



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: October 7, 2008 REPORT NO. 08-143

ATTENTION: Honorable Mayor and City Council
Docket of October 8, 2008

SUBJECT: City Council Policy 900-15 Small Business Enhancement Program

REFERENCE: Manager's Report No. 95-239 (October 5, 1995);
Resolution R-289760 (February 23, 1998);
Manager's Report No. 98-191 (September 30, 1998)
Manager's Report No. 99-58 (March 23, 1999);
Resolution R-291758 (June 8, 1999);

REQUESTED ACTION: Amend the text and allocation guidelines within City Council Policy 900-15 (Small Business Enhancement Program) to more accurately reflect current needs and practices for small business program expenditures.

STAFF RECOMMENDATION: Approve the requested action.

SUMMARY: In 1995, the City Council established the Small Business Enhancement Program (SBEP) with an annual General Fund appropriation equivalent to \$20 per small business registered with the City. The purpose of the SBEP was to provide continuing support to small businesses in recognition of their vital economic, employment, service, and cultural roles, and their importance in sustaining and revitalizing older commercial and residential areas.

In 1999, the City Council established Council Policy 900-15 (Small Business Enhancement Program) to clarify SBEP's unique annual appropriation formula and to provide for accountability, efficiency, and flexibility in the administration of the program.

The Small Business Enhancement Program has effectively served the City's small business community for many years. The creation of the SBEP Council Policy has facilitated an effective partnership between the City's Office of Small Business and the Business Improvement District Council to provide useful services to the small business community.

Currently, Council Policy 900-15 specifies that SBEP funds are to be split between Citywide programs and Business Improvement District (geographic business-based) programs. The Office of Small Business (OSB) of the City's Economic Development Division utilizes 50% of SBEP funding to provide Citywide programs to support small businesses. The Business Improvement

District Council, representing the City's Business Improvement Districts (BIDs), utilizes the remaining 50% of SBEP funding to provide programs in these and other commercial neighborhoods throughout the City.

Council Policy 900-15 currently provides the following percentage allocation guidelines for each category of programs:

Citywide Small Business Assistance programs - 50%

Storefront Improvement Program - 24%

Ombuds Service - 6%

Business Outreach - 6%

Infrastructure Impact - 3%

Capacity Building Grants - 9%

Contingency - 2%

Business District programs - 50%

BID Support - 24%

BID Council - 12%

Main Street BIDs - 6%

Capacity Building Grants - 6%

Contingency - 2%

As was anticipated when Council Policy 900-15 was adopted, SBEP funded small business programs have evolved and new needs have been identified. In accordance with the existing policy, staff has discussed various changes to the Policy with the Small Business Advisory Board at its May 28, 2008 and June 25, 2008 meetings and those changes were approved at the latter meeting. Discussions have also occurred with the staff, Executive Committee and Board of the Business Improvement District Council and the proposed changes were approved at the Board Meeting of June 26, 2008.

The recommended changes are discussed below within the broader areas of Citywide and Business District programs and Other Policy Provisions.

Citywide Programs

The Storefront Improvement Program (SIP) would be continued with minor changes to Council Policy 900-17 which are being brought forward to Council for approval. Changes would simplify the application and documentation process for business participants and update and streamline the administrative process to be more in line with current Purchasing & Contracting objectives. The funding would continue to cover the cost of 1.0 full time equivalent position in addition to the incentives and design services.

It is proposed that the "Ombuds Service", "Business Outreach", and "Contingency" line items be consolidated into a "Services and Information" line. This would fund the equivalent of 2.5 full-time positions to continue with the following current OSB activities: in-depth assistance, information, problem resolution and outreach services to more than 5,000 potential and existing

small businesses on an annual basis; technical assistance to City departments and other agencies on small business-related economic analysis, policies, and program development; oversight of the maintenance assessment, business improvement, and community parking districts; and administration of TOT and SBEP funded grants for economic development and tourism promotion.

The "Capacity Building Grants" line item would be replaced with a "Citywide Small Business Enhancement Grants" line with essentially the same staff service levels but increased annual funding. This funding supports initiatives by non-profits to serve small businesses throughout the City.

It is proposed that the "Infrastructure Impact" program be deleted from the Citywide SBEP list of programs. The goal of the program was to minimize impacts on businesses from public works projects and to provide affected businesses with information and a point of contact for any issues arising from the construction. The program was successful in that these services are now incorporated into new public works projects thus relieving the need for SBEP funding. OSB staff still provides technical assistance in commercial neighborhoods where other improvements and construction projects are impacting small businesses by working with the stakeholders to devise acceptable alternatives.

It is proposed that a "Small and Disadvantaged Business Development" pilot program be created to address a newly identified need in the area of public sector contracting. Specifically, there is a need to help small and disadvantaged businesses develop contracting competencies so that they are able to successfully provide goods and services to the City; bid on City construction projects; and/or contract with other government entities. A "Certification Services" function would be added to certify and then register small and disadvantaged businesses with the City's newly created "Bidders Registration" application. Another element of the pilot program would be to develop and provide a series of trainings to certified Bidders Registration businesses to increase competencies and to take initial steps aimed at mitigating barriers to business. After an initial period, the program would be evaluated to determine if it could be expanded and to identify possible grant opportunities to fund the expansion.

Business District Programs

It is proposed to create a "City Fees and Services Offset" to assist BID organizations that are under contract with the City to manage programs which often result in charges for City services, permits and other fees. Historically, these City charges have been defrayed through a combination of funding sources including an allocation of the BIDD SBEP funds and payments by the BID organizations. Given the success of these BID programs in revitalizing commercial neighborhoods and generating sales tax and other revenue to the City, it is proposed to memorialize the funding arrangement by identifying the "City Fees and Services offset" line to partially offset the City fees. In FY2009, the amount available to each organization would be based on historical costs for the previous year and then in subsequent years would be subject to recommendations from the BIDD and City staff in light of costs in those years.

The "BID Support" line item will be renamed "BID Management Support" and the program activities will continue as they have in the past. Similarly, the "BID Council" line will be renamed "BIDC – Program Support and Operations" and will continue to fund BID Council activities.

The "Capacity Building Grants" line will be renamed "Micro-Districts and Commercial Neighborhoods". A competitive application process will still be required in order to provide funding and/or in-kind services to eligible geographic-based organizations in support of their small business constituents.

It is recommended that funds previously designated for the "Main Street BIDs" be designated for broader "Technical Assistance." The grant funding and technical support obligations associated with the Main Street BIDs allocation have been fulfilled and the reclassification will allow for in-kind services and/or funding to augment grants and funds provided to BIDs, chambers and merchants' associations to assist the organizations and member businesses. "Technical Assistance" may include efforts to revitalize commercial neighborhood through initiatives such as: business development, education and training programs; special events services and equipment supply; tree plantings; public art programs; and other activities of benefit to businesses.

A "Contingency" line item is not required as SBEP funds should be fully utilized by the BIDC to provide services and to develop new programs and initiatives. It is anticipated that this line item will be combined with the BIDC – Program Support and Operational line item.

Other Policy Provisions

The current Policy provides for an annual appropriation to provide services and programs to the small businesses that are registered or will register with the City during the fiscal year. However, the number of small businesses is conservatively estimated and then an appropriation equivalent to \$20 per small business is made from the General Fund. The Policy also includes a year-end adjustment of the appropriation so that if more small businesses registered, as compared with the estimate, then additional funding becomes available to provide services to a greater number of small businesses. Further, the Policy provides that this adjustment and any unexpended funds may be carried forward so that the services may also be provided in the coming fiscal year.

To provide more certainty to the SBEP program and to the City's budgeting process, it is proposed each year that a specific staffing commitment be provided, and that a specific dollar amount be appropriated, for the various small business enhancement categories. The appropriation and staffing commitment will be fixed but based on a realistic estimate of the number of small businesses that will register with the City over the course of a year. The appropriation would not be adjusted at year end but unused funds would continue to carry forward. However, should the number of small business registering with the City increase significantly then the annual commitment of staff services and funding would be re-evaluated by the Small Business Advisory Board in conjunction with City staff. If the number of small

businesses registering with the City on an annual basis falls below 80,000 then the annual appropriation would be reduced accordingly.

Summary of Proposed Changes

If the proposed changes to Council Policy 900-15 are adopted, the revised allocations would commit the following amounts for programs and staff support (subject to a minimum number of 80,000 small businesses registering with the City annually):

<u>Citywide Business Assistance</u>	<u>Staffing</u>	<u>\$</u>
Storefront Improvement Program- Incentives and Design Services		\$220,000
- Staff Support (OSB)	1.0 FTE	
Services and Information		\$25,000
- Projects		
- Staff Support (OSB)	2.5 FTE	
Citywide Small Business Enhancement Grants		\$120,000
Small and Disadvantaged Business Development - Projects		<u>\$100,000</u>
Totals	3.5 FTE*	\$465,000

* Estimated FY2009 Staffing Cost \$335,000

<u>Business Districts (Funds Disbursed by City)</u>	<u>\$</u>
City Fees and Services Offset	\$170,000
BID Management Support	<u>\$315,000</u>
Total	\$485,000

<u>Business Districts (BID Council)</u>	<u>\$</u>
BIDC – Program Support and Operations	\$185,000
Micro-Districts and Commercial Neighborhoods (Grants/In-kind Services)	\$75,000
Technical Assistance	<u>\$55,000</u>
Total	\$315,000

The proposed changes to the text and allocation guidelines of Council Policy 900-15 are intended to more accurately match the policy guidelines to small business needs. The guidelines are not intended to restrict new program development or innovation within the prescribed categories if such enhancements would provide greater benefit to the small business community. The allocations would sunset at the end of five years. This would not preclude the Small Business Advisory Board from recommending program changes to the Mayor and Council during the five year period if changes in San Diego’s economic climate would warrant such recommendations.

Conclusion

The Small Business Enhancement Program has effectively served the City’s small business community for many years. The creation of the SBEP Council Policy has facilitated an effective


partnership between the City's Office of Small Business, the Small Business Advisory Board, and the Business Improvement District Council to provide useful services to the small business community. It is recommended that City Council Policy 900-15 be amended to more accurately reflect current needs and practices for the Small Business Enhancement Program.

FISCAL CONSIDERATIONS: The proposed changes will ensure a stable program allocation based on 80,000 small businesses registering with the City annually and will ensure adequate staffing levels for the provision of information and services and program oversight. The anticipated maximum program and staffing expense in FY2009 is \$1,600,000 which has already been budgeted in total in the City's annual appropriation ordinance.

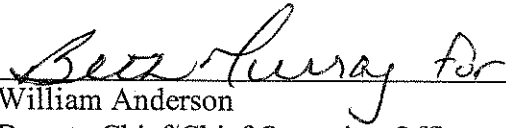
REVIIOUS COUNCIL and/or COMMITTEE ACTION: In 1995, the City Council established a Small Business Enhancement Program (SBEP). The City Council Policy (900-15) for SBEP was adopted on June 8, 1999 by Resolution No. R-291758, to clarify SBEP's unique annual appropriation formula and to provide for accountability, efficiency, and flexibility in the administration of the program.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: In accordance with the existing policy, staff has discussed proposed changes to Council Policy 900-15 (Attachment 1) with the Small Business Advisory Board at numerous meetings. Extensive discussions have also occurred with the staff, Executive Committee and Board of the Business Improvement District Council.

KEY STAKEHOLDERS AND PROJECTED IMPACTS: These changes are proposed to benefit small business within the City of San Diego and to further the economic revitalization of our commercial neighborhoods.



Scott Kessler
Originating Department



William Anderson
Deputy Chief/Chief Operating Officer

Attachment: 1. Council Policy 900-15 (Small Business Enhancement Program)

CITY OF SAN DIEGO, CALIFORNIA
COUNCIL POLICY

SUBJECT: SMALL BUSINESS ENHANCEMENT PROGRAM (SBEP)
 POLICY NO.: 900-15
 EFFECTIVE DATE:

BACKGROUND:

~~On June 26, 1995, the City Council reduced the Business Tax Certificate fee for businesses with 12 or fewer employees from \$125 to \$34, and established a Small Business Enhancement Program (SBEP) funded by general fund revenues measured by \$20 of every Business Tax Certificate. In 1995, the City Council established the Small Business Enhancement Program (SBEP) with an annual General Fund appropriation equivalent to \$20 per small business registered with the City. The purpose of the SBEP was to provide continuing support to small businesses in recognition of their vital economic, employment, service, and cultural roles, and their importance in sustaining and revitalizing older commercial and residential areas.~~

Administered by the Economic Development Division's Office of Small Business, SBEP has significantly enhanced the City's partnership with the Business Improvement Districts (BID's) and the BID Council and with non-profit business assistance organizations, and has provided a broad range of direct assistance programs for San Diego's 5080,000 plus small businesses.

~~SBEP has been administered since its adoption with the program components described in Manager's Report No. 95-239 (Direct Assistance, Neighborhood Business Development, Advocacy and Regulatory Relief, Procurement and Bonding Assistance for Small Contractors, and Outreach and Marketing). Since inception, the SBEP has provided funding and services to enhance commercial neighborhood revitalization, promote individual business success; and strengthen the network of non-profit small business service providers. However, SBEP funded activities have evolved over time and new needs are identified.~~

~~Unlike the City's appropriation process for most other parts of the General Fund, the SBEP appropriation process includes a base appropriation determined as part of the City's annual budget process, with the final appropriation adjusted to reflect actual revenues collected during the fiscal year, and with any unexpended prior year funds carried forward into the SBEP's next fiscal year budget.~~

PURPOSE:

The purpose of this Policy is to avoid delays in the SBEP allocation process resulting from SBEP's unique appropriation ~~formula~~ methodology, and to provide for accountability, efficiency, and flexibility in the administration of the Program. The allocation guidelines are not intended to restrict new program development or innovation within the prescribed categories if such enhancements would provide greater benefit to the small business community.

POLICY:

It shall be the policy of the City Council ~~to~~, as part of the City's annual budget, to provide and appropriate funds for a specific staffing commitment, and to appropriate a specific dollar

amount, for SBEP. The appropriation and staffing commitment shall be fixed, based on a realistic estimate of the number of small businesses that will register with the City over the course of the ensuing fiscal year. The appropriation shall not be adjusted at year end but unused funds shall be carried forward to the following fiscal year for SBEP. However, should the number of small business registering with the City increase significantly then the annual commitment of staff services and funding shall be re-evaluated by the Small Business Advisory Board in conjunction with City staff. If the number of small businesses registering with the City on an annual basis falls below 80,000 then the annual appropriation shall be reduced accordingly. Specifically, the following amounts for categories within SBEP and staff support shall be allocated (subject to a minimum number of 80,000 small businesses registering with the City annually); ensure that the Small Business Enhancement Program is administered in an efficient and flexible yet accountable manner through the following operational guidelines:

1.) Allocation Formula Guidelines

Citywide Business Assistance	Staffing	\$
Storefront Improvement Program- Incentives and Design Services		\$220,000
- Staff Support (OSB)	1.0 FTE	
Services and Information		\$25,000
- Projects		
- Staff Support (OSB)	2.5 FTE	
Citywide Small Business Enhancement Grants		\$120,000
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Technical Assistance	\$55,000
Total	\$315,000

City-Wide Business Assistance programs – 50%
 Storefront Improvement Program – 24%
 Ombuds Service – 6%
 Business Outreach – 6%
 Infrastructure Impact – 3%
 Capacity Building Grants – 9%
 Contingency – 2%

Business Improvement District programs – 50%
 BID Support – 24%
 BID Council – 14% 12%
 Main Street BIDs – 6%

~~Capacity Building Grants—6%~~
~~Contingency—2%~~

2.) Accountability and Flexibility

To ensure program accountability, to accommodate unanticipated needs, and to provide some flexibility, the following procedures shall be followed:

- a.) Each program and project must provide an annual report on its outcomes. The City-wide programs shall report to the Small Business Advisory Board and BID programs shall report to the BID Council. ~~Copies of the reports and endorsement of the results by the reviewing entity would be a condition of each program's and project's continued funding.~~
- b.) Funding in the ~~“capacity building” lines for both City wide and BID programs~~Citywide Small Business Enhancement Grants line ~~should~~shall be made based on competitive, but simple, applications submitted to and reviewed by the Small Business Advisory Board ~~and the BID Council, respectively.~~
- c.) ~~Authority to expend from the contingency fund shall be exercised by the Small Business Advisory Board for City wide programs and by the BID Council for BID programs. If the contingency fund is not tapped, it will carry forward into the next year's SBEP fund~~Funding in the Micro-Districts and Commercial Neighborhoods lines shall be made based on competitive, but simple, applications submitted to and reviewed by the BID Council.
- d.) Allocations between organizations for BID Management Support and City Fees and Services Offset (starting with FY2010) shall be determined by the BID Council and such determinations shall be communicated in writing to the City.
- ed.) The Small Business Advisory Board and the BID Council ~~shall~~may make recommendations to the Mayor and City Council from time to time regarding any changes in the SBEP allocation ~~formula~~guidelines based on changing needs. The allocation ~~formula~~guidelines shall sunset ~~of its own accord~~ in five years from its adoption, unless modified or expressly extended by the Mayor and Council, based on those recommendations.

3.) BID Administrative Responsibilities

The City shall maintain oversight of SBEP funds so that the funds are used consistent with City policies. ~~However, certain functions can be administratively delegated to the BID Council, such as reviewing program and project reports, administering the competitive application process for capacity building grants, and processing contract paperwork (up to the point of verifying eligibility for funding and initiating payment, which must be performed by City staff).~~

HISTORY:

Adopted by Resolution R-291758 06/08/1999

1.) Allocation Guidelines

<u>Citywide Business Assistance</u>	<u>Staffing</u>	<u>\$</u>
Storefront Improvement Program- Incentives and Design Services		\$220,000
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2.) Accountability and Flexibility

To ensure program accountability, to accommodate unanticipated needs, and to provide some flexibility, the following procedures shall be followed:

- a.) Each program and project must provide an annual report on its outcomes. The City-wide programs shall report to the Small Business Advisory Board and BID programs shall report to the BID Council.
- b.) Funding in the Citywide Small Business Enhancement Grants line shall be made based on competitive, but simple, applications submitted to and reviewed by the Small Business Advisory Board.
- c.) Funding in the Micro-Districts and Commercial Neighborhoods lines shall be made based on competitive, but simple, applications submitted to and reviewed by the BID Council.
- d.) Allocations between organizations for BID Management Support and City Fees and Services Offset (starting with FY2010) shall be determined by the BID Council and such determinations shall be communicated in writing to the City.
- e.) The Small Business Advisory Board and the BID Council may make recommendations to the Mayor and City Council from time to time regarding any changes in the SBEP allocation guidelines based on changing needs. The

CITY OF SAN DIEGO, CALIFORNIA
COUNCIL POLICY

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Administered by the Economic Development Division's Office of Small Business, SBEP has significantly enhanced the City's partnership with the Business Improvement Districts (BID's) and the BID Council and with non-profit business assistance organizations, and has provided a broad range of direct assistance programs for San Diego's 80,000 plus small businesses.

Since inception, the SBEP has provided funding and services to enhance commercial neighborhood revitalization, promote individual business success; and strengthen the network of non-profit small business service providers. However, SBEP funded activities evolve over time and new needs are identified.

PURPOSE:

The purpose of this Policy is to avoid delays in the SBEP allocation process resulting from SBEP's unique appropriation methodology, and to provide for accountability, efficiency, and flexibility in the administration of the Program. The allocation guidelines are not intended to restrict new program development or innovation within the prescribed categories if such enhancements would provide greater benefit to the small business community.

POLICY:

It shall be the policy of the City Council, as part of the City's annual budget, to provide and appropriate funds for a specific staffing commitment, and to appropriate a specific dollar amount, for SBEP. The appropriation and staffing commitment shall be fixed, based on a realistic estimate of the number of small businesses that will register with the City over the course of the ensuing fiscal year. The appropriation shall not be adjusted at year end but unused funds shall be carried forward to the following fiscal year for SBEP. However, should the number of small business registering with the City increase significantly then the annual commitment of staff services and funding shall be re-evaluated by the Small Business Advisory Board in conjunction with City staff. If the number of small businesses registering with the City on an annual basis falls below 80,000 then the annual appropriation shall be reduced accordingly. Specifically, the following amounts for categories within SBEP and staff support shall be allocated (subject to a minimum number of 80,000 small businesses registering with the City annually):

allocation guidelines shall sunset in five years from adoption, unless modified or expressly extended by the Mayor and Council, based on those recommendations.

3.) BID Administrative Responsibilities

The City shall maintain oversight of SBEP funds so that the funds are used consistent with City policies.

HISTORY:

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