



THE CITY OF SAN DIEGO

Report to the City Council

DATE ISSUED: February 29, 2016

REPORT NO: 16-026

ATTENTION: Honorable Council President Sherri Lightner and City Councilmembers

SUBJECT: Economic Development Strategy 2017-2019

REFERENCE: Council Policy 900-01 "Economic Development"
Economic Development Strategy 2014-2016

REQUESTED ACTION:

Forward the Economic Development Strategy 2017-2019 to the City Council for adoption.

STAFF RECOMMENDATION:

Forward the Economic Development Strategy 2017-2019 to the City Council for adoption.

EXECUTIVE SUMMARY OF ITEM BACKGROUND:

The City's current economic development strategy (EDS) adopted by Council in June 2014 covers the period from 2014 to 2016. The EDS outlines specific strategic and tactical objectives that provide guidance to City Departments on actions and policy decisions to support the business community in the creation of new jobs, especially middle-income jobs. Since the adoption of the EDS, other important City documents were adopted vital to the EDD. Even though the overall intent and strategic framework of the EDS still remains applicable, an update is warranted in order to ensure the document accurately reflects the City's priorities and changing realities.

SUMMARY:

Background

The City's current Economic Development Strategy (EDS) was adopted by the City Council in June 2014 and covers the period from 2014 to 2016. The EDS outlines specific strategic and tactical objectives intended to provide guidance to City Departments on specific actions and policy decisions to support the business community. All of which should ultimately result in the creation of new jobs (especially middle-income) in several employment sectors. Continued implementation of the City's EDS involves both the achievement of these objectives as well as on-going data collection efforts to measure the City's performance.

In July 2015, the Economic Development Department (EDD) provided Economic Development & Intergovernmental Relations Committee (ED&IR) with an update on the achievements of several EDS tactical objectives and identified tasks to be completed or initiated during the current Fiscal Year.

In November 2015, EDD provided an update to ED&IR on the economic performance data identified in the EDS. At that time, EDD also indicated that it would begin the process to

make relevant updates to the 2014-2017 EDS and return to Committee in February/March 2016 with the draft 2017-2019 EDS.

Since adoption of the EDS in June 2014, several other important City documents were adopted that are vital to the EDD. In 2015, the City adopted a new Strategic Plan and EDD developed its Tactical Plan. These plans serve as a framework to what the City needs to do to cultivate economic and community development opportunities that serve businesses, neighborhoods, and residents. Other strategic documents approved by the Council in 2015 were the City's 2015-2019 Consolidated Plan (ConPlan) which provides a strategic framework for investing CDBG, HOPWA & ESG funds to serve the City's low-moderate income population and underserved neighborhoods, as well as the City's Climate Action Plan. Additionally, in 2015, the EDD was officially authorized as a City standalone department. As a result, the department is undergoing restructuring in order to be better aligned to strategically cultivate a globally competitive, sustainable, resilient local economy. The restructure of EDD will be fully implemented with the adoption of the FY17 budget.

Even though the overall intent and strategic framework of the EDS still remains applicable, an update is warranted in order to ensure the document accurately reflects the City's current priorities and changing realities.

Discussion

The City's EDS lays the foundation for sustained economic recovery and fiscal stability for the City of San Diego. San Diego's economic base has expanded from one which was historically dependent on the operation of military installations and tourism, to one which now includes base sector high-technology manufacturing and international trade. Due to San Diego's diversified economy and advantageous business environment, the region has made great strides to recover from the great recession. San Diego County's unemployment rate as of December 2015 was 4.7%, the lowest since 2008. San Diego's unemployment rate has continued to decrease in California but at a slower rate than the nation, 7.5% versus 5.3%. Of the larger Metropolitan Statistical Area (MSA), San Diego has outpaced Los Angeles' unemployment rates which have been slower to recover, however, the Bay Area MSA has outpaced San Diego.

San Diego's economy continues to grow and add jobs much like the rest of California and the United States. The Gross Regional Product (GRP) for the San Diego MSA has increased by 8.4% from \$190B in 2012 (data provided in 2014-2016 EDS) to \$206B in 2014. Most economic base sectors experienced measurable growth during this period, except for the Military which decreased slightly. Additionally, during the same period the median household income increased from \$60,330 to \$66,192, an increase of about 9%. This is reflected in the reduction of persons below the poverty line from 15.2% in 2012 to 14.7% in 2014. Comparatively, other California MSAs such as Los Angeles and San Jose experienced decreased median incomes, but decreased poverty as well. Only San Francisco outperformed San Diego in incomes as well as decreased poverty rates.

Even though San Diego is performing well when compared to other California MSAs and generally speaking nationwide, it continues to struggle with the hourglass economy. The term "hourglass economy" is used to describe an economy where a small number of employees making high wages at the top, a large number of employees making low wages at the bottom, with relatively few middle income jobs in between. In 2012, 28% of the San Diego's MSA population earned middle income wages between \$33,077 and \$63,462. In 2014,

only 18% of the population earned middle income wages. There are several reasons for this decrease:

- 1) In 2012, a major occupations group, "Sales and Related Occupations", was included with the middle income wage category salaries, however, in 2014, it did not grow and dropped to the wage category.
- 2) The reported number of people working in this major occupation group also increased from 128,960 to 141,540 between during the same period.
- 3) Even though the overall mean wage for all major occupation categories increased by an average of 4.5% in 2014, this is the only occupation group that recorded a slight decrease of 1%, from \$39,630 in 2012 to \$39,360 in 2014.

Many of the EDS's tactical objectives are focused the hourglass economy. Some solutions include regulatory relief via changes to the municipal code to lower the costs of doing business in San Diego (EDS Action items 2-3-3 and 2-3-4), such as those related to the development, expansion, and operation of industrial facilities. These policies appear to be bearing fruit as the manufacturing sector is now outperforming the other economic base sectors (trade, tourism, and military) as well as outperforming GRP growth. The most notable industries in this sector are Biotech & Medical Devices, and Food & Beverages. Without the growth of these two industries, the loss of middle income jobs would have been worse.

While unemployment rates remain relatively low, San Diego still faces significant challenges related to the replacement of middle income jobs lost during the last 5 years. One of the central goals of the EDS is the creation of middle-income "blue-collar" jobs. San Diego is creating many salaried professional jobs and many low-wage retail and service-sector jobs. The creation of low-wage retail and service-sector jobs can be attributed due to consumer spending of high-wage salary employees. The National University System Institute for Policy Research (NUSIPR) indicates that San Diego is replacing lost middle-income jobs at a rate slower than both California and the United States.

The policy focus of the EDS is to provide regulatory accommodation and/or financial benefits to businesses, in accordance with Council Policy 900-12, utilizing accepted economic development principles and practices. Basic economic development results from public support of those businesses creating the greatest amount of public benefit. Accordingly, in order to grow the local economic base and the City's tax base, the EDS recommends that the City focus its efforts, regardless of the size of the business, to those businesses creating the most public benefit.

Additionally, it should also focus its efforts to increase tax revenues by supporting its manufacturers and retailers. This can be done by doing a better job supporting its largest business taxpayers through regulatory relief measures which generate additional tax revenues from activities in regional commercial centers and industrial parks with no measurable adverse impacts on neighborhoods. The EDS proposes regulatory accommodation for businesses and industries that provide significant public benefits in the form of middle-income, base sector jobs and new tax revenues. These accommodations can be made in large regional commercial zones and industrial zones with no anticipated visual, safety, or quality of life impacts to neighborhoods.

Though they do not make up a significant part of the economic base or generate significant revenues in and of themselves, small businesses (collectively) play an extremely vital role in the local economy. With 93% of all businesses in the City considered small (12 or fewer employees), business owners spend their profits when they consume goods and services

locally. This compares favorably to the practices of corporate chains which export profits to shareholders worldwide. Small businesses also contribute to the local economy by improving the attractiveness of the City as a tourist destination. They tend to occupy and improve older buildings in older established business corridors which are attractive destinations for visiting tourists seeking more authentic shopping and dining experiences. Examples of this are North Park, Little Italy, Hillcrest and Barrio Logan. Subsequently, small businesses are generally influenced more by regulatory accommodation and public improvements than by tax incentives, microloans, or other direct subsidies.

2014-2016 EDS Accomplishment Highlights

Updates to the Land Development Code (LDC)

Working with the City's Development Services Department, EDD staff incorporated numerous changes to the Land Development Code (LDC) which Council approved that were designed to make it easier for manufacturers to expand and setup business in San Diego. For example, a few of these changes were specific to the City's rapidly growing and award winning micro brewing industry. These changes include: permitting live entertainment in most industrial zones; and eliminating the requirement to amend a development permit in order to obtain a City sign permit. These are just two of the many common sense regulatory relief measures included in the LDC updates. These two examples could reduce or eliminate the cost of a permit by several thousand dollars. Another regulatory change included the elimination of assessing the Housing Impact Fee for warehouse and manufacturing facilities. Reforms such as these are on par value to a business with many of the incentives the City offers. Changes to the LDC are an on-going activity and EDD staff will continue to work with DSD staff to identify additional reforms.

Efforts like these that target industries such as biotech, manufacturers, and breweries are having a positive impact. Even though it is difficult to assess the extent local efforts are a contributing factor to the increase in manufacturing jobs, these types of jobs in San Diego grew by 2.6% in 2014 from the previous year. This increase was more than triple the U.S. rate of 0.7%. The region recorded the 4th highest growth rate among major U.S. metropolitan areas. Only Detroit, Riverside, and Portland showed stronger growth than San Diego.

Increasing Exports and Foreign Direct Investment

To close San Diego's untapped potential for economic growth through increasing the regions exports has been the focus of the GoGlobal Initiative developed in conjunction with the San Diego Regional Economic Development Corporation and the Brookings Institute. The City's ongoing work with Brookings and EDC has also yielded a Foreign Direct Investment (FDI) strategy to strengthen the region's international brand identity. This includes reestablishing the World Trade Center in 2015 and is operated by the EDC. Last summer the Mayor announced the MetroConnect prize, launched with a \$200K grant secured through JP Morgan to help a few small local firms launch into new international markets. Other efforts to put San Diego on the forefront as a City and as a region to attract new investment include the National Geographic documentary, "World's Smart Cities: San Diego". The documentary has aired in more than 60 countries and does an excellent job of portraying San Diego as one of the best places in the world to play and innovate. The documentary highlights the city's talent, innovation, creativity and that San Diego's business environment and local culture are among the best. EDD uses the documentary as a visual aid when meeting with foreign delegations to showcase what San Diego has to offer. In the last alone year, staff has met with delegations from South Africa, China, Southern France, the Middle East, Brazil, and South Vietnam.

San Diego's relationship with the City of Tijuana is also an important element of our international efforts. Under the leadership of Mayor Faulconer, the City has begun an era of unprecedented economic development cooperation with Tijuana. EDD works in close collaboration with Tijuana's economic development team. The shared goal is to market the benefits of the entire region to businesses and investors throughout the world.

All of these combined efforts are putting San Diego in the forefront to attract new investment and as an important location to do business. For example, the Global FDI Association announced it would hold the 2016 World Forum for Foreign Direct Investment in San Diego in April. This is the first time the forum is held San Diego. Additionally, the Maritime Alliance was successful in securing the 2017 Oceanology International Conference in San Diego. This is a 50 year old organization based in London and this conference alone attracts more than 8,400 marine science and ocean technology professionals.

Resilient Defense Manufacturing Sector and Workforce

EDD is working collaboratively with other economic development organizations to ensure that San Diego businesses have opportunities to provide goods and services to San Diego's defense manufacturing sector. One such effort is a new grant application the City is applying for with the Office of Economic Adjustment (OEA). The City is the lead agency and the focus of the grant is to gain a greater understanding of the defense manufacturing sector and assist those businesses to become more resilient and economically diverse in the event of a reduction or elimination of Department of Defense (DoD) contracts or funding. Additionally, the purpose of the grant is to also create a more resilient workforce.

Tourism

Another economic development accomplishment includes a draft 20-year Destination Master Plan, commissioned by the San Diego Tourism Marketing District Corporation, which has been released for review and discussion. The final report may assist in guiding implementation to build, expand, and enhance important publicly owned attractions and facilities.

Establish a Fair and Competitive Process for Economic Development TOT Grants

Amendments to the Citywide TOT and Economic Development & Tourism Support (EDTS) grant application for FY16 and FY17 were made to require applicant activities and outcomes that are better aligned with the EDS. Additional amendments may be made in FY18 if needed to further align grant award activities with specific EDS Tactical Objectives.

Updates to Council Policies and Municipal Code

EDD has also been busy amending Municipal Codes and Council Policies that impact the business community. These amendments include changes and enhancements to the: Storefront Improvement Program (SIP), Council Policy 900-17; Community Parking Districts (CPD), Council Policy 100-18; and the Small Business Enhancement Program (SBEP), Council Policy 900-15. Amendments to the SIP (R-31026) allows for more businesses to participate in the program and increases the amount of incentive awards thereby giving business owner more capital to make substantial tenant improvements. Community Parking District Council Policy amendments (R-309826) provide clarity on management procedures, oversight, accountability and guidance of parking meter funds. It also establishes performance measures, annual reporting requirements, and addresses long term project planning. The SBEP Council Policy amendments (R-308776) address management and budgetary changes.

Other Municipal Code and Council Policy amendments currently in process will improve efficiencies for Maintenance Assessment Districts (MAD); Community Development Block Grant (CDBG) Program. Once amendments to the MAD Municipal Code and Council Policy are approved, they will establish a clear process for the formation of new MADs, for non-profit corporations to administer MAD contracts, and will provide clear agreement terms between the City and non-profit corporation. CDBG amendments will reflect best practices and lessons learned that will improve overall program implementation.

Community Development Block Grant Funding

Over the past 2 years, EDD has been collaborating with other City departments on strengthening the business base of older urbanized business districts by targeting investment in traditionally underserved neighborhoods. Activities include allocating \$17.2M in CDBG funds for neighborhood infrastructure projects such as sidewalks, traffic calming measures and City facility improvement projects. EDD staff has collaborated with City departments, economic development organizations, and non-profits on a federal Promise Zone application targeting the most underserved census tracts. Staff is also actively working with several communities to form new assessment districts to enhance existing community programs and has recently started a Business Walk Program to increase communication with small business owners in older commercial neighborhoods.

Workforce Development

For many years the City of San Diego has been actively engaged in promoting workforce development programs that create traditional pathways to employment for youth-based categories in several industry and retail employment sectors. However, a recent trend in San Diego's regional workforce suggests a noticeable undersupply of available (and qualified) employment talent in the innovation economy sectors. As San Diego continues to promote regional growth of these evolving sectors, it has become increasingly important to ensure that the sector employers have a qualified talent pool for the higher paying jobs available throughout the region.

With this in mind and under the leadership of the Mayor, the City in collaboration with regional economic development organizations, the business community and academia proposed in 2015 two (2) new workforce initiatives that support workforce development needs in order to promote regional growth of its base sector industries: 1) the Mayor's Workforce and Economic Advisory Committee created a blueprint for developing a stronger workforce, "Opportunities for Tomorrow Start Today"; and 2) implement ONESD100, a workforce training initiative that promotes investment in San Diego's future workforce needs. These initiatives recognize the future workforce needs of these sectors of the regional economy, and the imminent need to cultivate the interests of young adults to pursue middle-to-high income earning career paths in the innovation and technology-based employment sectors.

The Mayor and Council have been very supportive of the San Diego Workforce Partnership's (SDWP) Connect2Careers (C2CSD) Program by contributing \$600K to the program over the past three fiscal years, with EDD serving as the contract administrator. C2CSD provides youth with meaningful job placements by providing development, preparation and summer employment services to young adults between the ages of 16-24 throughout the San Diego region. This broad-based youth and young adult employment and mentoring 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.

The City Council approved a new Memorandum of Understanding (MOU) and Joint Power Agreement (JPA) with (SDWP) in December 2015. In accordance with the MOU, the City will incorporate language in Economic Development Incentive Agreements (EDIAs) to encourage companies seeking City incentives to give first preference for new job opportunities to San Diego residents and to work with SDWP to assist with job recruitment and placement.

Economic Development Cabinet

In 2015, the City's Chief Operating Office called the first meeting of the Economic Development Cabinet. The Cabinet is comprised of Director-level representation from several departments identified in the 2014-2016 EDS as key departments that affect economic development efforts. The purpose of the meeting was to pursue a dialogue on how these departments have a measurable role in growing the City's economic base and to open the lines of communication between these departments on matters that impact the business community. The COO also conducted an on-line survey for department managers to provide ideas on what their departments could or are doing to support economic development. The results of the survey will be used to develop discussion items for future meetings. The second Cabinet meeting will be held in the spring of 2016.

2017-2019 EDS

The 2017-2019 Economic Development Strategic Plan basically refreshes the current plan by making updates to the 2014-2016 EDS in the following manner:

Highlights completed action items

Highlights action items that are in progress and that are started and on going

Integrates the City's Strategic Plan

Integrates the department's new Tactical Plan

Integrates the 2015 ConPlan

Integrates the City's Climate Action Plan

Reflects contributions from other EDD functions and City Departments

Adds new action plans

Conclusion

The EDS provides strategies, tactical objectives and guiding principles for the City's on-going economic development efforts. These efforts are primarily focused on growing its economic base by attracting, retaining and expanding businesses in its four base sectors: Manufacturing & Innovation; International Trade & Logistics; Military; Tourism; as well as supporting small businesses. The City's focus is on increasing the number of middle-income base sector jobs.

In order to accomplish this objective, EDD is currently working on developing and implementing over 30 new economic development initiatives. These initiatives include continuing business walks in BIDs and other neighborhood business areas; telling the economic development story on how City programs and services impact businesses; creating new incentive programs such as a Fee Incentive Program and a new micro-loan program; implementing a new on-line open counter platform to simplify how businesses obtain city-based information, apply for (and in some instances pay) city-based fees and permits for select businesses entities; a design/made in San Diego campaign; use of CRM software to track activities and projects to assist with reporting metrics; and reporting department highlights and outcomes using quarterly dashboards and annual reports.

CITY STRATEGIC PLAN GOAL(S)/OBJECTIVE(S):

Goal #3: Create and sustain a resilient and economically prosperous city.

Objective #3: Diversify and grow the local economy.

FISCAL CONSIDERATIONS:

There are no fiscal impacts associated with this action.

EQUAL OPPORTUNITY CONTRACTING INFORMATION (if applicable):

N/A

PREVIOUS COUNCIL and/or COMMITTEE ACTIONS:

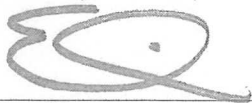
December 2013	Committee on Rules and Economic Development – Draft 2014-2016 EDS
March 2014	Committee – Approved Revised Draft 2014-2016 EDS
June 2014	Council - Adopts 2014-2016 EDS
October 2014	Committee, Economic Development & Intergovernmental Relation - EDS Implementation Presentation
July 2015	Committee - EDS Update Presentation
November 2015	Committee - EDS Economic Indicator Update Presentation

COMMUNITY PARTICIPATION AND OUTREACH EFFORTS:

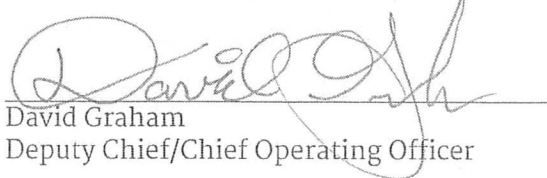
October 2015	Solicited EDO stakeholders input
November 2016	EDD Director met with several stakeholders
February 2016	Small Business Advisory Board Presentation
February 2016	Draft EDS 2017-2019 sent to stakeholder
February 2016	EDO Stakeholder Outreach Meeting

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Key stakeholders would include City of San Diego residents 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, as well as economic development/business/and labor based organizations. If the policy recommendations are implemented, some or all of the above-listed persons, entities, and organizations could derive some form of economic benefit.



Erik Caldwell
Originating Department



David Graham
Deputy Chief/Chief Operating Officer