, the small business community and the City of San Diego have created 18 active districts. More than 11,000 small businesses participate in these assessment districts raising more than \$1.3 million annually.

A BID provides business area merchants with the resources to develop marketing campaigns, increase awareness, and enhance public improvement projects in partnership with the City. An organized business community can work more effectively to create positive change and increase support for businesses in the area. In San Diego, BID associations work closely with elected officials and city staff to voice collective concerns, monitor business regulations and obtain funding and support for their business development projects.

The BID associations have developed a variety of successful marketing activities that generate business for the districts. These activities range from special events such as restaurant tours, block parties, weekly farmers markets and holiday festivals to developing public relations and marketing materials. BID associations promote businesses through the Internet, social media and cooperative advertising campaigns; they develop and distribute business directories, coupon books, and other district brochures. BID associations coordinate some of San Diego's most popular, large-scale street festivals, including the Adams Avenue Street Fair, Gaslamp's Mardi Gras, and Hillcrest's CityFest. BID associations also market the districts to potential businesses in an effort to reduce vacancies, provide a varied mix of businesses and strengthen the BID. All of these activities help to further market the districts to customers.

The City has grant programs which provide opportunities for additional funding for the merchant associations. There are also programs geared toward assisting individual businesses. For instance, the City's Office of Small Business offers the Storefront Improvement Program, which provides small businesses with design assistance and incentive payments to assist with storefront renovations. The City also supports the San Diego Business Improvement District Council, a non-profit organization whose membership includes the BID associations, which disseminates information and provides resources and expertise to its members to assist small businesses.

Small Business Enhancement Program (SBEP) – Citywide Grants

This program focuses on expanding economic opportunities for small businesses by supporting not-for-profit organizations which provide specialized services to small businesses citywide. It is expected that Small Business Enhancement Program funds will be leveraged by recipients to enhance small businesses services with the purpose of creating, growing, and retaining small businesses in San Diego. Examples of the services and training provided include business development, contracting and procurement, disability accommodations and technical assistance training.

Storefront Improvement Program

The Storefront Improvement Program (SIP) revitalizes building facades visible to customers, neighboring merchants, and residents. The City of San Diego provides design assistance and financial incentives to small business owners who wish to make a creative change to their storefronts.

All applications are subject to review for eligibility. The City's Storefront Improvement Program is open to small businesses (12 or fewer employees) located in the City of San Diego with a current Business Tax Certificate.

- The City of San Diego offers three different rebate options through the SIP providing rebates up to \$10,000.

Community Parking District Program

The City has a two-pronged approach to address parking concerns in older commercial neighborhoods. The Parking Advisory Board was created by ordinance in 2004 ([City Council Policy #100-18](#)) to advise the City on broader policy issues related to parking, and especially as to the impacts on commercial neighborhoods. The City also established the Parking Meter District Program in 1997 to provide parking impacted commercial communities with a mechanism to devise and implement parking management solutions. The Program was updated and renamed the Community Parking District Program in 2004.

There are currently six designated community parking districts within the City. A portion of the revenue from parking meters within these districts may be used to implement solutions such as parking lots, parking structures, valet parking, parking/transportation signage, and related extraordinary landscaping, maintenance, and security.

Small Local Business Enterprise (SLBE) Program

The SLBE Program is designed to facilitate the award of City contracts to small and local business enterprises by encouraging a 20% SLBE participation rate. It provides for a minimum bid discount of 2% for SLBE contractors or prime contractors which sub-contract to SLBE's as defined by the program. In addition to bid discounts, the Program provides for additional points in negotiated professional services contracts and increased points and discounts as the level of local and small local business participation increases. The intended impacts include: 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 stronger economic activity, and promoting the development of certified businesses through joint ventures and mentor/protégé relationships.

Appendix H: List of Available Industrial Properties

Appendix I: Summary of Findings:
San Diego Metropolitan Export Initiative

Attachment 5:

List of Stakeholders Who Provided Input to the Economic Development Strategy

BIOCOM

Center for Policy Initiatives

CleanTECH San Diego

CONNECT

Equinox Center

Industrial Environmental Association

National University System Institute for Policy Research

Otay Mesa Chamber of Commerce

Port of San Diego Ship Repair Association

San Diego Brewers Guild

San Diego Military Advisory Council

San Diego North Chamber of Commerce

San Diego Regional Chamber of Commerce

San Diego Regional Economic Development Corp.

Security Network & Maritime Alliance

South County Economic Development Council

TechAmerica (formerly American Electronics Association)