



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.

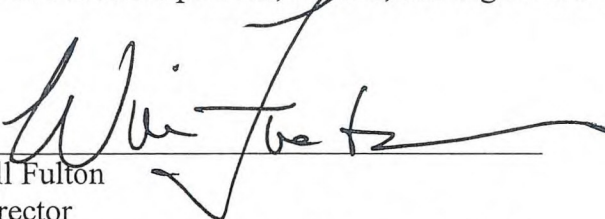
On January 30, 2013, the Council Committee on Rules and Economic Development heard a presentation from the Office of the City Auditor regarding its *Performance Audit of the Economic Development Program* and the IBA's *Comprehensive Economic Development Strategy: Possible Goals for Committee Consideration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

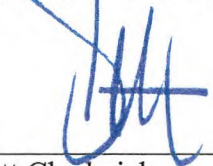
#### COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

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.

  
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Planning, Neighborhoods & Economic Dev.

  
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Scott Chadwick  
Chief Operating Officer

- 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